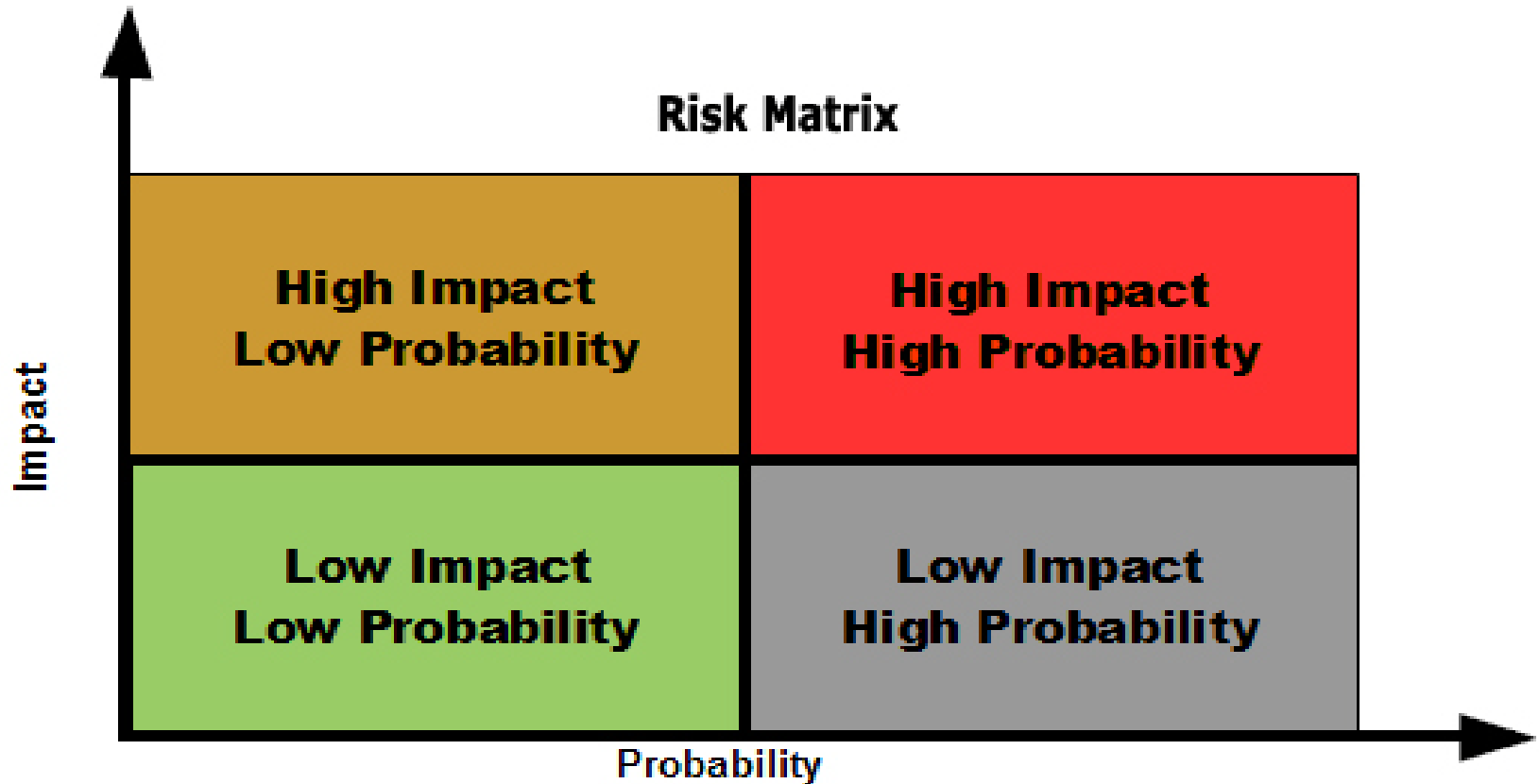




INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

Understanding & Evaluating Financial
Reporting Process

Risk Probability & Impact



Probability - Impact Matrix

Probability	Impact			
	Insignificant	Moderate	Critical	Catastrophic
Almost Certain	High	High	Extreme	Extreme
Likely	Moderate	High	High	Extreme
Possible	Low	Moderate	High	Extreme
Unlikely	Low	Low	Moderate	Extreme
Rare	Low	Low	Moderate	High

Risk Control Matrix

Control Activities	Probability				
	Major Expected	Significant Likely	Moderate Possibility	Unlikely & Minor	Remote & Insignificant
Excessive	High	High	Moderate	Low	Low
Adequate	Extreme	High	Moderate	Low	Low
Refinement needed	Extreme	High	Moderate	Moderate	Low
Inadequate	Extreme	Extreme	Extreme	Extreme	Moderate

Stages of Risk Planning



Types of Controls

Automated
Manual

Preventive
Detective

Corrective

Compensa
ting

Deterrent

- ❑ Segregation of duties
- ❑ Authorization of transactions
- ❑ Retention of records
- ❑ Supervision or monitoring of operations
- ❑ Physical safeguards
- ❑ Top level reviews – Audits
- ❑ IT General & application controls
- ❑ Continuous control monitoring

Risk Management

Risk appetite to be clearly defined

A challenging aspects in risk management is not identifying risks one can encounter. Identify most “important” risks & focus on them

RISK PRIORITY

Rating resulted by combining the assessed **likelihood of risk to occur & its projected impact.**

Focus on **impact.**

RISK URGENCY

Risk dimension which reflects **time criticality** of a risk to occur.

