



PROXCEL

Internal Control Over Financial Reporting (ICFR)

Unique Approach, Superior Results

Regulatory Perspective



What is Internal Financial Controls(IFC)

As per 134(5)(e) of the Companies Act 2013, “*Internal Financial Controls*” (IFC) means

- the **policies and 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**.

Internal Financial Control = Internal Control over Financial reporting + Operational Controls + Fraud Prevention.

Objective of IFC:

Primary objective of IFC to **identify opportunities** for improvement, and to **draw up recommendations** and good practices that can **use as a benchmark** to develop or strengthen their internal control systems and enhance the reliability of their financial statements.

- Efficiency and effectiveness in Operations
- Prevention and detection of fraud and error
- Safeguarding of assets
- Accuracy and completeness of Accounting records
- Reliability of Financial reporting



What is Internal Controls over financial Reporting (ICFR)

As per Guidance Note issued by ICAI on Guidance Note on Audit of Internal Financial Controls Over Financial Reporting(September, 2015), “Internal Financial Controls Over Financial Reporting (ICFR) shall mean:

- “A Process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles”. A Companies internal financial control over financial reporting includes those policies and procedures:
- Pertain to the maintenance of the records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company:
- Provides reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and director of the company.
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the company’s assets that could have a material effects of the financial statement.



Requirement & Applicability w.r.t to relevant clauses

Listed Companies

Director' Responsibility u/s 134(5)(e)

- Director's responsibility statement to state that the directors, **have laid down IFC** to be followed by the company and that such internal financial **controls are adequate and were operating effectively**. Board to confirm that IFCs are adequate & Operating effectively.

All Companies

Board Report- Rule 8(5) of companies(Accounts) Rules

- Requires the board report to state the details in respect of the **adequacy of Internal Financial Controls** with reference to the Financial Statements..

All Companies having ID's

Code for Independent Director's(ID)-Sec 149(8) & Schedule V

- ID to satisfy themselves on the **integrity** of the financial information & that Financial controls and system of risk management are **robust and defensible**

All Companies having an AC

Audit Committee (AC) terms of reference-Sec 177

- AC requires the auditors to call for the comments about Internal Controls and may also **discuss any related issues** with the internal auditor and Statutory auditor and the management of the company.

All Companies

Auditor's report u/s 143(3)(i)

- Auditor to report if the company has **adequate IFC systems** in place in relation to Financial statements and the operating effectiveness of such controls.

Companies Act, 2013

- Responsibility of the **Board** and Board Report to contain a statement on adequacy of internal financial controls
- **Audit committee** to evaluate internal financial controls
- **Auditor's report** to comment on adequacy of internal financial controls system and operating effectiveness of controls

Clause 49 of Listing Agreement

- Responsibility of the **CEO/CFO** to maintain ICFR.
- Evaluate the **effectiveness** of internal control systems pertaining to financial reporting.
- **Indicate** to the auditors and the audit committee significant changes to accounting policies and ICFR.

Sarbanes Oxley Act

- Responsibility of the **CEO/CFO** to the Annual report to establish and maintain internal controls
- **Annual report** to contain management report on internal control over financial reporting
- **Auditor's to report** and attest management's assessment of internal control over financial reporting.

- Board is responsible under the Companies Act, 2013 as against CEO (under Listing Agreement and also SOX Act)
- In case of listed companies, Internal financial controls reporting covers all controls as against internal control over financial reporting
- Other companies - Internal financial controls with reference to the Financial Statements.

Global Perspective- COSO framework

17 internal control principles by internal control component as presented in COSO's 2013 Framework:



1. Control Environment

1. Demonstrates commitment to integrity and ethical values
2. BOD demonstrates independence from management and exercises oversight responsibility
3. Management, with board oversight, establishes structure, authority and responsibility
4. The organisation demonstrates commitment to competence
5. The organisation establishes accountability

2. Risk Assessment

6. Specifies relevant objectives with sufficient clarity to enable identification of risks.
7. Identifies and assesses risk
8. Consider the potential for fraud in assessing risk
9. Identifies and assesses significant change that could impact system of internal control

3. Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

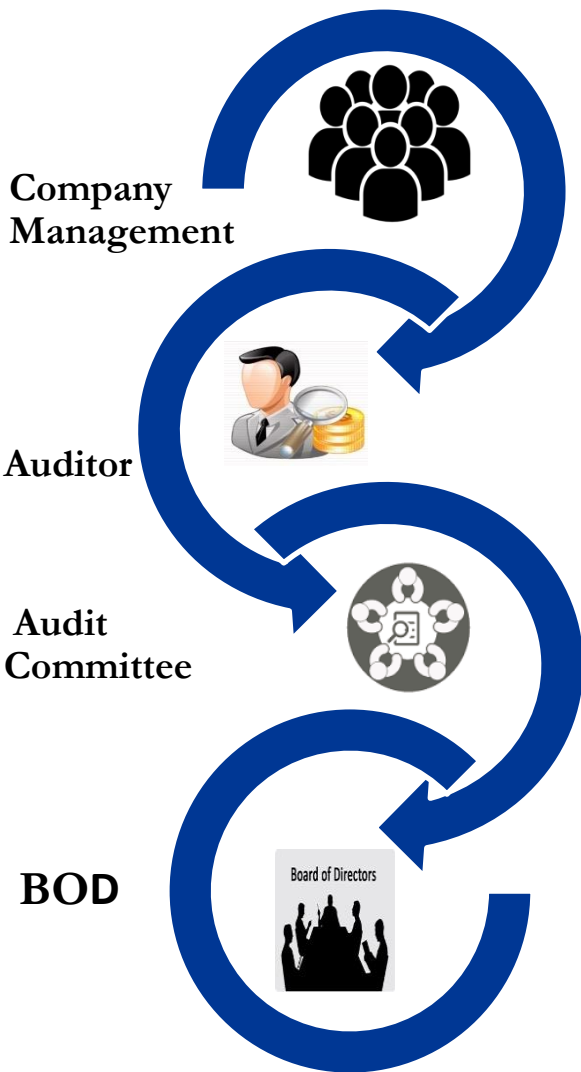
4. Information & Communication

13. Obtains or generates relevant, quality information
14. Communicates internally
15. Communicates externally

5. Monitoring

16. Selects , develops and performs on-going and separate evaluations
17. Evaluates and communicates deficiencies

Responsibility of Various Stakeholders



Create & test the framework of internal Control

- IFC (including operational & Compliance)
- Control Documentation

- **Focus** on internal controls, to the extent these relate to financial reporting (ICFR)
- Report on **Adequacy** of IFCs system
- Report on **Operating Effectiveness** of such controls.

- **Evaluate** IFC systems
- Would like to see a **robust framework** that is align to acceptable standards
- **Review Auditors comments / observations** with respect to controls before submission to the Board
- **Discuss issues** with Management or Internal / Statutory Auditors

- Independent directors to satisfy themselves on the **strength of financial controls**
- Lay down **adequate and effective IFCs** and include it in Director's Responsibility
- Would **rely on the assessment and view** of the Audit Committee
- They may **ask for additional information**.

Value Addition by IFC

Beside regulatory compliance Internal financial Control will help in following ways:-

