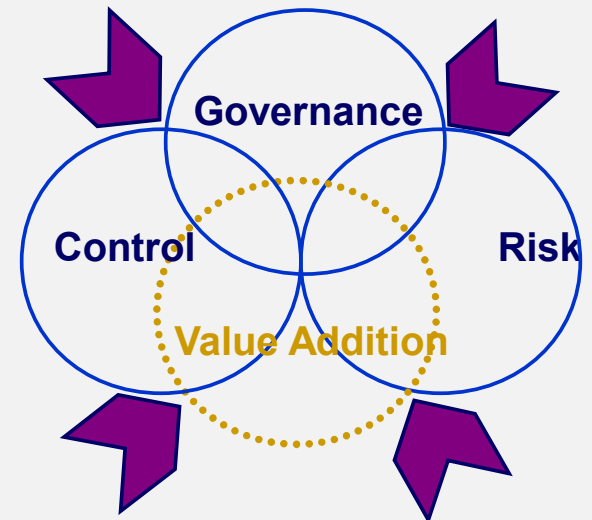


Building Robust Internal Financial Control- Industry Perspective



7 October 2016

Presentation by CA.
Chiranjeev Soni

INDEX

- **IFC –An Overview**
- **Role and responsibilities for the IFC.**
- **Step by step approach**
- **IFC Challenges**
- **Key IFC processes, Sample Process Note & RACM**
- **Common gaps**
- **How to view control deficiencies**
- **IFC the way forward**

What is IFC

Section 134 of the Companies Act 2013

As per Section 134 of the Companies Act 2013, the term 'Internal Financial Controls' means the policies and procedures adopted by the company for ensuring:-

- Orderly and efficient conduct of its business, including adherence to company's policies
- Safeguarding of its assets
- prevention and detection of frauds and errors
- accuracy and completeness of the accounting records, and
- timely preparation of reliable financial information

Roles and Responsibilities for IFC



Board of Directors-Section 134



Company Management



Audit Committee & Independent directors-Sec 177 and Schedule IV



Statutory Auditors-Section 143

Director Responsibility states that Director Directors has laid down IFC to be followed up by the Company and such controls are adequate and operating effectively.

Create & test the framework of internal Controls IFC (including operational & Compliance) Control Documentation

Would like to see a robust framework that is aligned to acceptable Standards

Review & Question the basis of your controls designs and ongoing assessments

Focus on ICFR

The Auditor's Report should state that Company have adequate IFC in place and the operating effectiveness of such control.