Ascertain time left before a measure is implemented.

Focus on measures to be implemented

Applicability

- Sec 134(5)(e) – Directors statement of responsibility for establishing adequate IFC & asserting operating effectiveness of such controls only for listed Companies
- Rule 8 (5) (viii) of Companies Accounts Rules 2014 requires Board of Directors of all Companies to state adequacy of ICFR
- Sec 143(3) applies to Statutory audit of all Companies
- Statutory auditors of all companies to mandatorily report on adequacy of ICFR for FY 2015-16

CEO / CFO Certification


- To the Board of Directors
- Responsibility for establishing & maintaining ICOFR
- Evaluation of effectiveness of ICOFR
- Disclosure to Stat Auditors / Audit Committee of the Board of –
Deficiencies in design & operation of IC
- Steps taken or proposed to rectify the deficiencies

Directors Report – Internal Controls

- Adequacy of IC
- Implementation of Process driven IFC framework
- Well documented SOP for various processes
- Continuous monitoring of IC by internal auditors
- Directors Opinion that Company has sound IFC commensurate with size & nature of business

Auditors Report – IFC

- Report on IFC under Sec 143(3)(1)
- Managements responsibility for IFC
- Auditors responsibility to issue audit opinion on IFCOFR based sufficient & appropriate audit evidence
- Meaning of IFCOFR
- Inherent Limitations of IFCOFR
- Opinion –
 - A) Adequacy of IFC in all material respects
 - B) Effectiveness of operation on 31st March
 - C) Criteria for IFC established by the Company
 - D) Reference to ICAI Guidance note

- 
- Assumptions - Mother of all goof ups
 - Ensure – Things are done right first time
 - Efficiency vs Effectiveness
 - 3 lines of Defense
 - Control – Collusion - Circumvention
 - Fraud - Economic crime
 - Implement the implementable – Start
 - Look for Solutions - Not Confusions
 - Avoid - Cinderella Syndrome
 - Sherlock Holmes - I see no more than you but I have trained myself to notice what I see

Risk relationship - Audit evidence

$$AR = IR \times CR \times DR$$

- **AR - Allowable audit risk** - Material misstatement remains undetected
- **IR - Inherent risk** - Material misstatement assuming there were no related controls.
- **CR - Control risk** - Material misstatement could occur & will not be prevented / detected on a timely basis by IC
- **DR - Detection risk** - Audit procedures will fail to detect a material misstatement if it exists.

Risk of Fraud

FSB Nov 2013 Guide – Page 48

- Transition –
- Point in time direct reports on subjective opinion in IC deficiencies or effectiveness of a small % of risk universe

To

- Reporting on reliability & effectiveness of the organizations entire risk appetite framework
- How well is the management discharging its risk governance responsibilities – residual risk control
- **Shift from Internal Controls to Residual risks**

Policies & Procedures in IFC

- **Sec 134(5)(e) – IFC** - Policies & procedures - ensuring orderly & efficient conduct of business - Adherence to policies, safeguarding of assets - prevention & detection of frauds & errors - Timely preparation of reliable financial information
- **ICOFR** include policies & procedures –
 - Maintenance of records to accurately & fairly reflect transactions & dispositions of assets
 - Provide reasonable assurance –
Necessary transactions are recorded to present FS as per GAAP & receipts / expenditures are properly authorized
Prevention & timely detection of unauthorized acquisition, use or disposition of assets having material effect on FS

Policies / Procedures

- **Policies** - Principles, Rules & Guidelines formulated & adopted by an organization to achieve long term goals – Clear, simple statements that help decision making stating how a business is to be conducted
- Framework within which an organization operates
- Objectives, Goals & Management philosophies
- Provide direction & Empowerment
- Transparency & Consistency
- Rules – Mission Statements

- **Procedures** – Specific methods in daily operations used to implement policies & put them in action – Accomplishment by a series of steps.
- Management view of an organization which is translated into steps resulting in an outcome in sync with that view.
- Reflect Values, Approaches & Commitments of organizations

Financial reporting – Objectives

- Providing financial information to all stake holders of an entity - Useful for decision making -
- Information about liquidity position -
- Management efficiency & effectiveness in discharging it's responsibility on utilizing the entity's resources
- Provides Historical information whereas stakeholders need future information
- Limited availability of Non Financial information
- Responsibility of Presentation – Structure & Format – Periodicity of Reporting – Cost – Quality -

CARO 2015 / CARO 2016

- IC system commensurate with Co's size & nature of its business for purchase of Inventory, Fixed assets & Sale of goods & services – Continuing failure to correct major weaknesses in IC system – removed by CARO 2016.
- IA system commensurate with the size & nature of business – Removed by CARO 2015 –
- CARO 2016 not applicable to a Pvt Ltd Co having Capital + Reserves or Borrowings \leq 1 Crore or Turnover \leq 10 Crores
- Small Co's with paid up capital $<$ 50 lakhs (5 Crores) & turnover $<$ 2 Crores (20 Crores)

SOX 2002

Section 302 - CEOs - CFOs to sign off on the validity & accuracy of their companies' financial numbers & to certify the controls & procedures behind their financial reports.