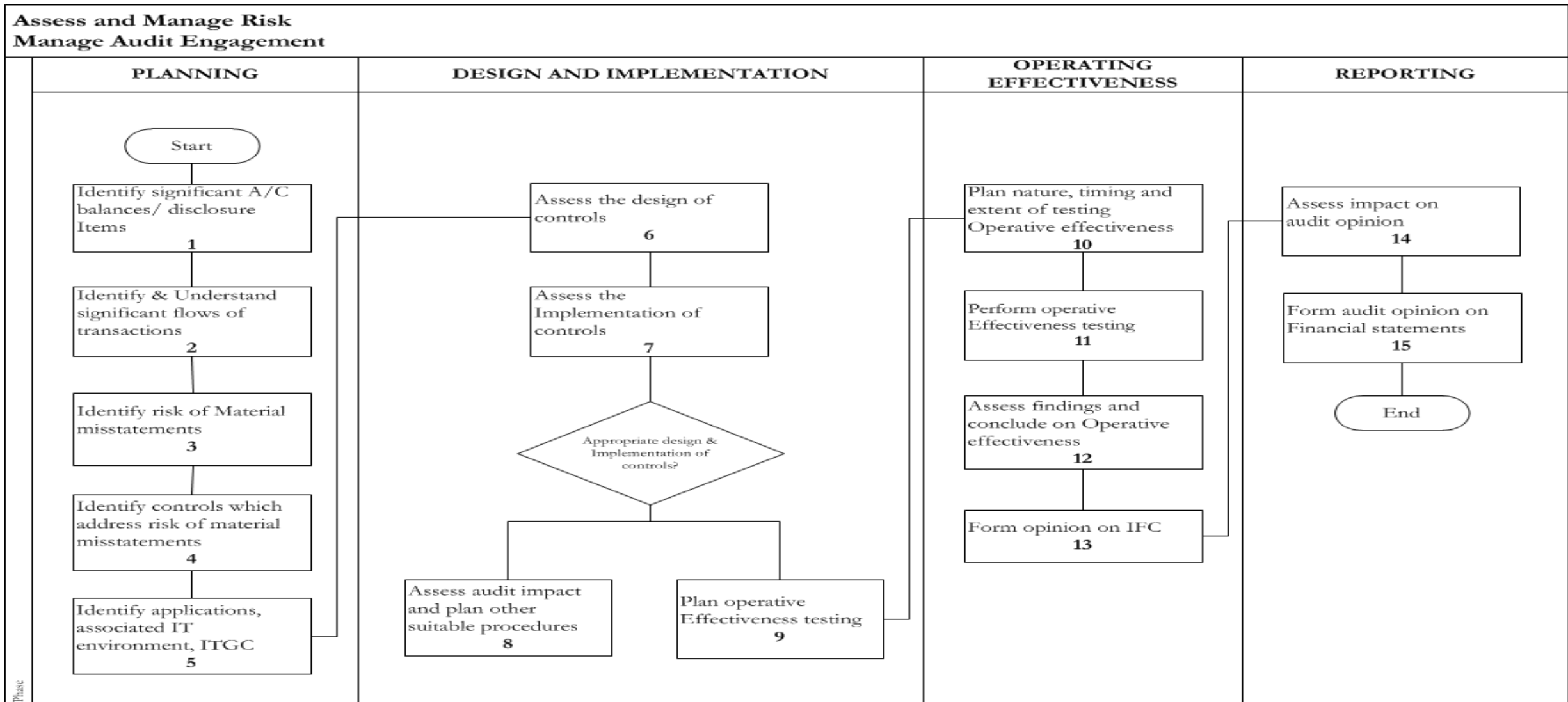
- **Business process** redesigning to plug revenue leakages & cost containment opportunities
- In rationalising the number of control across organisation – moving smart and **automated controls**
- In standardising policies and procedures for **multi-location/multi-business** companies.
- Fosters a control conscious **work culture** for people behind control
- **Enhance assurance** to CEO/CFO certification as well as improve **business performance**
- It also serves as **blue print** of **optimal procedures** while thinking about SAP.



