



Internal Financial Control(IFCs)

Credentials



What is internal financial control

- ❖ Internal financial controls are policies and procedures adopted by company for ensuring the orderly and efficient conduct of business, including adherence to company policies, safeguarding of its assets, prevention and detection of fraud and errors, accuracy and completeness of accounting records, and timely preparation of reliable financial information
- ❖ In simple words internal financial controls are policies set by company in order to ensure proper financial reporting, proper control environment present in organization which would detect errors or frauds and safeguard organization assets.

Internal financial control over financial reporting + Operating controls + Fraud prevention = Internal financial controls in total.

Requirements as per Companies Act 2013



Requirements as per companies act 2013 for internal financial control reporting

Section as per Companies Act	Responsible for reporting	Regulatory compliance	Applicability
Sec 135	Board of directors	Directors' responsibility statement Should laydown IFC's are to be followed and adequate and operate effectively.	Listed companies
Sec 177	Audit committee	Audit committee should evaluate IFC's and may call on Auditors comments on IFC's	Entities having Audit committee
Sec 149(7) , Schedule IV	Independent Directors	IDs should satisfy themselves on integrity of financial information and that financial controls and systems of risk management are robust and defensible	Entities' having ID's
Rule 8 (5) of Companies accounts rules	Board of directors report	The details in respect of adequacy of internal financial controls with reference to financial statements	All entities
Section 143(3)(i)	Auditors report	Auditor report should mention whether the company has adequate IFC's and operating effectiveness of such controls	*

* Requirement under Sec 143(3)(i) shall not be applicable for those audit reports of private limited companies/ One person company which annual turnover less than 50 Cr or has aggregate borrowings of less than 25 Cr from banks/ financial institutions or body corporates at any time during FY

IFCs

Preventive controls:

Decrease the chance of error and fraud before they occur

Examples:

- ✓ Segregation of duties
- ✓ Pre approval of actions a-d transactions
- ✓ Access controls
- ✓ Physical controls over assets
- ✓ Employee screening and training.

Detective controls:

Designed to find errors or problems after the transaction has occurred

Examples:

- ✓ Monthly reconciliations
- ✓ Review organizational performance(Budgets vs actuals)
- ✓ Physical inventories verification

Corrective controls:

Controls put in place after detective controls discover a problem.

Examples:

- ✓ Disciplinary action
- ✓ Impact assessment and reporting
- ✓ Implementing new policies

Risk Control Matrix (RCM)

- ✓ The success or failure of organization depends upon whether the organization truly understands and manages its risk exposure.
- ✓ RCM can help the organization to identify, rank and implement control measures to mitigate all risks prevalent in organization.
- ✓ Risk represents what can go wrong in process. Identifying risk in process assist organization to focus controls that may reduce risk
- ✓ A RACM is a repository of risks that pose a threat to an organization's operations, as well as the controls in place to mitigate those risks.

		Inherent Risk Ranking				
Likelihood	Imminent 5	Low	Moderate	High	Critical	Critical
	Frequent 4	Low	Moderate	High	High	Critical
	Occasional 3	Very Low	Low	Moderate	High	High
	Infrequent 2	Very Low	Very Low	Low	Moderate	Moderate
	Rare 1	Very Low	Very Low	Low	Low	Moderate
		1 Very Low	2 Low	3 Moderate	4 High	5 Critical
		Impact				

Financial captions:



- ✓ Cash and Cash Equivalents
- ✓ Property, Plant & Equipment
- ✓ Payroll
- ✓ Purchases to Payables
- ✓ Revenue to Receivables
- ✓ Inventory
- ✓ Financial Statement Closing Process
- ✓ Entity Level Controls

Cash and Cash Equivalents:

The company shall maintain the process to assess and verify the risk event and adhere with the control objectives with respect to treasury. These processes can be from-

✓ **Banking operations:**

For instance, there may be a risk event of blockage of working capital i.e. dormant accounts may be in existence (Banking operations) for which management should have ensure that there are no inoperative accounts.

✓ **Cash Management:**

There may be a risk event of unauthorised cash withdrawals (Cash management) for which management should have ensure that main cash requirement is identified and reviewed by general finance manager.

✓ **Current Investments:**

There may be a risk that adequate authorizations are not obtained for investing (Current Investments) for which the management should have ensure that adequate approvals are obtained by the respective Divisional Heads

✓ **Exchange variation:**

Risk of Entering incorrect / non-updation of rates in accounting software resulting in erroneous exchange variation accounting for which the team should make sure that the rates in software are updated on daily basis manually.

