



IFC Testing of Controls

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Contents



1. Audit of IFC	2-3
2. Key Process	4-5
3. Sampling	6
4. Testing of controls – case study	7-8
5. Reporting	9





AUDIT OF IFC



Steps for conducting IFC Audit

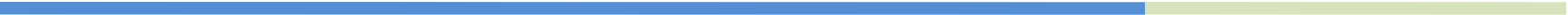
- ◆ Planning of Audit
- ◆ Design & Implementation
- ◆ Testing operating effectiveness
- ◆ Reporting



- ◆ Audit planning- Identify significant account balances based on materiality, understand SOP and flow of transactions.
- ◆ Design Implementation – Assess design of controls.
- ◆ Test operating effectiveness – to plan nature timing and extent of testing operating effectiveness, to assess findings and conclude on operating effectiveness, to form opinion on IFC.



KEY PROCESS



Key Process



- ◆ Procurement to Pay.
- ◆ Human Resource.
- ◆ Oder to Cash.
- ◆ Inventory management.
- ◆ Information Technology.
- ◆ Financial reporting & Closing
- ◆ Treasury & banking
- ◆ Fixed Assets

Key processcontd

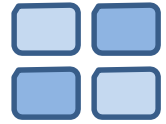


- ◆ Sub – Process:
 - ◆ Purchases, vendor master, purchase returns, Accounts payable .
 - ◆ Attendance, payroll and statutory payment
 - ◆ Sales price, cost of sales, invoice booking, Accounts receivable, sales returns.
 - ◆ Inventory monitoring and physical verification and inventory valuation.
 - ◆ IT security, user authorization and BCP
 - ◆ Period closing, RPD, Tax , Legal and preparation of financial statements
 - ◆ Bank reconciliations, borrowing and cash & bank balances
 - ◆ Capitalization and depreciation and disposal / sales



Samples selection

Samples



Frequency of control	Minimum sample size – Risk of failure	
	Lower	Higher
Annual	1	1
Qtrly	1+1	1+1
Monthly	2	3
Weekly	5	8
Daily	15	25
Recurring manual control	25	40



Testing

Testing



Procurement to pay :

Risk & Controls	Procedures
PO's are inaccurate, Invalid, incomplete	PO approval system
Receipt of material without PO	Analyse GRN against PO
Duplicate invoices being booked	Insert same invoice of a vendor to check if system shows error message
Inaccurate invoices being booked	Perform 3 way match between PO, GRN and invoice
Invoices are booked in absence of services / materials received	Check delivery challans
Invoices are not processed on time	Check open GRN status
Changes in vendor master	Check the audit trail for authorisation of changes to master
Vendor reconciliation	Whether done half yearly
Purchase returns not recorded	Check the documentation and process of purchase returns
Inaccurate expense booking	Expenses to be checked with agreement/ PO

Testing (cont'd)



Order to Cash:

Risk & Controls	Procedures
Sales invoices are not priced correctly or master not updated for changes	Match the sales invoices with customer PO . Check the audit trail for changes in sales price master
Cost of sales not recorded properly	Check the COGS ledger to check the movement of inventory
Inappropriate costing methods	Review cost sheet and check allocation of overheads
Sales returns not recorded	Review the process of sales returns and check sample documents. Cross tally the same with inward register
Duplicate receipts are recorded in the system.	Check sample receipts from the bank statement to the customer ledger.
Unauthorised credit notes given to customers	Check the process of authorisation of credit note

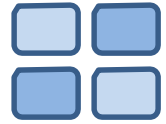


Reporting

Reporting



- ◆ Assess impact on Audit opinion.
- ◆ Form draft opinion of Financial statements.
- ◆ Discuss draft audit opinion
- ◆ Issue final opinion - clean / modified.



Thank you...