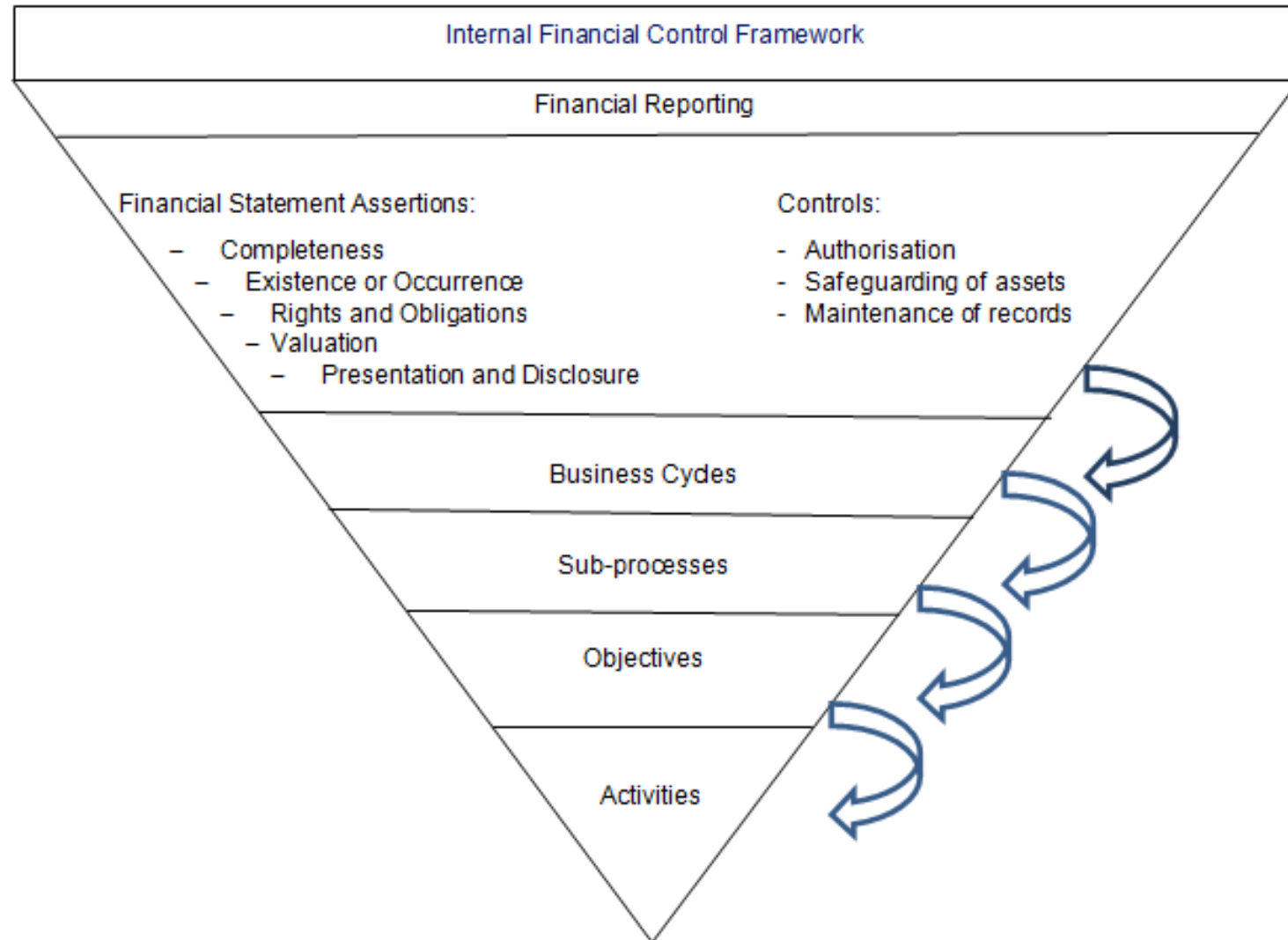
Approach/Procedure



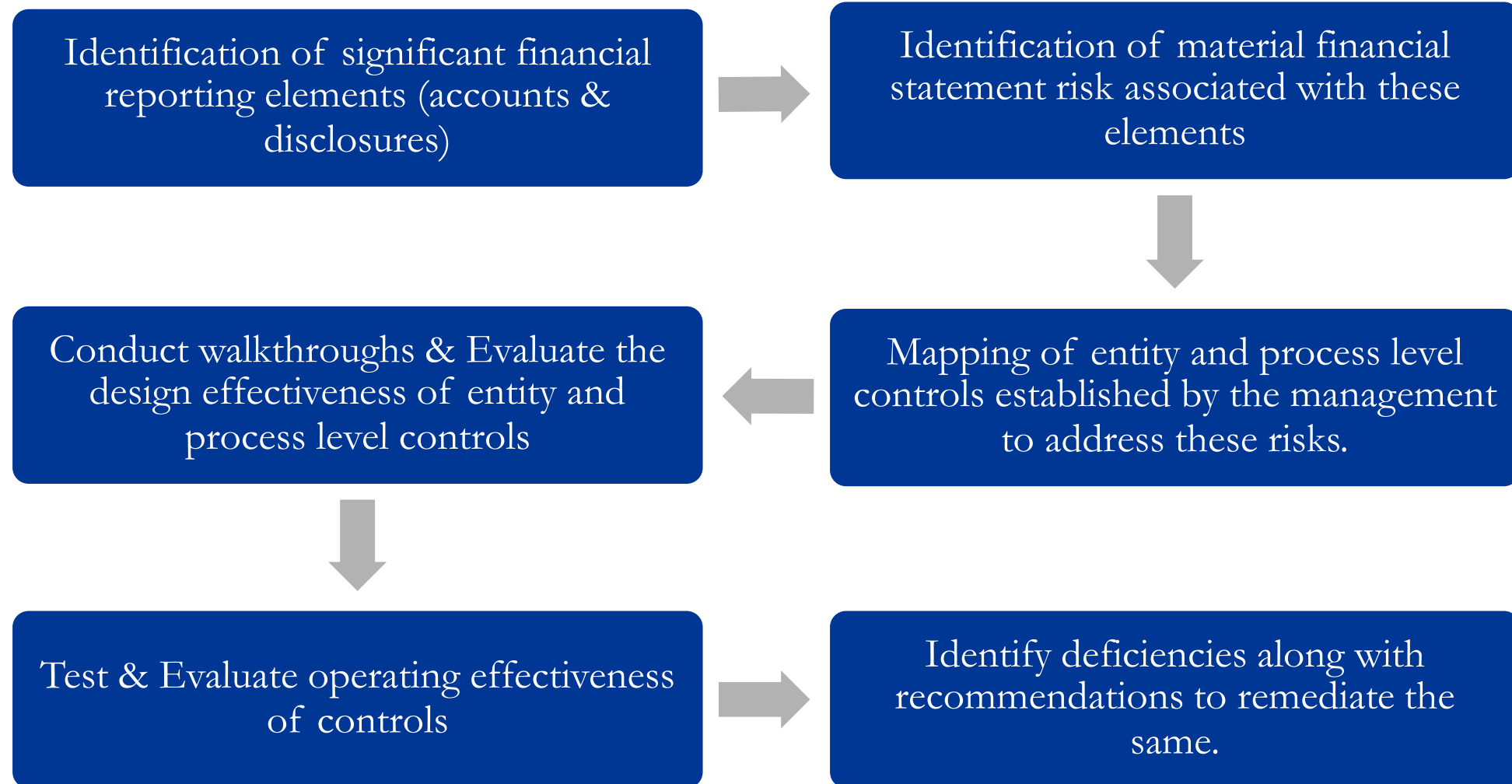
Flow of audit of ICFR



Top-Down Approach to ICFR



Process Road Map:-



- Design assessment involves evaluating whether internal control is suitably designed to prevent or detect material misstatement on a timely basis. Controls will not be designed effectively if there are missing controls, or if implemented controls do not meet the appropriate control objective.

Process flow for Design Assessment:

- Identify the Key Processes of the company.
- Identify the key Operational & Financial Risk associated with these processes.
- Identify the entity and process level controls designed to mitigate those risk,
- Identify Design gaps by performing walk-through.
- Documentation of the risks and controls and recommend the company to fix them.



Deliverable

- Risk Control Matrix
- Process Flow Charts
- Exception report on Design Gaps.

- When testing the operating effectiveness of a control, the auditor obtains evidence about whether it is operating as designed.
- If a control is not designed properly, it cannot operate effectively; therefore, there is no need to test the operating effectiveness of controls that are improperly designed.
- If the control does not operate effectively (e.g., the auditor is unable to obtain sufficient persuasive evidence that the control is operating as designed), then it is a “deficiency in operating effectiveness.”
- A deficiency in operation exists when a properly designed control does not operate as designed, or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Process flow for testing Operating Effectiveness :

- Assess the risk associated with the control.
