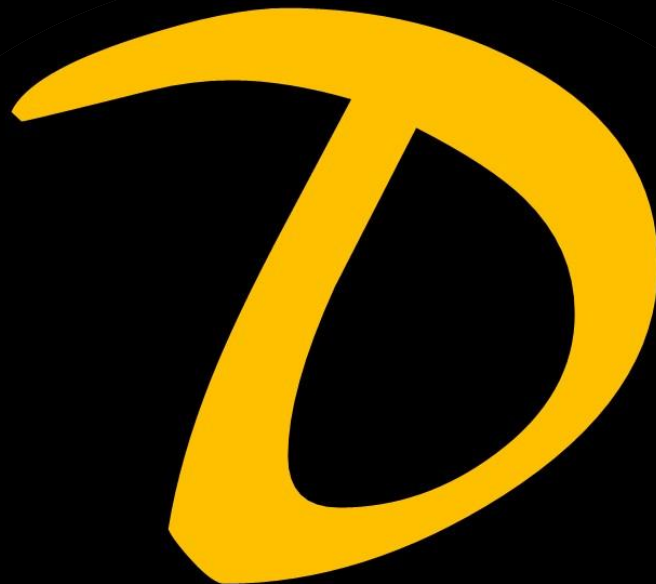


Approach note on Internal Financial Controls



Internal Financial Controls and Internal Controls over Financial Reporting



Contents:

Introduction to ICOFR	1
Compliance Requirements for ICOFR	2
Introduction to Risks & Controls	3
Using Internal Control Framework for Evaluations	4
Managing ICOFR / ICFR – An Integrated Approach	5
Execution Approach for Assessment of ICOFR	6
Illustrative Project Plan for ICOFR	7
Illustrative Deliverables for ICOFR	8
Illustrative Policies & Procedure Documents	9
Annexures : Illustrative Reports & Documentation	10

Introduction to ICOFR / ICFR

1

Taking a look at the definitions of Internal Financial Controls (IFC) and Internal Controls Over Financial Reporting (ICOFR / ICFR) along with definition of Fraud

Few words of Caution...

One size does not fit All



Note: *The extent of documentation for Internal Financial Controls (IFC) depends on various factors, including but not limited to, the nature & size of the business & scale of operations, policies & procedures in existence, systems & delegations in place and people involved.*



Reference	Relevant Provisions as per the Companies Act 2013
Defining Internal Financial Controls (IFC as per the Companies Act 2013)	<p>“Internal Financial Controls” has been defined in the Companies Act 2013 Section 134(5), as to mean policies and procedures adopted by the company for ensuring:</p> <ul style="list-style-type: none">▪ The orderly and efficient conduct of its business▪ The safeguarding of assets▪ The prevention and detection of frauds and errors▪ The accuracy and completeness of the accounting records▪ The timely preparation of reliable financial information
Key Requirements as per the Companies Act 2013	<ul style="list-style-type: none">▪ Auditor’s report to comment upon adequacy of internal financial controls system (design as well as operating effectiveness)▪ Directors’ Responsibility Statement to state that directors, have laid down adequate internal financial controls and such controls are operating effectively. Section 134(5)(e)▪ The Independent Directors shall satisfy themselves on the integrity of financial information, and that financial controls and the systems of risk management are robust and defensible▪ Board Report to include a statement indicating development and implementation of a risk management policy, including identification of risk elements. Section 134(3)(n)▪ Audit Committee’s terms of reference to include evaluation of internal financial controls and risk management systems
Definition of Fraud as per the Companies Act 2013	<p>“Fraud” as defined under the New Companies Act, includes any act of omission, concealment of any fact, abuse of position, connivance with intent to injure the interests of the company, shareholders, creditors, any other person (A broad and all encompassing definition with severe penal consequences for Frauds)</p>



Introduction to IFC & ICOFR / ICFR – The Companies Act 2013 and ICAI Guidance Note on ICOFR / ICFR:

Reference	Relevant Provisions as per ICAI Guidance note on ICFR & PCAOB Standard
<p>Internal Controls Over Financial Reporting (ICOFR / ICFR)</p>	<p>“Internal Controls Over Financial Reporting” 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 company's internal control over financial reporting includes those policies and procedures that:</p> <ul style="list-style-type: none"> ▪ Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company ▪ Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and ▪ Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements

This definition of the term “Internal Controls Over Financial Reporting” has been reproduced from the Auditing Standard (AS) 5, An Audit of Internal Control Over Financial Reporting that Is Integrated with An Audit of Financial Statements issued by the Public Company Accounting Oversight Board (PCAOB), USA

In the Indian context, “Internal Control Components” of SA 315, “Identifying and Assessing the Risks of Material misstatement through understanding the Entity and its Environment” provides the necessary criteria for internal financial controls over financial reporting for companies

As per the ICAI Guidance Note on ICFR – “a benchmark internal control system, based on suitable criteria, is essential to enable the management and auditors to assess and state adequacy of and compliance with the system of internal control”



Introduction to ICOFR – Typical Questions Around IFC and ICFR / ICOFR:

On the definition of IFC and ICOFR / ICFR

- Whether IFC and ICOFR / ICFR is exactly the same thing? **X**
- Is ICOFR / ICFR defined in the Companies Act 2013? **X**
- Is there a framework for both IFC and ICOFR / ICFR? **✓**

On the applicability of IFC and ICOFR / ICFR

- Whether IFC is applicable for Private Companies? **X**
- Whether ICOFR / ICFR is applicable for All Private Companies? **X**
- Whether separate ICOFR / ICFR documentation is required for separate Business Units / Factories etc. within one Legal Entity? **X**
- Whether ICOFR / ICFR becomes applicable on Foreign Holding company by virtue of its Indian Subsidiary Company? **X**

On Auditors' and Management reporting responsibilities on IFC and ICFR / ICOFR

- Whether the Auditor has to give an IFC opinion with reference to Financial Statements only? **✓**
- Whether the Management can delegate evaluation of IFC and ICFR / ICOFR to Internal Auditors / External Consultant? **✓**
- Whether Directors of Private Companies have to comment on effectiveness of ICFR / ICOFR in their report? **X**
- Whether Directors of Private Companies have to comment on the adequacy of Risk Management Systems in their report? **X**



Points to Remember – Key Considerations for IFC / ICFR Project:

- ☛ Understand the difference between IFC and ICFR / ICOFR
- ☛ Evaluate the legal entity & operating structures and assess the applicability accordingly
- ☛ Understand the applicable provisions / compliances, framework, guidance notes etc.
- ☛ Evaluate the specific Governance, Risk and Compliance requirements for IFC and ICFR / ICOFR
- ☛ Determine the objectives of the documentation / evaluation and extent of coverage
- ☛ Evaluate Management responsibilities & Auditor's responsibilities & reporting requirements for IFC / ICOFR / ICFR
- ☛ Review the existing policies, procedures & systems in place – to avoid duplication of efforts and cut down on redundant documents
- ☛ Plan to Integrate IFC / ICFR / ICOFR and Internal Audits – so far as the policies, procedures & internal controls are concerned
- ☛ Work out a customized plan for assessment of IFC / ICFR / ICOFR and testing of controls to ensure compliance to the applicable provisions and for discharging Management & Auditors responsibilities for IFC / ICFR / ICOFR
- ☛ Agree on the approach & methodology with the Statutory Auditors / External Auditors and leverage the Internal Audit testing procedures
- ☛ Use standard templates to address multiple requirements viz. ICAI Guidance note on ICFR, Internal Audit Program / work steps, Management Assessment of Internal Financial Controls and External Auditors' assessment of Internal Financial Controls
- ☛ Optimize the cost of compliance – for Internal Audit and IFC / ICFR / ICOFR

2

Compliance Requirements for ICOFR / ICFR

A brief on legal and regulatory requirements for evaluation of Internal Financial Controls (IFC) / Internal Controls Over Financial Reporting (ICOFR / ICFR)



Snapshot of Legal & regulatory requirements for IFC / ICFR / ICOFR in India:

IFC	Section 134	In case of a listed company, the Directors' Responsibility Stating that Directors have, laid down IFC and that such controls are adequate and operating effectively	Public Listed
ICFR	Section 143	The Auditors report should also state that the Company has adequate Internal Financial Controls system with reference to Financial Statements** and also comment on the operating effectiveness of such controls	All Companies*** with Exceptions
IFC	Section 177	Audit Committee to evaluate IFC & Risk Management Systems. Audit Committee may call for comments from Auditors about internal control systems, before submission to the Board and may also discuss any related issues with Statutory / Internal auditors or Management	Public (Listed & Unlisted)
ICFR	Schedule IV	The Independent Directors must satisfy themselves on the integrity of financial information and ensure that the financial controls and risk management systems are robust and defensible	Public (Listed & Unlisted)

Note: Rule 8(5) (viii) of the Companies (Accounts) Rules 2014 requires the Board of Directors (of All Companies) to report on the **adequacy** of Internal Financial Controls with reference to Financial Statements only (ICFR / ICOFR) – except for One Person Company or Small Company, as per (Rule 8(6) of the Companies (Accounts) Rules 2018)

** MCA Notification dated 7th May 2018 – Rule 10 A of the Companies (Audit and Auditors) Rules 2014 - ICOFR / ICFR Only

*** Except for One Person Company or Small Company as per Companies (Amendment) Act 2017



Snapshot of Legal & regulatory requirements for IFC / ICFR / ICOFR in India:

	Requirements as per previous slide	Applicability	Public Listed	Paid-up share capital >= INR 10 Cr	Turnover >= INR 100 Cr	Loans, Borrowing in aggregate >= INR 50 Cr	OTHERS*
				Public Unlisted			
1	Director's Responsibility Statement (Section 134)	IFC	✓				
2	Auditor Report (Section 143)	ICOFR / ICFR	✓	✓	✓	✓	✓
3	Audit Committee (Section 177)	IFC	✓	✓	✓	✓	
4	Independent Directors (Schedule IV)	ICOFR / ICFR	✓	✓	✓	✓	
5	Rule 8(5)(viii) of the Companies Accounts) Rules, 2014 – BOD report - Financial Statements only (ICFR) – ALL*	ICOFR / ICFR		✓	✓	✓	✓

* Refer new guidance note by ICAI on IFC for smaller Companies

* MCA Notification dated 7th May 2018 – Rule 10 A of the Companies (Audit and Auditors) Rules 2014 - ICOFR / ICFR Only

* Except for One Person Company or Small Company as per Companies (Amendment) Act 2017 and Rule 8(6) of the Companies (Accounts) Rules 2018.



Some key notifications and exemptions for Auditors for IFC reporting:

MCA vide its notification dated 13th June 2017 provided exemption from Internal Financial Controls to below-mentioned class of private companies, wherein, Chapter X, clause (i) of sub-section (3) of section 143 shall not apply to a Private Company:

- Which is a One Person Company (OPC) or a Small Company, or
- Which has turnover less than **rupees fifty crores** as per latest audited financial statement or which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less than **rupees twenty five crore**

Small Company, as defined under the Companies Act, 2013, means:

- Paid-up share capital of which does not exceed **fifty lakh rupees** or such higher amount as may be prescribed which shall not be more than **ten crore rupees**; or
- Turnover of which as per as per profit and loss account for the immediately preceding financial year does not exceed **two crore rupees** or such higher amount as may be prescribed which shall not be more than **one hundred crore rupees**

Note: A Small Company is a Private Company, not a holding or Subsidiary Company, not a section 8 Company, and is not regulated by a special Act. Also, the above exemptions shall be applicable to a private company which has not committed a default in filing its financial statements under section 137 of the Companies Act 2013 or annual return under section 92 of CA 2013 with the Registrar

Note on CFS: It would be sufficient if the Auditor expressed a true and fair opinion on the Consolidated Financial Statements (CFS) and reported on the relevant and significant matters concerning subsidiaries/associates requiring attention of shareholders rather than the entire reporting requirements of Section 143(3) of the Act

Note on Foreign Company: A foreign Company in which not less than 50 percent of the paid-up share capital (whether equity or preference or partly equity or partly preference) is held by one or more citizens of India or one or more companies / body corporate incorporated in India, whether singly or in aggregate, such company is required to comply with the provisions of the 2013 Act prescribed for the business carried on by it in India, as if it were a company incorporated in India.

3

Introduction to Risks & Controls

Understanding Risks & Controls as per SA 315 and COSO definition of Internal Control



Introduction to Risks and Controls – ICAI Guidance note on ICFR & Standards on Auditing:

Standard on Auditing (SA) 315 “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment” defines **Internal Control** as follows:

The **process** designed, implemented and maintained by those charged with governance, management and other personnel to provide **reasonable assurance** about the achievement of an **entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations**. *The term “controls” refers to any aspects of one or more of the components of internal control.* (ICAI Guidance Note on ICFR)

Appendix I to **SA 315** explains the five components of any internal control as they relate to a financial statement audit. The five components are:

1. Control environment
2. Entity’s risk assessment process
3. Control activities
4. Information system and communication
5. Monitoring of controls

Note: These are same as those given in the COSO Framework for Internal Controls (Given in subsequent slides). With reference to these:

SA 315 requires the auditor to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity’s internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement and help the auditor to reduce the risks of material misstatement to an acceptably low level

Risks relevant to reliable financial reporting include external and internal events, transactions or circumstances that may occur and adversely affect an entity’s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.