Step by Step Approach towards IFC

10/14/16

Presentation by CA.
Chiranjeev Soni

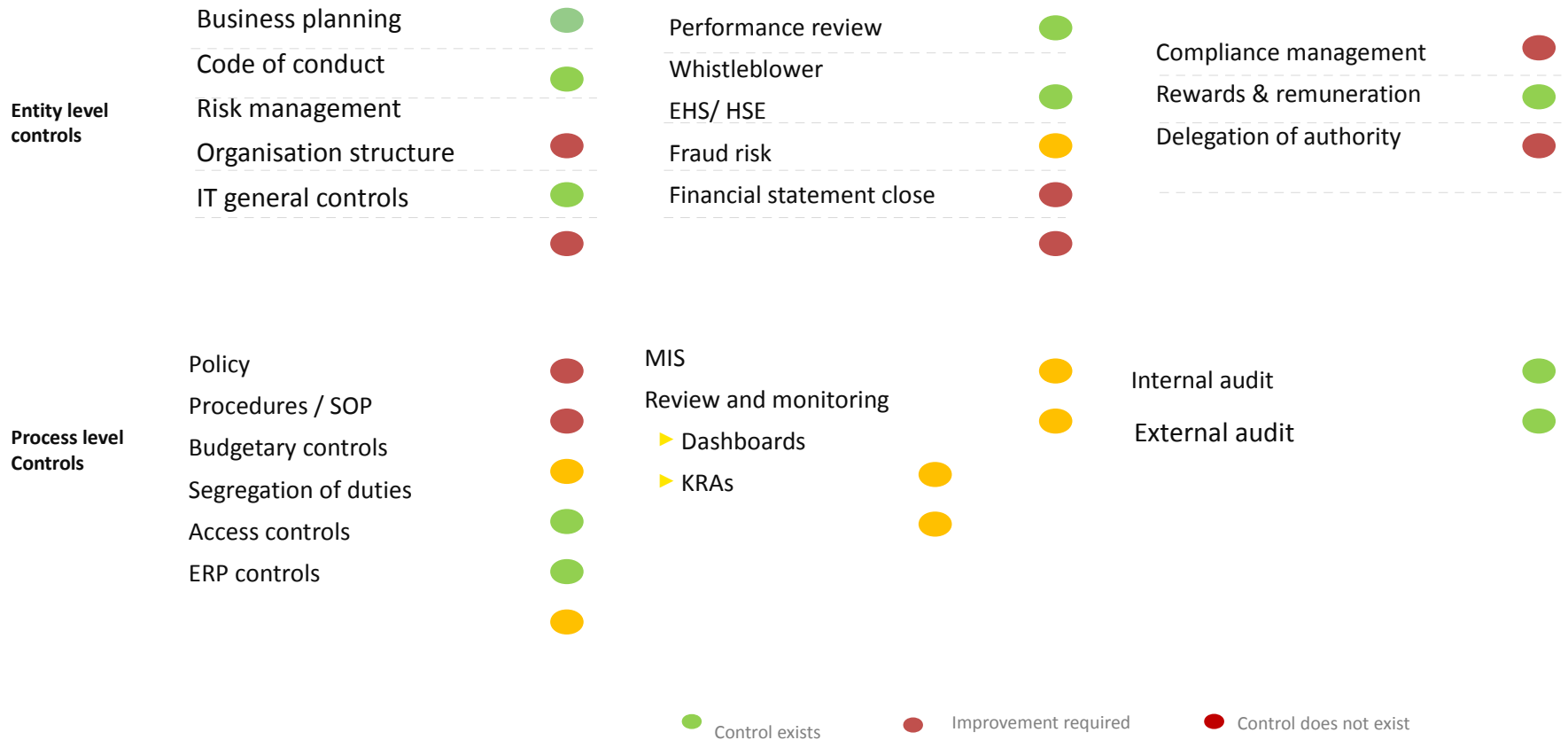
IFC Challenge

1. Creating and institutionalizing process driven culture
2. Existence of relevant and comprehensive Policies and processes document.
3. Non adherence to policies and processes
4. Unauthorized change in the process note and RACM.
5. Partial automation/failure of auto control on select applications.
- 6) Timely availability of data Populations and Samples duly supported with documents' evidencing existence of control from business owners.

Key processes to be focused

1. Entity Level Control
- 2 Order to Cash (O2C)
- 3 Procure to Pay (P2P)
- 4 COGS & Inventory Valuation
5. Warehouse & Logistics
6. Factory
7. Tax- Direct & Indirect
8. Legal and compliances
9. Fixed Asset
- 10 Treasury and Investment
11. Financial Statement Closure Process (FSCP)
12. Human Resource and Payroll
13. Advertisement
14. Other major expenses

Internal Controls dashboard-example



Sample P.Note-Outsource manpower management process

Process overview	<p>Outsource Employees Management process aims at providing a framework and system for effective management and control over the Outsource employees engaged by the Company.</p> <p>The objective of the process is as given under.</p> <ol style="list-style-type: none"> 1. Vendor appointment. 2. Agreement finalization. 3. Appraisal process 4. Statutory Compliance. 		
Process category		Mega process Outsource employees Management process.	
Major process	<p>Major process</p> <ol style="list-style-type: none"> 1. Vendor appointment. 2. Agreement finalization. 3. Appraisal process. 4. Statutory Compliance. 		
Related process 1	Vendor appointment and Agreement signoff.	Doc. Ref.	HR PN Outsource employees management
Related process 2	Statutory compliances to be ensured by the third party		

Sample P.Note-Outsource manpower management process

Inputs	Outputs
1. Respective Business gives the Manpower requisition based on the business requirement.	1. Getting into an agreement with the Outsource vendor. 2. Selection and recruitment of the desired candidates 3. Appointment letter Issuance.
Associated IT applications	Process owner(s)
1. MS- Outlook. 2. MS- Excel.	1. Manager- HR 2. Branch/Project Manager.

Process narrative
1. The Outsource vendor to provide the required manpower as per the Business requirements. 2. Outsource vendor to ensure timely issuance of Appointment letters, ID cards, PF & ESIC registration of the employees. 3. Timely disbursement of the monthly salary, i.e by 7th of the month. 4. Monthly payment of the PF and ESIC contributions. 5. Submitting the PF & ESIC paid challan copies along with the Monthly Invoices/ bills.