- Plan the nature, timing and Extent of Tests of Operating Effectiveness.
- Perform tests of Operating effectiveness.
- Assess Findings and conclude on Operating Effectiveness.



Deliverable

Exception report on
Operating Effectiveness.

Entity Level Controls

ELC Component	Requirement
Business Risk Management	Whether risk management policy and procedures are in place? Whether formal risk assessment has been carried out or not ?
Business Ethics Framework	Whether whistle-blower policy and Code of conduct exists and implemented ?
Internal Audit and Financial Integrity	Whether internal audit function is independently reporting to Audit Committee? Whether roles and responsibilities of senior management is defined and documented? And Whether adequate segregation of duties exists?
Legal Compliance Framework	Whether legal compliance framework is documented and compliance health to checked on periodic basis?`
Fraud Risk Management	Whether Fraud Risk Management Policy exists, detailing structure of fraud deterrence, prevention and investigation, fraud incidence response guidelines. Whether Key controls to mitigate fraud risks are identified and monitored for compliance on regular basis?

Detailed assessment of implementation status of Entity Level Controls should be conducted and checklist should be documented for monitoring of Entity Level Controls

IT general controls (ITGC) are controls that apply to all systems components, processes, and data for a given organization or information technology (IT) environment. The objectives of ITGCs are to ensure the proper development and implementation of applications, as well as the integrity of programs, data files, and computer operations.