Introduction to Risks & Controls - Frequently used terms:

- **Entity level**
 - Highest level(s) within the organization that dictate controls, sometimes referred to as control units. It is at this level that the COSO entity-level assessment is conducted
- **Process or activity level**
 - The various business cycles through which procedures are performed to execute transactions that eventually impact the financial statements
- **Risk**
 - The “what could go wrong” within a process. The inverse of risk is commonly referred to as the “control objective”
- **Assertions**
 - Financial reporting objectives
- **Key Controls**
 - The controls in which the most reliance is placed with respect to mitigating risk. Not every control is a key control and requires testing

COSO Definition: Internal control is a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations



Introduction to Risks & Controls – Illustrative Risk & Control Evaluation Template:

Sr. No.	Sub-Process	Risk ("What Could go Wrong")	ROMM or Risk due to Fraud	Risk Ref.	Risk Classification	"AsIs" Process to mitigate the risk	Risk Associated with Control	Control Ref.	Control Attributes to be Tested	Existence (B/S)	Occurrence (P&L)	Completeness (B/S and P&L)	Valuation (B/S)	Allocation (P&L)	Rights/Obligations (B/S)	Presentation/Disclosure (B/S and P&L)	Financial / Non-Financial (F / NF)	Key/Non Key	Design Gap / Improvement Opportunity	Control Design Conclusion	IFC Component	Nature of Control	
																							1
		Recent amendments not being identified for including in the compliance checklist or not being communicated to the concerned personnel, leading to delay in ensuring compliance / non-compliance to the legal / regulatory / statutory requirements	No	R.1.2	HIGH	To be evaluated at the time of control testing	Higher	C.1.2	<ul style="list-style-type: none"> Completeness of the Compliance Checklist? Actual Compliance status reported to the Board of Directors? 									NF	K	To be evaluated at the time of control testing	To be evaluated	Accuracy and completeness of Records	Preventive

Type of Control	Frequency of Control	Anti Fraud Controls	IPE (Information Produced by the Entity)	Application System / Application Used	Control Executor	Control Reviewer	Sample size	Test results	Conclusion	Residual Risk Rating	Organization:							
											Process Name:	Control Owner(s):						
											Super Systems India Pvt. Ltd.	Legal & Secretarial						
											Shrawan Kumar							
											Design Gaps in the Process: Any design gaps in the process (e.g. List of applicable compliances note maintained for regular compliance and Monitoring etc.)							
Manual	Monthly	0	List of applicable Compliances	MS Excel	To be Identified	To be Identified	TBD	To be evaluated at the time of control testing	Effective	LOW	Operating Inefficiency Noted (Operating Failures): Non-compliances noted to any legal / regulatory / statutory compliances and interest, penalties and fines paid during the audit period							
Details of Sample Testing ✓ Complied ✗ Not Complied ● Not Applicable																		
Manual	Event Driven	0	List of applicable Compliances	MS Excel	To be Identified	To be Identified	TBD	To be evaluated at the time of control testing	Effective	LOW	Sr. No.	Particulars	C.1.1	C.1.2	C.2.1	C.3.1	C.4.1	C.5.1

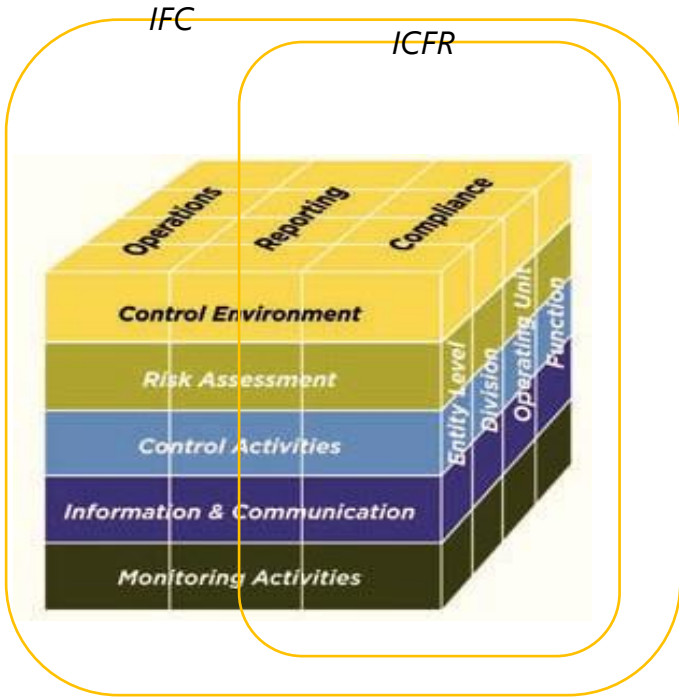
4

Using Internal Control Framework for Evaluations

A brief on the COSO framework for Internal Controls and using the framework for ICFR / IFC evaluations



Internal Control Process and Framework supported with parameters for evaluation:



COSO Internal Control Framework

$$ICFR + Fraud + Operational Controls = IFC$$

Control Environment	<ol style="list-style-type: none"> 1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk Assessment	<ol style="list-style-type: none"> 6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control Activities	<ol style="list-style-type: none"> 10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
Information & Communication	<ol style="list-style-type: none"> 13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring Activities	<ol style="list-style-type: none"> 16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies



Using the COSO framework for Internal Control Evaluations:



- **Operations Objectives**
- **Reporting Objectives**
- **Compliance Objectives**

Growth	Inability to grow the revenues or increase the market share
Geography	Inability to enter into new geography or inability to expand to profitable geography / region
Accounting	New ERP application does not provide accurate financial reports
Financial Reporting	Non-compliance to applicable Accounting Standards for Reporting
Fraud & Compliance	Inadequate measures for data protection leading to frauds / loss of Intellectual Property



- Clearly defined set of business objectives viz. Operational, Reporting and Compliance
- **Risk based approach** for identification and evaluation of Financial, Operational and Compliance Risks
- Standard framework for evaluation of Controls and for assessing the design & operating effectiveness of Internal Financial Controls. Using the principles and point of focus for each parameter of the Framework.