Section 404 - Organizations to ensure that the audit process behind their financial reporting is not only comprehensive & accurate, but also meets strict quarterly timeframes for reporting on an ongoing basis.

Section 409 - Issuers are required to disclose to the public, on an urgent basis, information on material changes in their financial condition or operations.

Applicability Ind – As



Mandatorily applicable for the following companies

Applicable to companies	Voluntary adoption	Companies whose net worth is 500 crore INR or more Holding, subsidiary, joint venture or associate companies of above companies	Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than 500 crore INR Unlisted companies having net worth of 250 crore INR or more Holding, subsidiary, joint venture or associate companies of above companies

Relevant Co's Act Sections

- Sec 138 – Appointment of IA for better IC & CG
- Sec 143(3) – Auditors report to comment on IFC & adequacy & operating effectiveness of these controls
- Sec 134(5) (e) – Directors Responsibility Statement of a Listed Company to comment on IFC & its adequacy, effectiveness as at BS date
- Sec 177(4) – Audit Committee to evaluate IFC & Risk management systems (RMS)
- Sec 149(8) – Independent Directors to be satisfied on integrity of FS & robustness / defensibility of IFC / RMS

Clause 49

- Code of Independent Directors – Schedule IV to Co's Act 2013 – Independent directors to be satisfied on strength of financial controls
- Clause 49 IX-C - Listing agreement – CEO / CFO certify to the Board of Directors that they have accepted responsibility for establishing / maintaining IC for Financial reporting (FR) & have evaluated effectiveness of IC of the Co pertaining to FR
- Clause IV-D – Role of Audit Committee includes evaluations of IFC & RMS

Various Clauses

- SA 315 – Identifying & assessing risk of material misstatements through understanding an entity & its environment
- SA 320 – Materiality in planning & performing an audit
- SA 200 – Overall Objectives of the independent auditor & conduct of audit in accordance with the standards on auditing
- Unless Operational controls impact financial reporting they would not come under preview of Sec 143(3)
- Rule 8(5)(viii) of Co's (Accounts) Rules, 2014 - Board of Directors' report of all Co's to state details of adequacy of IFC wrt FS.

Process

- Identification of Risks – Evaluation / Assessment
- Identification of Controls
- Design of Controls - Adequacy to mitigate risks
- Operation of Controls effectively & efficiently
- Independent Periodical Testing & Monitoring
- Documentation of Test results
- Identification of Control Gaps
- Remediation of Control Gaps
- Ongoing Oversight Process
- Ongoing review of Risks & Controls -

IFC Implementation

- Planning and Scoping
- Design assessment
- GAP remediation
- Operating effectiveness
- Assessment and reporting

Frameworks

- Co's Act 2013 – No frameworks specified / recommended
- Benchmarking with IND-AS / US GAAP / IFRS
- COSO Framework used - 985 US Listed Co's
- COCO – Canada – Criteria of Control – 20 controls - 4 areas – Purpose / Commitment / Capability Monitoring & Learning
- Turn Bull Report – UK – Good Internal audits / Controls to ensure quality of Financial reporting & detection of frauds

- **COSO 17 Internal Control Component Principles**
- 1) **Control environment**
- Demonstrate commitment to integrity & ethical values
- Ensure Board exercises oversight responsibility
- Establish structures, reporting lines, authorities & responsibilities
- Demonstrate commitment to a competent workforce
- Hold people accountable
- 2) **Risk assessment**
- Specify appropriate objectives
- Identify & analyze risks
- Evaluate fraud risks
- Identify & analyze changes that could significantly affect IC
- 3) **Control activities**
- Select & develop control activities that mitigate risks
- Select & develop technology controls
- **Deploy control activities through policies and procedures**
- 4) **Information and communication**
- Use relevant, quality information to support IC function
- Communicate IC information internally
- Communicate IC information externally
- 5) **Monitoring**
- Perform ongoing or periodic evaluations of IC (or a combination of both)
- Communicate IC deficiencies

Accounting

- Identification – Accumulation – Measurement – Communication of Economic data
- Decision making
- Use by interested parties
- Relevant – Material – Faithful representation – Comparability & Consistency – Verifiability – Timeliness – Understandability – Going Concern



PROCESS

Set of inter related activities intended to achieve a result

**CONTROL
ACTIVITIES**


Processes & procedures that ensure management activities are carried out

EVALUATION

Systematic determination of merits & significance using criteria governed by a set of standards

Financial Reporting Process

- **Activities to –**
 - Prepare
 - Review
 - Approve the quality
 - Ensure regulatory compliance
- **Includes – Notes to Accounts / MDA /**
 - Required disclosures as per rules

- 
- Auditor - access inputs, perform procedures, review process outputs to prepare FS - Obtain sufficient audit evidence
 - Use of technology - Interfaces between various systems
 - Management Participation
 - Locations involved
 - Adjusting & eliminating entries – Classification Consistency – Accounting policies & estimates Appropriate disclosures
 - Understanding significant accounts – Flow of accounts – Materiality -
 - Analytical procedures
 - Analysing business risks
 - **What Can Go Wrong – We need no Surprises -**

Deficiency & Material Weakness in Controls

Control Deficiency

Operation of controls does not allow management / employees to perform designed function in normal course & detect or prevent material misstatements on a timely basis.