The company shall maintain the process to assess and verify the risk event and adhere with the control objectives for fixed assets. These processes can be from-

✓ **Assets Procurement:**

For instance, there may be a risk of Classification of expenses into revenue or capital may be incorrect and the accounting of such expenses may be performed in an incorrect period for which the management has to ensure that A unique WBS Code is created prior to raising purchase request, All asset Purchase Requisitions will be queued for Deputy Manager, On receipt of commissioning certificates from the user departments for installation, the assets are moved to the respective asset ledger accounts based on the WBS references from the CWIP account.

✓ **Depreciation:**

For instance, there may be a risk of inaccurate calculation of depreciation for which the management shall ensure that depreciation parameters are configured in the software and the entries are posted on execution of monthly depreciation.

The company shall maintain the process to assess and verify the risk event and adhere with the control objectives for Human Resource. These processes can be from-

✓ **Payroll:**

For instance, there may be a risk of changes in CTC/ increments be un-approved or omitted to record in the software for which the company shall ensure that compensation structures are approved by MD. The Payroll Master is updated by the Payroll executive as and when the compensation structures are changed and approved by MD.

✓ **Policies and Procedures:**

For instance, there may be a risk event of absence of policies or procedures for HR & Payroll process for which the management shall have developed HR Policies and Procedures.

✓ **Recruitment:**

For instance, there may be a risk changes unauthorized salary offers disbursed to the candidates for which the company shall ensure that compensation for new Joiners are reviewed and approved by the MD through the 'Sanction' Process

Purchases to Payables:



The company shall maintain the process to assess and verify the risk event and adhere with the control objectives for Procurement to payment. These processes can be from-

✓ **Material and raw material - Invoices Accounting :**

There may be risk of Incorrect/ Unauthorized processing of vendor invoices for which management shall make sure that there is a proper process flow right from generating GRN to delivery of material.

✓ **Payments:**

For instance, there may be a risk of Double payment be made against the Invoice and supporting's for which the management shall give proper inputs to software which avoids double payment for closed voucher references.

✓ **Domestic Purchases – Payment Accounting:**

For instance, there may be a risk event of Incorrect/Unauthorized processing of Payment entry for which the management shall make sure that Payment entries are passed automatically upon payment batch approval.

The company shall maintain the process to assess and verify the risk event and adhere with the control objectives for revenue. These processes can be from-

✓ **Sales Planning:**

There may be risk of Un-attainable budget preparation for which management shall make sure that Inputs considered for sales budget preparation are accurate.

✓ **Product Costing:**

For instance, there may be a risk of Business loss due to incorrect price estimations / increase in input material cost / estimated overhead costs for which the management shall give appropriate parameters (input costs and overheads) are considered to arrive at the final selling price of the product.

✓ **Revenue recognition:**

For instance, there may be a risk event of Customer disputes in case of delay in dispatch for which the management shall ensure that Dispatches are made on time as per customer's requirement on daily basis.

The company shall maintain the process to assess and verify the risk event and adhere with the control objectives for Inventory. These processes can be from-

✓ **Ordering:**

There may be risk of Inventory balances may not be adequate to support customer orders causing business delays, damages to customer relationships and loss of potential sales for which management shall make sure that purchase of raw materials is performed based on a demand plan.

✓ **Receiving:**

For instance, there may be a risk that Materials may be removed from the warehouse without proper authorization for which the management shall ensure receiving department is restricted to only authorized access and segregated appropriately.

✓ **Reporting:**

For instance, there may be a risk event of Assets may be misappropriated or removed without properly updated within the financials for which the management shall ensure that Issuance of Materials is properly tracked and approved..

✓ **Reviewing:**

For instance, there may be a risk event of Write-offs of inventory may not be properly approved or may be done improperly for which the management shall ensure that all Write-offs are to be approved by MD by way of the 'Sanction' process.

The company shall maintain the process to assess and verify the risk event and adhere with the control objectives for Financial Statement closing process and Taxation. These processes can be from-

✓ **Chart of Accounts:**

There may be risk of Non-existence of a written policy specifying the parameters of account creation and maintenance. This may result in inoperative/dummy accounts being created by the unauthorized personnel for which management shall make sure that approved policies for creation of chart of accounts is put in place by the Holding/ Group Company and is duly authorized by CFO.