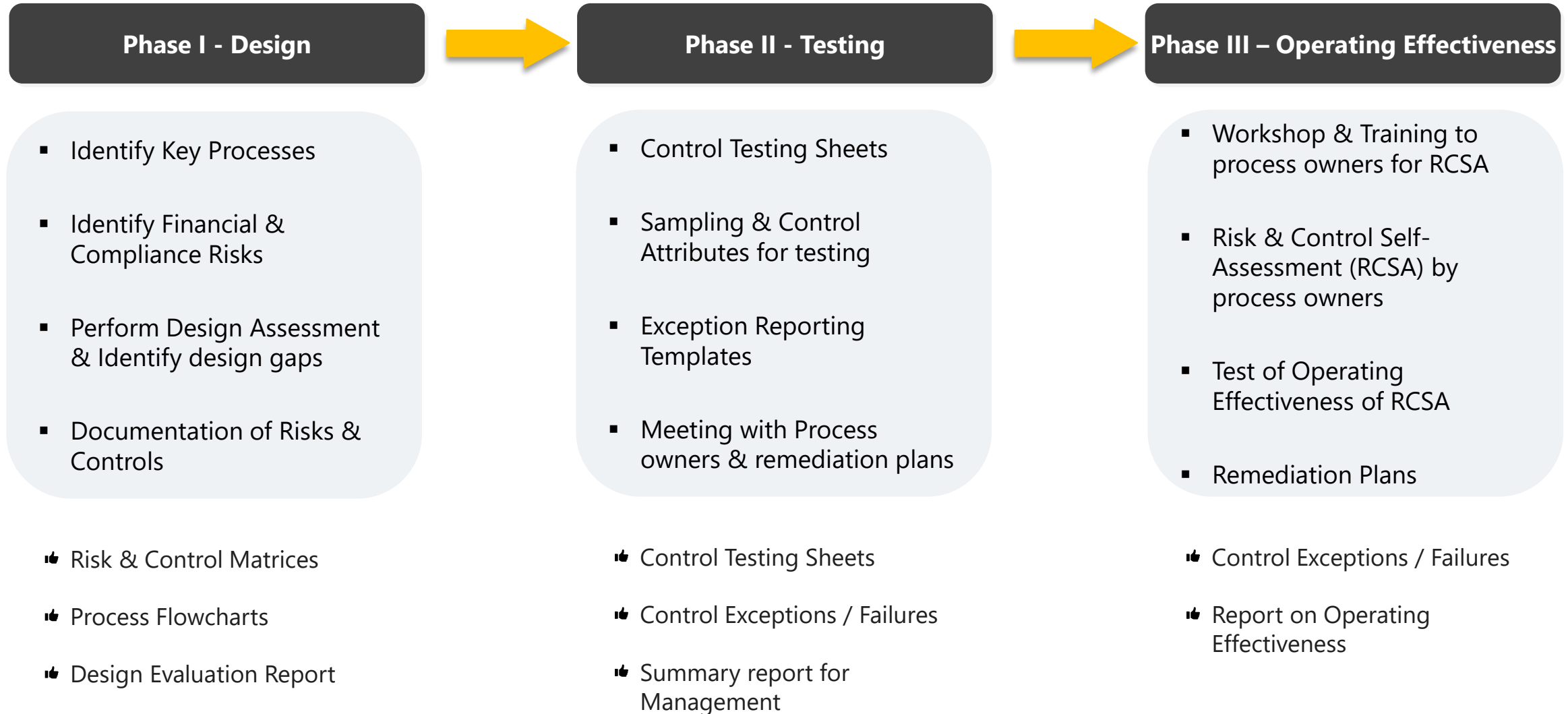
5

Managing ICFR / ICOFR – An Integrated Approach

Brief comparison between the typical approach and a customized / hybrid approach for saving cost of compliance for IA and ICFR

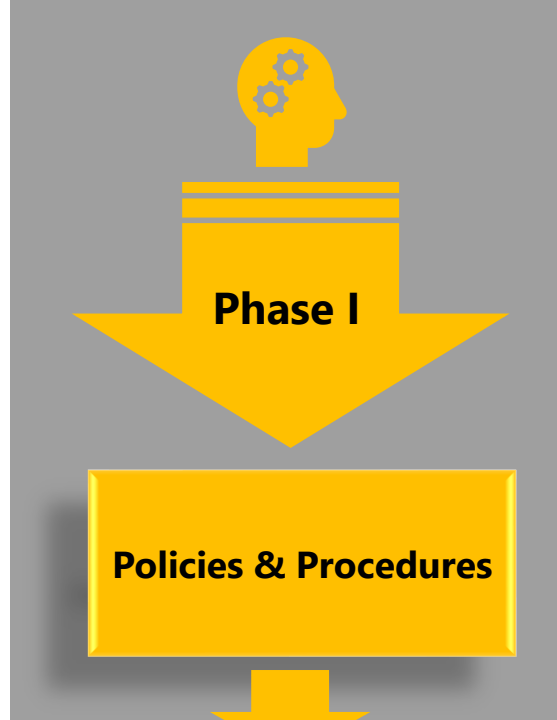


Typical Activities in IFC / ICFR Assessment – Illustrative:

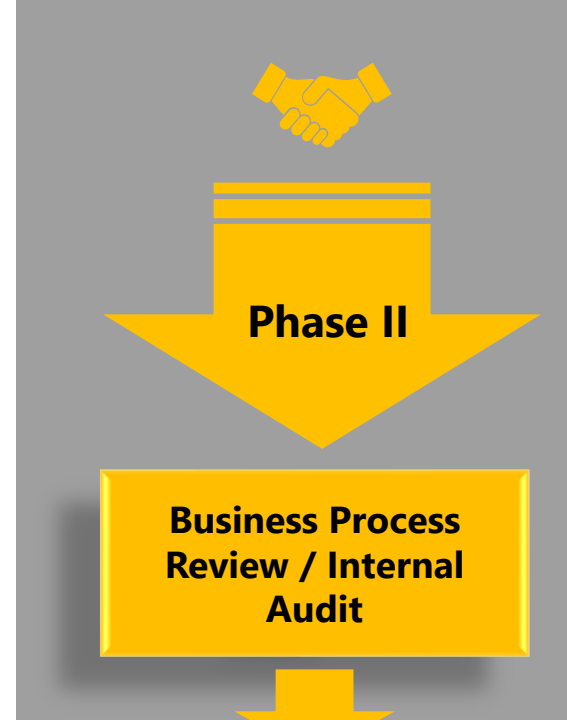


Illustrative Approach:

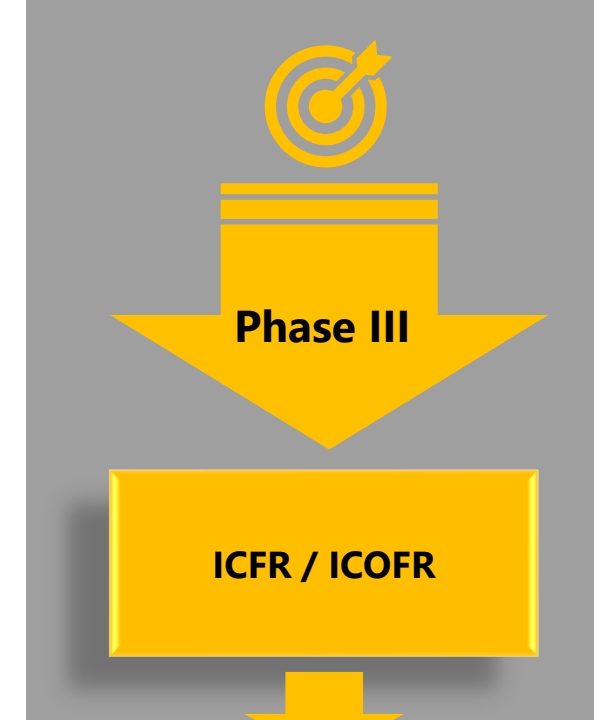
**Integrating
Internal Audit &
ICFR Evaluations**



- Review the documented Policies & Procedures vis-à-vis the existing processes
- Gap analysis / Design Assessment for IA / ICFR
- Assist in updating policies / creation of new policies & procedures
- Training on new policies & procedures



- Review the existing DOA and IT Application Controls
- Carry out pilot internal audit / ICFR evaluation and check adherence level of policies & procedures
- Process improvements through Internal Audits
- Documentation for the ICFR evaluations



- Testing the ICFR documentation with sample data for all Areas
- Management Testing of ICFR
- Refreshing policies & procedures wherever required
- Training on ICFR self-assessment
- Control Testing Reports
- Integrated IA & ICFR going forward

**Cutting down the
cost of Compliance
for Internal Audit &
ICFR evaluations**

Execution Approach

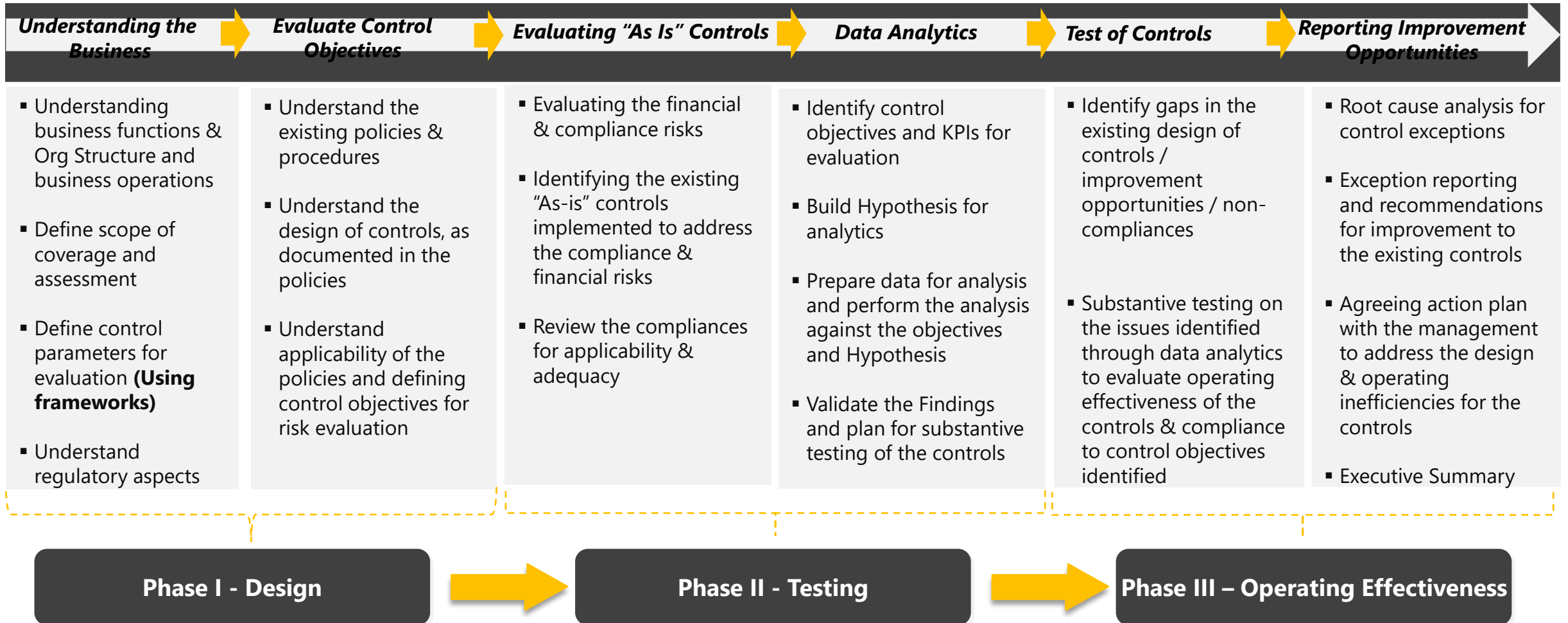
6

Illustrative steps involved in the execution of Internal Control Evaluations for ICFR



Internal Control Evaluation Methodology – Broad Overview:

Using a top down, risk-based approach will address the requirements of ICFR while maintaining efficiency throughout the organization and meeting the objective of evaluating internal controls over financial reporting:



There will be some overlap in the three phases, however the work of each phase will be leveraged for the next phase to avoid any duplication of effort



Evaluating Internal Controls – Procedural Overview:

Process Understanding

Carrying out discussion on in-scope processes

Understanding the KPIs of the business processes to evaluate risks

Walkthrough of the processes to understand the process and design

Design Review

Assessing the design for inadequacies (noted during walkthrough)

Understanding the existing policies & delegations defined

Evaluate policy / DOA non-compliance risks

Evaluate DOA for comprehensiveness

Defining Objectives

Identify control objectives and KPIs for evaluation

Identify performance objectives to evaluate efficiency and effectiveness of the processes