Significant Deficiency

is a Control deficiency that adversely affects ability to **Initiate, Authorize, Record, Process & Report** data as per GAAP

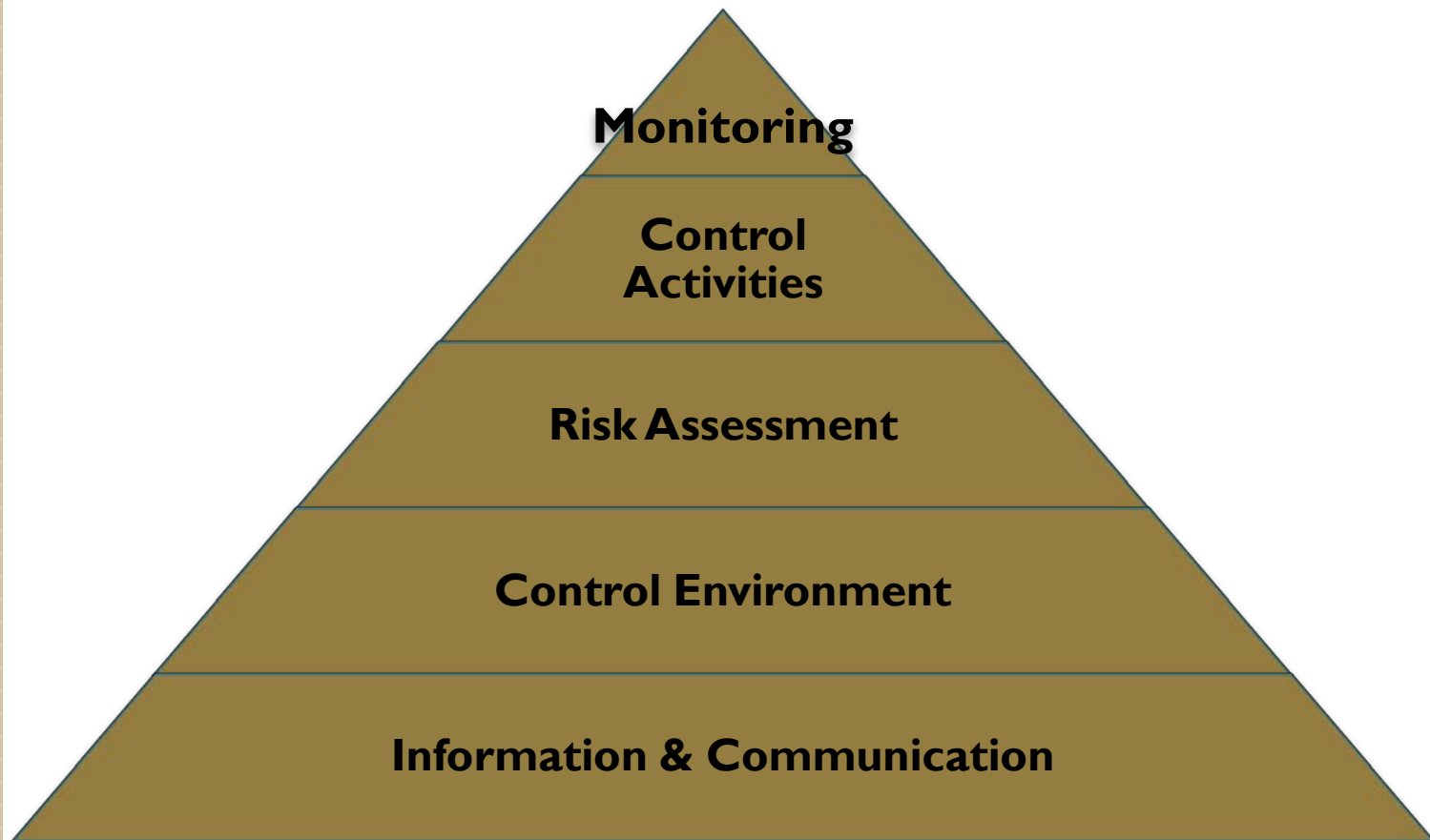
Material weakness is a significant deficiency.

Misstatements and Material Weakness

- When the possibility of a misstatement is **more than remote** – i.e. reasonably possible or probable or likely then it is a material weakness
- A material weakness in IFC may exist even when the financial statements are not materially misstated

COSO Internal Control Integrated Framework

Any system of internal control is based on consideration of risks in operations, compliance & financial reporting



Characteristics

- IFC - dynamic to address changes in operating environment of an entity due to –
 - Business developments
 - Acquisitions, mergers & divestments
 - Changes in IT & business processes
 - Key management personnel
 - New products, new markets & rapid growth.
- Changes in regulations
- Changes in accounting frameworks / standards or IFRS
- IFC -Operating level & ERM - Strategic level
- Audit opinion on IFC does not ensure the entity's future viability or efficiency /effectiveness with which management has conducted Co's affairs