Risks
1. Delay in timely renewal of the third party/ outsource employees' vendor agreement. 2. Non Compliance of PF & ESIC: Failure on part of the third party vendor would lead to liability to be borne by BEL as a principle employer.
Controls
1. Tracker for timely agreement renewal maintained. 2. PF & ESIC challan copies to be maintained by the vendor and quarterly audit to be done by HR.

Sample RACM-Outsource manpower management process

IFC Risk & Control Matrix (RACM)													
Version-1	Last Revision Date												
Prepared by:	First Level Review	Signed Off by	Process Owner										
Type of Risk	Area/ Sub process	Risk/ What Can Go Wrong ?	Existing Control Description	Is there any Control Design Gap ? Yes/ No	Proposed controls (Recommendation, if any)	Person(s) in charge of existing control	Related Documents/ screen/ module	Risk of material misstatement - Key Control - Yes/ No	Frequency of Control	Accounting effect		Existing Control Activity Attributes	
										Balance Sheet	P&L	Automated/ Manual	Preventive/ Detective
Operational	Sub- Contractor employees PF & ESIC compliance	Non deposit of PF And ESIC/ Incorrect amount deposited	1. Sending every month detail mail to all Projects site for PF & ESIC. 2. Collating wage sheets from all sites. 3. Matching the wage sheet with contractors bills. 4. Monthly deposit of PF & ESIC. 5. To further identify the ESIC implemented areas	No	1.Continually educating site managers / contractors on consequences of non compliance.	1. HR 2. Project/ Site Manager. 3. Project co-ordinators in HO	1. Wages Sheets . 2. Contractors bills 3. PF Challans		Monthly/ Quarterly			Manual	Detective
Operational	Statutory compliance at project sites	Labour license not obtained for complete number of people	While taking new license we take adquate nos to buffer the rise in nos depending upon work load/ pressure at site.	No	1. Every quarter we should study the manpower at site and update the license accordingly.	HR Site Manager	1. Monthly wage sheets 2. Attendance muster 3. Copy of labour license		Quarterly			Manual	Preventive
		Risk of non payment of wages to labourers	We are maintaining a duly signed Wage Register at the site.	No				Monthly			Manual	Detective	
		Delays in filing Annual Returns under Contract labour Act and BOCW Act.	Sending mails to project sites and getting revert confirmations from them.	No	2. We Should keep check on whether contractor paying as per minimum wages or not			Monthly			Manual	Preventive	

Common IFC gaps

Entity Level Control:

- Ethics, fraud, corruption awareness programs
- Identification of critical positions and preparation of a succession plan

Order to Cash

- Dispatches after the closure period
- Delay in accounting of sales return and correlation of returned goods with invoice
- Bill to bill accounting of collection.

ITGC

- Access of production server to system developer.
- User access, Access logs, Password Policy, change management, back up restoration, infrastructure security etc.
- Access right to change credit terms and discount percentage in the system.

Inventory Valuation and Cost of Goods Sold:

- Valuation policy on slow and non moving product, defectives, Overhead apportionment etc. may impact on inventory valuation
- Documentation gap in physical verification of inventory.

Common IFC gaps-contd.

FSCP

- Absence of control over cut of date and closing JVs
- Provisions
- Failure to perform reconciliation of significant accounts

Fixed Assets

- Fixed Assets Register, idle/non performing assets, asset requiring impairment and periodic Physical verification of assets.

Contingent liabilities

- Flow of information from various business units on legal matters-Confirmations from all the locations (branches, plants) that all cases arisen during the reporting period have been reported as contingent liabilities.

Legal

- Flagging of related parties in the System
- Ensure arms length transaction with related parties.

How to view control deficiency

Sr. NO.	Description of the Control Deficiency	Value of transactions or accounts exposed or expected to be exposed to the deficiency	Do compensating controls exist and operate effectively	Does control deficiencies and/or significant deficiencies affect financial statement, account balance or disclosure having material impact
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

IFC-the way forward.

1. Since all Process Notes are in place/practice, and its collective responsibility of all Heads, HODs, and concerned needs to adhere/ensure adherence that:
 - 👉 All Policy and Process Note are followed and avoid any deviation.
 - 👉 Changes if any in Policies/Process Note are made for justified reason routing request for change through designated official and with CEO approval.
 - 👉 Advise IT not consider/configure any change in Policy/Process Note unless the same is approved by CEO and are routed through designated official.
 - 👉 Periodically validate documents and test operating effectiveness internally.
2. Advise IT to upload all Process Notes on IT Platform for internal use, define access right with view option for relevant areas of operations only.
3. No edit, download, copy and forward option be allowed

Thanks

10/14/16

Presentation by CA.
Chiranjeev Soni