The most common ITGCs:

- Control environment, or those controls designed to shape the corporate culture or "tone at the top."
- Change management controls- controls designed to ensure the changes meet business requirements and are authorized.
- Logical access controls over infrastructure, applications, and data.
- System development life cycle controls-controls designed to ensure IT projects are effectively managed.
- Technical support policies and procedures - policies to help users perform more efficiently and report problems.
- Hardware/software configuration, installation, testing, management standards, policies and procedures.
- Disaster recovery/backup and recovery procedures, to enable continued processing despite adverse conditions.
- Data center physical security controls.
- System and data backup and recovery controls.
- Computer operation controls

About Proxcel



PROXCEL

ProXcel is a specialized corporate advisory firm with a vision to deliver professional excellence in the field of corporate financial and management consultancy. We offer range of integrated professional services to help entrepreneurs set up businesses and constantly grow by leveraging all opportunities smoothly through advising them on the right financial and legal strategies for expansion. Our services include business set up services, project funding, business valuations for M&A, financial reporting, taxation and corporate law advisory and internal and external audit.

Our team of professionals consists of young and dynamic professionals who possess the acumen and wide experience in the business valuation domain.



Rajendra Prasad Bansal- B.Com, FCA

Rajendra Prasad Bansal is a Fellow Chartered Accountant (FCA) and a commerce graduate. He has over twenty years of rich experience in the profession. He has been advising various clients in different areas including internal and external audits, direct and indirect tax consulting, financial planning, legal compliances etc.

Naveen Goyal - B.Com, FCA, DISA, LLB, Certificate Course on Valuation by ICAI, Diploma in IFRS by ACCA – UK

Naveen is a Fellow Chartered Accountant, a bachelor of law and commerce graduate. He also holds certificate on Valuation by ICAI, Diploma in IFRS by ACCA – UK and is an Information System Auditor certified by ICAI (DISA).

He specializes in the area of internal & external audit and business valuation services. His experience with Grant Thornton has given him wide experience in handling audits of multinational clients. Naveen is an active member in the northern chapter of ICAI and has prepared the study material for the certificate course on valuation of ICAI. In addition, he also drafted the Business Valuation Practice Standards notified by the ICAI as guidelines for valuers in relation to valuation exercises.

Core Team Members

Sharul Agarwal-B.Com, FCA

Sharul is fellow member of the Institute of Chartered Accountants of India, and has over 7 years of post qualification experience with Grant Thornton and Lakshmi Kumaran & Sridharan. He specializes in the area of Custom advisory, opinion and compliances, SVB assessments, foreign trade policy matters, EOUs, STPIs and other related matters.

Manuj Singhal- B. Tech, MBA

Manuj Singhal is an engineer as well MBA graduate from Lal Bahadur Shashtri Institute of Management, Delhi and has been trained with one of the leading finance and accounting business process outsourcing company. His core area of specialization is **business valuation** for Merger & Acquisition, PPA allocation, Regulatory compliance, ESOP valuation etc. He has conducted numerous valuations under Internal Revenue Code (IRC) and US GAAP including 409A Common Stock valuation, 142 Goodwill, 141 Purchase Price Allocation, 133 Derivative etc.

Sumit Goyal- B. Com, ACA

Sumit Goyal, an Associate member of the Institute of Chartered Accountants of India, specializes in the area of Indirect Taxation & compliance. His tenure with APRA and Associates, a specialized indirect taxation advisory firm has given him deep insight of various indirect tax related issues and advisory services.

Shweta Goyal - B.Com, ACA

Shweta is an Associate member of the Institute of Chartered Accountants of India and specializes in the area of external audit, internal audit and regulatory compliance. She has worked with Ernst and Young, a global advisory firm and has wide experience of handling work of MNCs.

Rakshit Kochhar - ICWA

Rakshit Kochhar is a Cost Accountant and has been trained with pioneer Cost Accountants and Consulting firms. His tenure with a leading cost accountant firm has also given him wide experience in handling cost audits of multinational clients. He has extensive experience in the area of Costing, MIS, Budgeting, cost audits, development of costing system and Maintenances of cost Records.

Swati Agarwal- B.Com, ACA

Swati, an Associate member of the Institute of Chartered Accountants of India, specializes in the area of internal audits, Indirect Taxation & compliance. Her tenure with APRA and Associates, a specialized indirect taxation advisory firm has given him deep insight of various indirect tax related issues and advisory services.

Select Clienteles

Some of our esteemed clients:



Select Clienteles

Some of our esteemed clients:



Contact Us

PROXCEL

ProXcel Advisory Services LLP

Gurgaon

FF04, Block A, Omaxe Gurgaon
Mall, Gurgaon-122002

Tel: 0124-4219460

Contact Person

Naveen Goyal

M +91 99110 95297

E naveen.goyal@proxcel.co.in