Control Environment

- Structures - Governance - Management function of attitudes, awareness & actions - Mission
- Communication & enforcement of integrity & ethical values
- Commitment to competence
- Participation of those charged with governance
- Management philosophy & operating style
- Assignment of authority & responsibility
- Human resources policies & practices
-
- Whistle Blower Mechanism
- Audit committee oversight

Risk Assessment

- Risk naïve / Aware / Defined / Managed / Enabled
- How management identifies risks on an ongoing basis (significance - impact & probability - likelihood) – Classifies Risk - & takes actions to manage & mitigate risks.
- **Areas of Least / Minimal / Moderate & Most concern**
- What is our Risk Appetite / Risk Tolerance
- Are we Risk Centric – Risk Focussed -
- Gross or Inherent Risk – Residual Risks –
- **Tolerate / Treat / Terminate / Transfer**

Control activities

- **Performance reviews** (actual vs budget, review of functional & activity performance relating to different sets of data to one another, analyzing relationships; comparing internal & external data)
- **Segregation of duties** – competency of maker & authority of the reviewer.
- Spreadsheet controls, data base controls, controls over specific user developed applications.

Information Processing

- Application & IT General Controls :
 - Checking arithmetical accuracy of records edit checks
 - Change Management Controls
 - Access controls - Authorizations to access programs & data files
 - Anti Virus controls
 - Audit trails
 - Migration & implementation of new software
 - Periodic counting & comparison with amounts shown in control records.

Information systems must –

- Identify & record all transactions
- Describe transactions in sufficient detail to permit proper classification
- Proper recording of value
- Determining proper time periods
- Proper presentation & disclosure

Monitoring Activities

- Internal audit evaluations
- Management & regulatory reporting
- Customer complaints
- External Communications / balance confirmations, receipts
- Large unusual, non recurring transactions – Errors difficult to define, anticipate or predict
- Changing circumstances - Manual intervention & risk of inappropriate manual intervention
- Potential loss of data

Issues in controls

- Costs of controls vs benefits achieved
- Potential for mistakes due to –
 - Carelessness
 - Distraction
 - Mistakes of judgment or understanding of instructions.
- Management override of controls
- Manipulations of estimates & judgments

Communication

- Clear – Open – Transparent
- Timeliness – Accuracy
- Relevancy to the User
- Not too much nor too little
- Horizontal / Vertical & Lateral
- Not too many channels
- KISS – Keep it simple & straight
- Comply with Regulations

- Enable correct decision making – Not be misleading

Audit planning

- Consideration of control deficiencies communicated earlier
- Evidence available w.r.t IFC
- Preliminary judgment of risk & materiality
- Complexity of operations
- Availability of public information

Fraud Risk Assessment

Assessing susceptibility to fraud

Fraud risk scenarios

Opportunities, pressures & attitudes to rationalization

Capability to conceal

Brainstorming fraud risks

How fraud risks are assessed?

Materiality

Substantive Testing

Using the work of others

Sampling – SIA 5

Documentation

Walkthroughs – from start or initiation or origin to end or conclusion to understand the flow of transactions

Entity level controls

- Control environment, risk assessments, centralized processing, controls to monitor other controls
- Controls addressing significant risks
- Controls over selection & application of accounting policies
- IARPR Process – initiate, authorize, record, process & report JV's
- Controls over adjusting entries
- Controls over significant entries w.r.t occurrence, existence, completeness, valuation, rights or obligations, assertions of presentation & disclosure
- Controls over error correction procedures
- Management estimate for bias
- Training of employees involved
- Oversight of work done by outsourced professionals
- Manuals, flow charts, questionnaires, job descriptions

Techniques of control testing

- Discussions with management on each of the 5 COSO components
- Corroborative enquiry – interviews, walkthroughs
- Observation
- Verification
- Examination of documentation – written or electronic
- Re-performance
- Using work of others

- Deficiency in design of controls - when control is missing, absent or exists but not meeting objectives
- Testing operating effectiveness -
 - Necessary to understand objective of the control
 - Correlation to risk assertion
 - Significance of the risk
- Competency & authority of the person performing the control
- Frequency of testing & consistency of performance
- Level of aggregation & predictability
- Dependency on other controls
- Automated or manual controls –
 - Preventive / Detective controls
- Complexity of the company
- Planning nature & extent of the tests

- Inherent risk - There could be a material misstatement
- Evidence to support - Control is operating effectively is > than evidence to conclude - Control is not operating effectively
- Redundant controls
- Details on how the control is performed – Who, What & When
- Timing of control testing
 - Periodicity of testing &
 - Testing period – before, after or during the activity
- Clarity on what is a deviation / exception & control deficiency

Tolerance levels / Materiality thresholds

- Concept of evaluation of a control deficiency –
 - probably or likely
 - reasonably possible & remote
- Roll forward procedures from an interim date of testing to year end
- Remediation testing – i.e. post control implementation after gap analysis
- Pervasive deficiencies in controls

Modified opinions - Qualified ,Adverse or Disclaimer

- Qualified or Adverse opinion - Inability to detect or prevent material misstatements on a timely basis; missing controls or weakness in controls is material -
- Adverse opinion - Material weakness is pervasive or fundamental
- Disclaimer – IFC not established / Inability to obtain sufficient appropriate audit evidence to express an opinion
- Modified opinion on IFC does not mean that the audit report of financial statements should also be qualified.
- Effectiveness of IFC cannot be inferred from absence of misstatements