✓ **Posting from sub ledger to General Ledger:**

There may be a risk of Incorrect/ incomplete posting from Sub-ledger to GL may be made leading to differences between Sub ledger & GL. for which the management shall ensure reconciliation of schedules of Sub ledger to GLs is performed by Finance team from SAP during financial year end and verified by General Manager - Finance.

✓ **Taxation:**

For instance, there may be a risk event of incorrect tax calculation and the management shall ensure that Tax calculations are reviewed on a quarterly basis by the General Manager - Finance before advance/self assessment Tax payments.

The company shall maintain the process to assess and verify the risk event and adhere with the control objectives for Entity level controls. These processes can be from-

✓ **Corporate Governance:**

There may be risk that Board of Directors (BOD) may not be having adequate involvement in matters requiring its attention. for which management shall make sure that frequent board meetings are set up to discuss on operational issues on various functional areas

✓ **Risk Identification and Management:**

There may be Inadequate risk management process can lead to inherent risks not being identified or residual risks not being adequately monitored/managed, exposing to the organization to risk of errors/fraud/loss for which the management shall ensure Group ERM policy is in place. Risk register for different functions covering the enterprise level risks are documented.

✓ **Integrity and Ethical Values:**

For instance, there may be a risk event of Absence of adequate policies and procedures related to ethics and moral behaviors may result in lack of understanding among employees and the management shall ensure that policies are communicated to employees at the time of joining and in case of any change / modification.

- IFC Certification includes opinion of the auditor whether the company has in all material respects, adequate internal financial controls with reference to financial statements and such internal financial controls were operating effectively as at year end.
- Management's responsibility for establishing and maintaining internal financial controls based on the internal financial controls with reference to financial statements criteria established by the Company considering the essential components of internal control
- The audit conducted for certification of Internal Financial Controls involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to financial statements and their operating effectiveness.
- A company's IFC includes policies and procedures that:
 - Pertain to the maintenance of records that, accurately and fairly reflect the transactions and dispositions of the assets
 - Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP,
 - Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

How SBC Can help?



Steadfast Business Consulting LLP is a leading Professional Service firm offering wide range of services in the tax and regulatory space to clients in India and around the world. SBC designs the controls which includes Entity, process level controls and ensures operating effectiveness of the same.

SBC designs the controls which includes Entity, process level controls and ensures operating effectiveness of the same.



SBC is a team of professional chartered accountants, who have expertise in implementation of IFC's in client environment



SBC has robust plan that can understand the clients and mitigate the risks.



SBC implements efficient and effective controls with the help of preparation of Risk control Matrix (RCM) in accordance the company's existing controls if any.

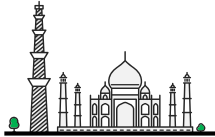
Contents

For more details please logon to <http://www.steadfastconsultants.in>



HYDERABAD

Suite 5, Level 3, Reliance
Cyber Ville,, Madhapur,
Hitech City, Hyderabad –
500081



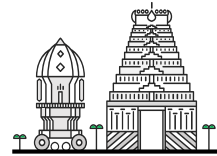
DELHI

C- 699A, 1st Floor, Sector-7,
Palam Extn., Dwarka, New
Delhi, Delhi 110075



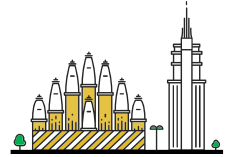
MUMBAI

Flat no.3, Plot no.226/227,
Sion East, Mumbai -
400022



CHENNAI

Old no 19, New no 13B,
New Bangaru colony first
Street, KK Nagar West,
Chennai 600078



BANGALORE

90/1, 3rd floor, pasha
south square, Rathavilas
road , basavangudi ,
Bangalore - 560004

Vijayawada : # 56-11-3, Sri Devi Complex, Y.V.R Street, MG Road, Patamata,
Vijayawada, Andhra Pradesh

Tirupati : H. No: 6-154/1, Syamala Nilayam, Near Water Tank, Akkarampalli,
Tirupathi, Andhra Pradesh

Visakhapatnam: Level 3, Kupilli Arcade, Akkayyapalem, Visakhapatnam,
Andhra Pradesh, 530016

Overseas :



UAE Address: 2103, Bayswater Tower, Business
Bay, Dubai, UAE



USA Address: 8 The Green, Suite A in the
city of Dover, Delaware - 19901

Thank You



www.steadfastconsultants.in