Define control objectives for data analytics and performance analytics

Data Review

Gathering the population data & performing ledger scrutiny & analysis

Build Hypothesis for analytics and prepare data for analysis and perform the analysis against the objectives and Hypothesis

Sample Testing

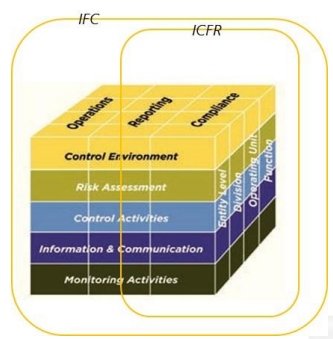
Identifying the samples for test of controls and for checking compliance to the existing policies and procedures (also covering compliance to law)

Validate the findings, perform substantive testing, identify control failures and operating inefficiencies

Exception Reporting

Reporting exceptions / control gaps and improvement opportunities and gaps in the underlying documents for samples identified

Preparing executive summary and report for the stakeholders for action plans and timelines for implementation of action plans



↓

Risk coverage while executing the above-mentioned steps

Operational Reporting Compliance Technology

The above-mentioned risk categories will be covered within the ambit of defined policies and procedures



7

Illustrative Project Plan for ICFR / ICOFR

Illustrative project plan covering various stages
involved in building the ICFR framework



Illustrative Project plan for ICFR Development & Assessment:

Planning

Execution

Reporting

Review Objectives:

Objective	Approach
1. Identify the areas for assessment of Entity Level Controls and carrying out gap assessment for the Entity Level Controls (ELC)	<ol style="list-style-type: none"> Developing a customized Questionnaire for performing the Review & Assessment for ELC - Entity Level Controls for the legal entity Review of the procedures for areas identified as part of the Entity Level Controls (ELC) - Typically around Policies & Procedures, Code of Conduct, Anti-Fraud Framework, Board Procedures, IT environment and Organization, Budgeting and Financial statement closure procedures, Risk Management and Reporting Framework Test of controls on sample basis for each of the areas identified as part of the Entity Level Controls (ELC) and performing a gap assessment for the missing entity level controls / improvement opportunities in the existing ELCs.
2. Identify the areas for carrying out the design and operating effectiveness of the Internal Controls Over Financial Reporting	<ol style="list-style-type: none"> Structured discussions with the HODs to understand the business and various functions across the organization Identification of the scope of coverage for processes to be covered as part of IFC / ICFR Developing the process universe on the basis of Trial Balance and review over financial statements Agreeing the process universe with the Management and the Statutory auditors and obtaining a sign-off on the same Creating a project execution plan and agreeing the same with the management and the statutory auditors Raising an Initial Data Request for the preliminary information required for the proposed scope of coverage Developing the Risk Register template and agreeing the same with the management and the statutory auditors to ensure adequacy and completeness for assessment of Internal Financial Controls / Internal Controls over Financial Reporting Carrying out the design and operating effectiveness testing as per the plan agreed with the statutory auditors and the management
3. Reporting improvement opportunities and assisting the management in developing action plans to address the control gaps & control failures	Drafting a report for discussion for potential areas of improvement - Including Design Gap assessment report, Entity Level Control gap Assessment report and Operating effectiveness testing results/ report - Control exception results / summary

2016 DK Mendiratta & Co.

Review Approach:

Sr. No.	Detailed Steps Involved in the Review / Assessment	Deliverables
PLANNING		
1	<ol style="list-style-type: none"> Understand the Organization Structure for all the legal entities Understand the legal entity structure and identify key stakeholders across all businesses and levels (Senior management/Heads of departments) who will participate in the discussions and assessment Defining a project plan along with individual areas for coverage and assigning milestones for completion for each of the areas 	<ol style="list-style-type: none"> Project Plan Process Universe (Processes and sub-processes for coverage) Initial Data Request (IDR)
2	<ol style="list-style-type: none"> Prepare Initial Data Request (IDR) list for all areas under scope and share the same with the management Map the trial balance to the process universe for the purpose of risk evaluation for each of the items appearing in TB Preparation of the Entity Level Control checklist for assessment of controls and procedures around Policies & Procedures, Code of Conduct, Anti-Fraud Framework, Board Governance & Procedures, IT environment and Organization, Budgeting and Financial statement closure procedures, Risk Management and Reporting Framework and aligning meetings with the key stakeholders for discussion on the Entity Level Controls 	<ol style="list-style-type: none"> Project Plan Process Universe (Processes and sub-processes for coverage) Initial Data Request (IDR)
REVIEW AND ASSESSMENT		
1	<ol style="list-style-type: none"> Walkthrough and interview with the Key stakeholders, HODs and CFO of the organization to discuss the Entity Level Controls Structured discussions and interviews with identified key executives to understand operating framework/practices adopted within organization with respect to the defined questionnaire for the assessment of Entity Level Controls Documenting the process narratives / "as-is" controls on the basis of the discussions and walkthroughs Test of controls on sample basis for each of the areas identified as part of the Entity Level Controls (ELC) and identifying the gaps / improvement opportunities (e.g. mapping the trial balance to the DOA matrix to see if there are any gaps - viz. items appearing in trial balance for which no delegation of authority is defined, another example could be identifying SCD conflicts) Completing the ELC questionnaire and documenting the results of assessment and gap analysis for identification of ELC improvement opportunities Drafting the ELC gap assessment report and sharing the same with the Management for action plan and further sharing with the statutory auditors 	<ol style="list-style-type: none"> Narratives on the "As-Is" controls / Minutes of Meetings for discussions on ELC Entity Level Controls Gap assessment report
2	<ol style="list-style-type: none"> Walkthrough and interview with the Key stakeholders, HODs 	<ol style="list-style-type: none"> Risk Register / IFC