Risk Maturity

Risk Naive

Controls missing or incomplete

Risk Aware

Controls in place but not linked to risks

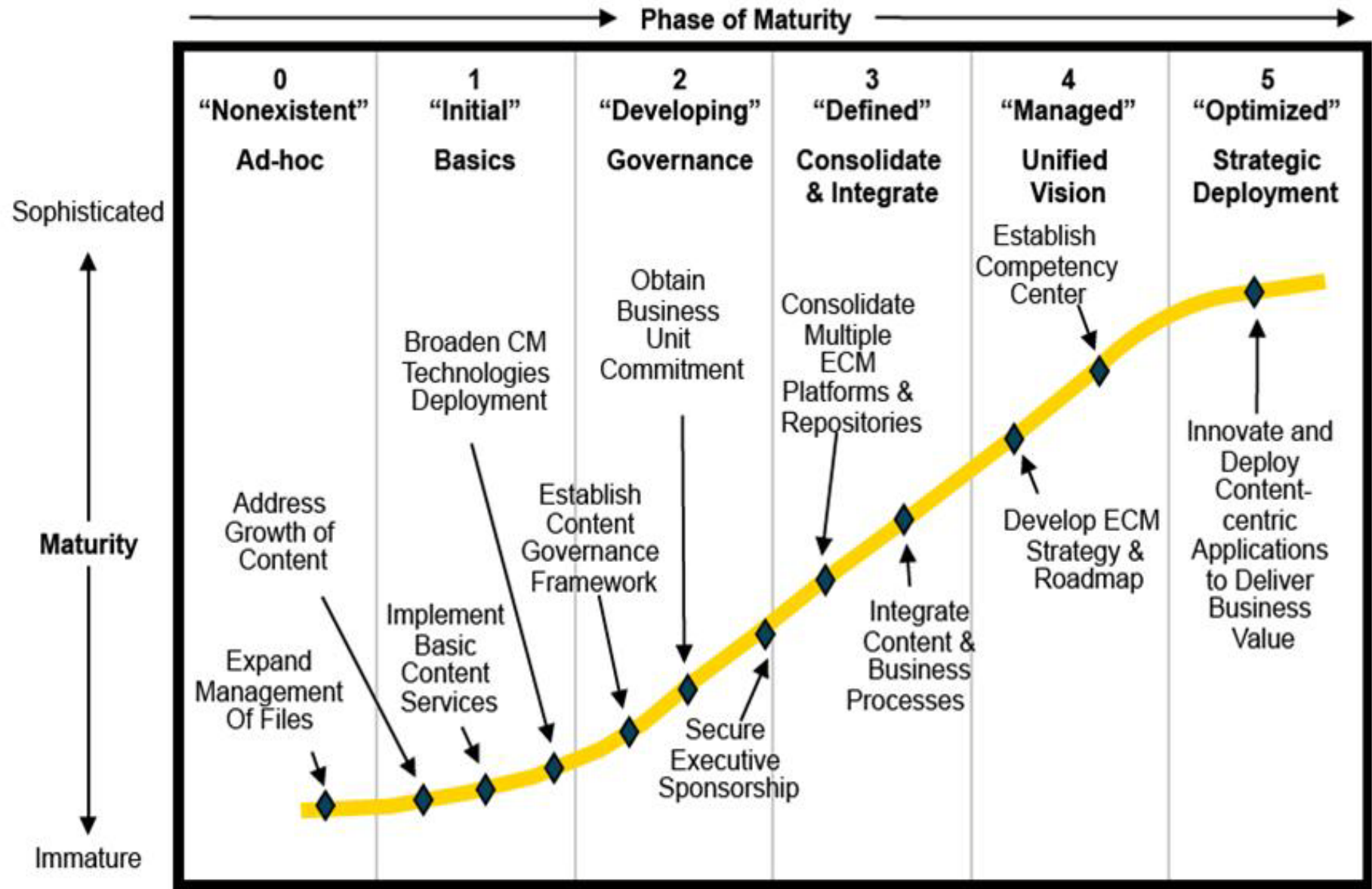
Risk Defined

- Majority of risks identified & assessed
- Regular risk review responses in place to manage most risks

Risk Managed / Enabled

- All risks identified & assessed Regular risk reviews in place to manage risks

Figure 1. The Gartner ECM Maturity Model



Source: Gartner (October 2008)

Control Failure

- May occur only in exceptional circumstances
- Could occur some times
- Might occur some times
- Will probably occur in most circumstances
- Expected to occur in most circumstances

Deficiencies in the Design of Controls

- **Inadequacy in –**
 - design of IC over preparation of FS
 - design of IC over a significant account or process
 - documentation of components of IC
 - segregation of duties within a significant account or process
 - controls over safeguarding of assets
 - design of general IT and application controls
 - design of monitoring controls used to assess the design & operating effectiveness of the entity's IC over time
- Employees / management lacking qualifications & training to fulfill their assigned functions
- Absence of an internal process to report deficiencies timely

Failures in Operation of IC

- Operation of effectively designed controls over a significant account or process
- Information & communication component of IC
- Accuracy Controls designed to safeguard assets from loss, damage, or misappropriation.
- Reconciliations of significant accounts.
- Undue bias or lack of objectivity by those responsible for accounting decisions
- Misrepresentation by client personnel to the auditor
- Management override of controls.
- Failure of an application control due to deficiency in design or operation of an ITGC

Significant Deficiencies

- Controls over the selection & application of accounting principles that are in conformity with GAAP
- Anti fraud programs and controls.
- Controls over non-routine and non-systematic transactions.
- Controls over period end financial reporting process,
- Controls over procedures to enter transaction totals in GL initiate, authorize, record & process journal entries & record recurring, non-recurring adjustments to FS

Material Weaknesses

- Ineffective oversight over financial reporting & IC by those charged with governance.
- Restatement of previously issued FS to reflect correction of a material misstatement.
- Misstatements involving estimation & judgment
- Material adjustments & corrections of recorded amounts.
- Reliability of financial reporting.
- Fraud Identification by senior management.
- Failure of management / those charged with governance to assess effect of a significant deficiency previously communicated to them
- Ineffective control environment.
- Material weakness exists in control environment.

Financial Statement Frauds


- **ACFE Report to the Nations** – 3 types of Frauds
 - Financial Statement Frauds - Corruption - Asset Misappropriation
 - Fraudulent FS only 9% but median fraud loss - 1 million USD - Corruption – 2 Lakh USD & Asset misappropriation- 1.30 Lakh USD .
- **Sec 447 Co's Act** - Fraud includes intent to deceive concealment, abuse of position, act of omission, commission whether or not there is wrongful gain or loss
- **SA 240 Para 11(a)** - Fraud as involving use of deception to obtain an unjust or illegal advantage.

- 1985 James Treadway, former SEC Member – Fraudulent financial reporting does not begin with an intentional act to distort the financial statements; rather it frequently comes about as a series of acts designed to respond to operational difficulties. Initially the activities may not be fraudulent but in time they become increasingly questionable until someone finally steps the line. At the core it is all about ‘Pressure’.
- 1988 Arthur Levitt, SEC Chairman used the terms **‘Numbers Game’** **“Accounting hocus pocus”** & **“Earnings management.”**
- Financial statement fraud perpetrated when 3Cs are present

Condition, Corporate Culture & Choice

Types of Fraud

- Fictitious or illegal booking of income
- Improper revenue recognition
- Side arrangement w.r.t unilateral cancellation
- Improper related party transactions
- Non-booking or non-accrual of expenses
- Improper capitalization / authorization
- Fake discounts / refunds
- Omission of liabilities for future obligations
- Improper estimates - calculation of useful life of assets -
Actuarial valuation of leave benefits
- Improper asset valuation
- Skimming / Larceny / Lapping / Channel Stuffing

- 
- Non recording of warranty costs & provisions
 - Improper cutoff procedures at year-end
 - Inadequate discussion/ omission to disclose material key information in Notes to Accounts /MDA
 - Misclassification of income
 - Adjusting Prior Period Items to reserves
 - Adjustment above the line items as below the line items
 - Incorrect statement of Facts in MRL
 - Companies intentionally disseminating information that suits them
 - Research report issued at behest of management
 - Failure to provide for impairments

Reasons for frauds

- Lack of transparency & accountability
- Lack of governance & oversight
- Lack of effective gatekeepers
- Conflict of interest
- Opportunities to engage in earnings manipulation
- Lax regulatory structures
- Ineffective judicial system
- Incentive structure focusing on short term performance
- Cost benefit ratio favoring the fraudster

Theories of fraud

Rotten Apple theory – 1 rotten apple can spoil an entire barrel

Low hanging fruit theory – attack the easier frauds & take fast swift action to deter fraudsters from committing bigger frauds

Potato chip theory - commitment to frauds is addictive

Cockroach theory- if you see a cockroach it is not the only one as in frauds there could be more undetected

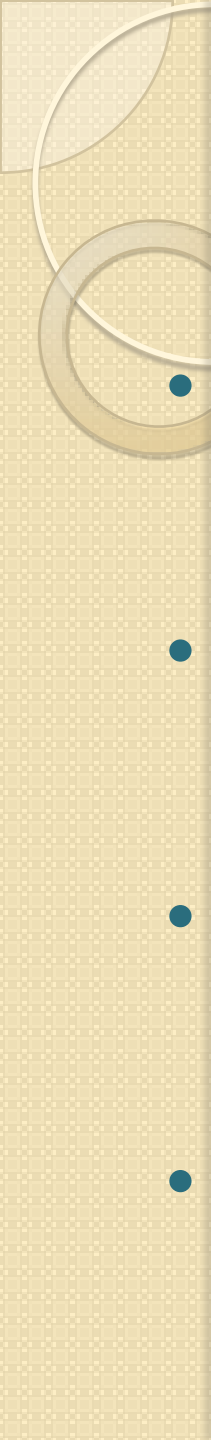
Oops theory – fraudster defense is OOPS it was a mistake