2016 DK Mendiratta & Co.

Sr. No.	REVIEW AND ASSESSMENT	Deliverables
1	<ol style="list-style-type: none"> Walkthrough and interview with the Key stakeholders, HODs and CFO of the organization to discuss the Entity Level Controls Structured discussions and interviews with identified key executives to understand operating framework/practices adopted within organization with respect to the defined questionnaire for the assessment of Entity Level Controls Documenting the process narratives / "as-is" controls on the basis of the discussions and walkthroughs Test of controls on sample basis for each of the areas identified as part of the Entity Level Controls (ELC) and identifying the gaps / improvement opportunities (e.g. mapping the trial balance to the DOA matrix to see if there are any gaps - viz. items appearing in trial balance for which no delegation of authority is defined, another example could be identifying SCD conflicts) Completing the ELC questionnaire and documenting the results of assessment and gap analysis for identification of ELC improvement opportunities Drafting the ELC gap assessment report and sharing the same with the Management for action plan and further sharing with the statutory auditors 	<ol style="list-style-type: none"> Narratives on the "As-Is" controls / Minutes of Meetings for discussions on ELC Entity Level Controls Gap assessment report
2	<ol style="list-style-type: none"> Walkthrough and interview with the Key stakeholders, HODs 	<ol style="list-style-type: none"> Risk Register / IFC
2016 DK Mendiratta & Co.		
Sr. No.	REPORTING AND WRAP-UP	Deliverables
1	Draft the final report for managerial review and inputs	<ol style="list-style-type: none"> Final Report on ELC Final Report on Design Gap Assessment
2016 DK Mendiratta & Co.		
2	The draft report would include the following sections: <ul style="list-style-type: none"> Background Objective and scope statement Executive summary Summary of procedures performed Detailed findings and recommendations Management Action Plan and Timelines for Implementation 	<ol style="list-style-type: none"> Risk Register Templates Operating Effectiveness Testing Results Draft Reports (ELC, DG, OI)
3	Review draft report with the CFO / Head of Internal Audit, wherein all findings and recommendations would be discussed and inputs will be taken prior to releasing the report to the Management and Statutory Auditors	Draft Reports (ELC, DG, OI)
4	Make final revisions and issue the final report to the CFO & Head of Internal Audit	Final Reports (ELC, DG, OI)
5	Distributing the report to the stakeholders post receipt of management comments	Final Reports (ELC, DG, OI)

8

Illustrative Deliverables for ICOFR / ICFR

Illustrative Deliverables relating to ICFR evaluations /
assessments



Illustrative Deliverables for ICFR documentation:

Account Mapping



Risk Assessment – Universe for Internal Financial Controls:

Appendix 2 – Financial statement elements & risk assessment for trial balance mapping:

Financial Statement Element	Materiality	Complexity	Risk	Sr. No.	Area for ICFR Assessment	Reference to Trial Balance
Trade Receivables	High	Medium	High	1	Asset Management	Particulars as per BS and PL
Trade Payables	High	Medium	High	2	Liability Management	Particulars as per BS and PL
Fixed Assets	High	Medium	High	3	Asset Management	Particulars as per BS and PL
Equity	High	Medium	High	4	Equity Management	Particulars as per BS and PL
Income Tax	High	Medium	High	5	Income Tax	Particulars as per BS and PL
Provisions	High	Medium	High	6	Provisions	Particulars as per BS and PL
Deferred Tax	High	Medium	High	7	Deferred Tax	Particulars as per BS and PL
Other Financial Statement Elements	High	Medium	High	8	Other Financial Statement Elements	Particulars as per BS and PL

Notes:
The above coverage is done on the basis of previous year Trial Balance and Statement of Financial Position shared by the Burda Finance Team - For the purpose of creating Internal Control Universe.
The above coverage is for the purpose of management assessment & evaluation of Internal Controls Over Financial Reporting (ICFR) as per the guidance note issued by the ICAI in this regard.
It is the management responsibility to ensure compliance to the requirements of the Companies Act, 2013.

Illustrative Deliverables:

- Trial Balance / Account Mapping
- Business Process cycles for evaluation
- Process Universe for ICFR evaluation

Risk Registers / Risk & Control Evaluation Templates



#	ELC Attribute	Area	Point of Focus/Control Objective	Does this control prevent/eliminate the risk?	COSO Principle	Risk No.	Risk Title	Risk Description	Risk Impact	Risk Mitigation	Assigned as per Role
1	Entity-Wide Objectives	Board	Ensure a copy of the city practice and board minutes to review the records and approvals required to be taken for the City Practice and Board Minutes.	Yes	1	1	1	1	1	1	1
2	Entity-Wide Objectives	Board	Ensure that the City Practice and Board Minutes are reviewed and approved by the Board of Directors.	Yes	2	2	2	2	2	2	2
3	Entity-Wide Objectives	Board	Ensure that the City Practice and Board Minutes are reviewed and approved by the Board of Directors.	Yes	3	3	3	3	3	3	3

Illustrative Deliverables:

- Control Objectives linked to Risks
- Flow Charts / Process Narratives
- Control Testing Sheets
- Control Attributes for testing & control exception summary
- ELC assessment template & deficiency summary

Reporting & Monitoring Related



Summary of Risks and Controls:

Area	Risks	Controls
Fixed Asset Acquisition	Identification & Accounting	Asset costing and Classification
Capital Work in Progress (CWIP)	Registration on Assets	Disposal, Sale & Transfer of Assets
Physical verification of Assets		

Summary of Risks and Controls:

Area	Risks	Controls
Account Payables & Vendor Management		
Building and Site Procurement		
Contract Management		
Customer Code creation and compliance		
Facilities Management		
Payments and collections		

Entity Level Controls Assessment Section:

Control	Assessment
Board procedures and Governance	High
Business Planning and Budgeting	Medium
Code of Conduct (COCC) Awareness & reporting breach of COCC	Low
Plant Operations	Medium
Plant Reporting	Medium
Policy and Procedures	High
Human Resource Management	Medium
Risk Management and Internal Controls	High
Legal & Statutory Compliances	Medium
Financial Reporting	High
Reliability of IT / ERP Systems	Medium

Illustrative Deliverables:

- Design Gap Assessment Report
- Control Testing Results & Exception Reports
- Summary Reports for Management
- Audit Committee / Board Presentation

9

Illustrative Policies & Procedures

Illustrative policies & procedures for strengthening Entity Level Controls and for standardizing the business processes



Illustrative Policy & Procedure Documents:

Risk Management

CONTENTS		1
A. About the Policy and Procedure Manual		2
i. Introduction		2
ii. Scope of the Policy		2
iii. Guiding Principles		2
iv. Risk Management Objectives		3
v. Risk Management Structure		4
B. Risk Management Framework		5
i. Definitions and Risk Classification Framework		5
ii. Risk Management Policy		7
iii. Risk Management Procedures		7
iv. Risk Management Roles and Responsibilities		9
C. Risk Mitigation and Assurance		10
i. Risk Mitigation Methodology		10
ii. Management of Residual Risks		11
iii. Risk Assurance		11
iv. Compliance and Reporting		11
D. Document Control & Change Management		12
i. Clarifications relating to Risk Management Policy and Procedures		12
ii. Amendments and Changes to Policy and Procedures		12
E. Risk Enablers - Annexures		13
i. Annexure 1 - Risk Classification Framework		13
ii. Annexure 2 - Risk Rating Criteria		13
iii. Annexure 3 - Risk Measurement and Mitigating Control Effectiveness		13
iv. Annexure 4 - Enterprise Risk Assessment Template		13
v. Annexure 5 - Entity Level Control Assessment Template		13
vi. Annexure 6 - Operational Risk Assessment Template		13
vii. Annexure 7 - Audit Committee Risk Reporting Pack		13
viii. Annexure 8 - Board Risk Reporting Pack		14
ix. Annexure 9 - List of Policies and Procedures for Internal Control		14

Risk & Control Self Assessment

Table of Contents	
1. Document History	2
2. Purpose	2
3. Risk & Control Testing Approach	2
3.1. Define RCSA Control Scope	2
3.2. Building the Test Plan	2
3.3. Execute Testing	2
3.4. Analyze the Test Results	2
3.5. Documentation and Retention	2
3.6. Updating results on Governance Portal	2
3.7. Action Plan Management and Remediation	2
3.8. Independent Verification (Internal Audit Only)	2
4. Roles	3
5. Resources	3
5.1. Step 1: Define RCSA Control Scope	3
5.1.1. RCSA Scoping Process	3
5.1.2. Determine the Sampling Methodology	3
5.2. Step 2: Building the Test Plan	4
5.2.1. Utilize the Risk Register and Control Testing Templates	4
5.2.2. Test Steps	5
5.2.3. Test population, period, source, test method, sampling selection, results and observations will:	5
5.2.4. Test Period	5
5.2.5. Test Method	5
5.3. Step 3: Execute Testing	5
5.4. Step 4: Testing Quality Assurance (QA)/Analyze Test Results	6
5.5. Step 5: Documentation and Retention	7
5.6. Step 6: Updating the Results on the Governance Portal	7
5.7. Step 7: Action Plan Management and Remediation	8
5.8. Step 8: Independent Verification (Internal Audit Only)	8
6. Risk & Control Self-Assessment FAQ:	9
6.1. What is Risk & Controls Self-Assessment (RCSA)?	9
6.1.1. Why is ABC engaging in this process?	9
6.1.2. How often will we complete a RCSA?	9
6.1.3. How long do I have to complete my RCSA testing each quarter?	10

Procurement Manual

Contents	
1. FOREWORDS	5
2. AMENDMENTS TO THE MANUAL	5
3. OBJECTIVE	5
4. SCOPE OF DOCUMENTS	6
5. PROCESS OVERVIEW	6
6. DETAILED INDIVIDUAL RESPONSIBILITY	7
7. RAW MATERIAL	8
7.1. Procurement Planning & Forecasting	8
7.2. Vendor Identification and Selection	9
7.3. Vendor Master Maintenance	9
7.4. Process for Request of Quotation	10
7.5. Advances to Vendor	14
7.6. Receipt of Raw Material	14
7.7. Quality Inspection	17
7.8. Invoice Processing and Accounts Payable	17
7.9. Disbursement to Vendor	18
7.10. Vendor Account Reconciliation/ Balance Confirmation	18
7.11. Vendor Performance Evaluation	18
8. CDAL	19
8.1. Procurement Planning & Forecasting	19
8.2. Vendor Identification and Selection	20
8.3. Vendor Master Maintenance	21
8.4. Purchase Requisitioning and Ordering	21
8.5. Receipt of Coal	25
8.6. Quality Inspection	27
8.7. Invoice Processing and Accounts Payable (Refer Process 7.8)	27
8.8. Disbursement to Vendor (Refer Process 7.9)	27
8.9. Vendor Account Reconciliation/ Balance Confirmation (Refer Process 7.10)	27
8.10. Vendor Performance Evaluation (Refer Process 7.11)	27
9. PACKAGING AND CONSUMABLES	27
9.1. Procurement Planning & Forecasting	27
9.2. Vendor Identification and Selection	28
9.3. Vendor Master Maintenance (Refer Process 7.3)	29
9.4. Process for Request of Quotation	29

10

Annexure : Illustrative Reports & Documentation

A quick glance at some of the key deliverables in a simple Internal Audit solution and you can always work on industry / client specific solutions



Illustrative Documents – “Fit to Order / Tailor Made” solutions and quality documentation

Planning Related



No.	Module	Process	Sub-Process	Analysis	Control Objective
1	MM	Purchase to Pay	Purchase Requisition (PR)	Splitting of PR's	Examination of threshold limits
2	MM	Purchase to Pay	Purchase Requisition (PR)	PR Item wise quantity requirement covered by existing stock on hand quantity	Minimize inventory
3	MM	Purchase to Pay	Purchase Requisition (PR)	Open PR Aging Report	Evaluation of the business need for the PR
4	MM	Purchase to Pay	Purchase Requisition (PR)	Requirement of obsolete or prohibited items	Minimize inventory
5	MM	Purchase to Pay	Purchase Requisition (PR)	Multiple amendments to PR by same user	Minimize inventory
6	MM	Purchase to Pay	Purchase Requisition (PR)	PR Item wise value to user approval limit	Unauthorized equipping

Illustrative Deliverables:

- Risk Classification schema
- Project Plan and Timelines
- List of Control Objectives for IA
- List of Business Objectives for IA

Execution & Project Management Related



Illustrative Deliverables:

- Control Objectives linked to Risks
- Test Plans to check compliance to policies
- Test plans to evaluate efficiency of processes / operations
- Integration approach for various controls to be tested under IA, IFC / ICFR

Reporting & Monitoring Related



Illustrative Deliverables:

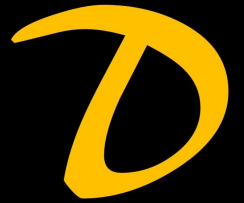
- Risk Based Hypothesis for testing
- Scorecards / Trends for Business Performance
- Control Analytics Dashboards
- Presentation to Audit Committee
- Board Reporting Pack on Governance, Risk & Compliance

Note: The above documentation is for an Integrated solution for Risk Management, Internal Audit & ICOFR

Contact Details for Guidance, Networking and Knowledge Sharing

Feel free to write in through email or connect over LinkedIn or reach out to us over the telephone – just in case you need guidance or further details on the topic

Contact Us:



+91-98180-30666

<https://www.youtube.com/c/derisk>

<https://www.linkedin.com/in/de-risk>



THANK YOU