6 Red Flags of Fraud as per ACFE

- Experiencing financial difficulties
- Living beyond means
- Close association with a vendor
- Unwillingness to share duties, abide to controls
- General wheeler dealer attitude
- Family issues – health / divorce

Theories on Fraud


- **Fraud Triangle** – Opportunity, Pressure, Rationalization – Donald Cressey – 1973 -
- **Fraud Diamond** – Capability - Competency – Wolf & Hermanson 2004
- **Fraud Pentagon** – Crowe Howarth – Lack of conscience
- **Fraud Circle** – Where there is money there is fraud
- **Fraud scale** – Steve Albrecht – Stronger the IC lesser the fraud.
- **Iceberg theory of dishonesty** – Volume of undisclosed frauds is > Volume of disclosed ones
- **Hollinger Clark** – Co-relation between employee dissatisfaction & fraud
- **Edwin Sutherland** – Work place culture is 1 of the major causes of deviant behavior

- 
- SA 240 – Appendix 3 gives examples of accounting red flags
 - Appendix 2 on the Guidance Note on Fraud Reporting – list of fraud risk factors
 - Appendix 4 of the Guidance Note – Procedures to be followed by auditors to detect frauds
 - Green flags – too good to be true




An expert is one who knows what he knows & does not know – Also what others do not know so that he can confidently state what he does not know knowing fully well that others will not know what he does not know and what he states he knows

A person who takes money & does the job is Honest – One who takes money but does not do the job is dishonest – The one who does not take money but does the job is a Fool -



*Business at the speed of thought &
audit at the speed of risk*

*‘The more you learn, you learn that
you still have a lot to learn’*

- 
- **Operational Policies**
 - Framing policies for Operations /Financial Reporting
 - Approval of policies
 - Ensuring implementation of policy
 - Frequency of the review
 - Review & authorization of modifications, if any

 - **Organisation Chart and Segregation of duties**
 - Hierarchy in the Finance Dept / Other Depts whose activities flow on the accounts – like Purchases / Sales / Admin –
 - Segregation of duties – Maker Checker
 - Review of effectiveness of operation of segregation of duties

 - **Classification & Grouping of Accounts**
 - Classification of Accounting Heads
 - Grouping of Accounting Heads in to various BS schedules
 - Approval of classification and grouping
 - Process of regrouping or reclassification



- **Accounting System**

- What accounting system is used
- Are the employees trained to use this system
- Is system audit conducted
- Who reviews the accounting system
- Process of recording a transaction in an Accounting System
- Authorization of entries passed by the accounting department
- How are the opening balances carried forward from the previous year's BS – who initials the same -
- Level of materiality for preparation of FS & escalation
- How is the TB compiled
- How is the BS / PL linked up to the TB
- Process of Ledger scrutiny
- Process of passing journal entries & controls over such entries after preparation of 1st cut of Trial balance



- **Verification of Vouchers**

- Who is responsible for preparation of vouchers
- Are supporting documents maintained for each voucher
- Who authorises the vouchers – Authorization Matrix -
- Review of vouchers
- Process of cancelling or reversing a voucher – (basis, authority, rationale & approval of cancellations)

- **Cash Transactions**

- Is there a Policy for dealing in Cash transactions
- Are cash transactions dealt according to the Policy
- Who is authorises the cash transactions
- Is cash on Hand maintained on Imprest System
- Level of Imprest Cash
- Procedures for custody & cash verification frequency



- **Bank Transactions**

- Who authorises the opening of bank accounts- Any resolutions needed -
- Process of payment/settlement
- Controls over such transactions
- Modes used for payments – Cheques / RTGS / NEFT
- How are transactions undertaken in absence of person responsible for authorising such payment
- Control & custody over Cheque Books
- Process for closure of bank accounts

- **Reconciliation**

- Policy for reconciling Bank Statements at periodic intervals
- Process of conducting the reconciliation
- Review of reconciliations
- Modification entries

- Accounting Policies

- **Revenue Recognition**
 - Recording of –
 - Sales / Purchases
 - Wages / salaries
 - Depreciation / Profit on loss of sale of assets
 - Interest Costs
 - Dividend & Interest Income
 - Other Income / Expenses

- **Fixed assets**
 - Responsibility for authorising purchase
 - Process of purchase
 - Valuation - Depreciation
 - Initial recording
 - Maintaining documents validating ownership
 - Determination of Useful life, - Impairments
 - Revisions in Useful life, Valuation, Depreciation rate
 - Process of discarding an asset after its useful life- ie scrap sales
 - Process of Transfer from 1 branch to another

Others

Basis for making provisions for Expenses at year end

Basis for amortization of expenses (Prepaid)

Basis of booking Contingent Liabilities – Any provision needed

Related Party Transactions / Basis for identifying a Related Party
Determining Arms Length & Maintaining records to evidence AL

Segmental Reporting – Who decides a segment – Allocation Basis
Deferred Tax –

IT Appeals – Effect of pending issues - Review of Tax position-

Accounting estimates for Leave benefits – Actuarial valuation

Lease Accounting – Straight lining

Extraordinary & prior period items – Determination & disclosure

Notes to Accounts – Mandatory disclosures – Compilation &
accuracy of disclosures –

Variance Analysis of expense - Income > 20% of last year – Reasons &
justifications

Ratio Analysis / Cash Flows