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**KrayMan**

*Demystifying Complexities*

# Internal Financial Controls (IFCs) Compliance Requirement



- 1 What is IFCs
- 2 Requirement as per Companies Act
- 3 Documentation to show effective IFCs
- 4 About Internal Controls on Financial Reporting (ICFR)
- 5 How We Assist
- 6 About KrayMan




# ***What is IFCs***

Policies & Procedures adopted by the Company for ensuring Orderly & Efficient Conduct of Business, including:

- ❖ Adherence to Company's Policies
- ❖ Safeguarding of Assets
- ❖ Prevention & Detection of Frauds & Errors
- ❖ Accuracy & Completeness of accounting records
- ❖ Timely Preparation of Reliable Financial Information

*Internal Financial Controls (IFCs) are similar to Japan SOX compliance*





Auditor to Report whether the company has adequate IFCs in place and the operating effectiveness of such controls

Directors to state the details in respect of adequacy of IFCs with reference to the financial statements



- 1 Key policies & procedures
- 2 Identify account balances, related business processes and control environment
- 3 Adopt a Control Framework
- 4 Define Governance procedures and monitoring process
- 5 Identify and assess risks related to business processes
- 6 Identify control objectives to address identified risks and related control activities to mitigate such risks
- 7 Identification and assessment of controls designed and implementation against each of the control objectives
- 8 Assess and document the operating effectiveness of the controls designed for the period under review
- 9 Analyze deficiencies, if any, in the assessment of controls and remediate gaps
- 10 Report on results of management's controls evaluation to the board



# ***About Internal Controls on Financial Reporting (ICFR)***

# About Internal Controls on Financial Reporting (ICFR)

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- ❖ As explained earlier, IFCs are policies and procedures adopted by a company for ensuring orderly and efficient conduct of business, accuracy and completeness of accounting records, and timely preparation of reliable financial information. As per the Companies Act 2013, an auditor is required to state in his audit report necessarily about adequacy of IFCs in place and operating effectiveness of same, for the year beginning on or after 1 April 2015.
- ❖ IFCs are a combination of (a) Internal Controls on Financial Reporting (ICFR) (i.e, controls designed to provide reasonable assurance that the company's financial statements are reliable & prepared in accordance with key accounting principles), (b) Operational Controls (i.e. Controls designed to provide reasonable assurance on business operations, process efficiency and effectiveness, other than those covered for financial reporting), and (c) Fraud Controls, aimed at prevention and detection of frauds & errors
- ❖ An Auditor is required to comment regarding adequacy of ICFR and operating effectiveness of the same as on 31 March 2016. The objective of having IFCR in place is not limited to being a legal requirement as per Companies Act 2013, but also that the Company is proactively informed before compliances become due and the stakeholders are able to check the health of company's compliances at any given point of time.





# Methodology for Documentation, Testing and Implementation of ICFR

## Scoping for the company

- Identify significant account balances and disclosure Items. Understand significant flows of transactions. Identify risk of material misstatements by performing walkthroughs in the most effective way
- Identify controls addressing risk of material misstatement. Testing Design, Implementation and Operating Effectiveness of such Controls

## Designing IFC framework and conducting Entity Level Controls assessment & Process Level Controls assessment

- Design of IFC framework on behalf of the company considering leading practices and available guidance notes (including roles & responsibilities across various positions such as Executive Management, Admin staff, Auditor, Vigilance team, etc)
- Assessment of Entity Level Controls (ELC). ELCs are Organization level controls impacting culture, ethical standards, oversight, responsibility and accountability. The various components of ELCs are Control environment, Risk assessment, Control Activities, Information System and Communication, Monitoring.
- Assessment of Process Level Controls (PLCs) including mapping of accounts and processes. PLCs relate to revenue, receivables, purchase, payable, fixed assets, etc. Certain tools for adherence to PLCs are Standard Operating Procedures (SOPs), Risk Control Matrix, Delegation of Authority Mix, Segregation of Duty, IT General Controls, etc.



# Methodology for Documentation, Testing and Implementation of ICFR

## Design assessment of internal controls

- Consolidation of existing controls documentation (Standard Operating Procedures / Risk Control Matrices, etc). Review of the documentation to assess how much of the same can be leveraged
- Preparation of flow-charts / narratives of associated processes

## Identification & Remediation of Control Gaps

- Identifying design gaps. Prioritizing financial gaps into material / non-material. Review of these gaps with the auditor
- Preparing corrective action plan and timelines & Ensuring closure of control gaps

## Test for Operating Effectiveness

- Identifying & Testing of key controls
- Ensuring existence of adequate documentation evidencing effectiveness of controls
- Reporting on operating effectiveness of such controls



- ❖ Risk Management Framework including Process Risk & Control Matrices
- ❖ Scoping Documents for Mapping of Significant Accounts & Processes
- ❖ Process flow-charts / Narratives / Standard Operating Procedures / Compliance Calendar
- ❖ Management Testing Documents & Summary Report on ICFR Evaluation



- ❖ ICFR evaluation is predominantly based on concept of Materiality, especially in case of large companies. While sincere efforts should be made to cover all the relevant matters, areas not important for ICFR certification based on principle of Materiality may be dropped in consultation with management / auditors.
- ❖ It is advisable to take auditor's views while undertaking ICFR evaluation exercise, as the same is required to meet the end- result of Auditor commenting regarding adequacy of ICFR and operating effectiveness of the same for year ending 31 March.
- ❖ ICFR evaluation exercise per-se may not include setting up new policies on behalf of the Company. Rather, the role is limited to mapping of the existing policies, which are in practice or custom within the Company.



Establishing a Risk Management Framework



Documenting Internal Financial Control (IFC) for each Process and mapping of Risks to Controls



Documenting Standard Operating Procedures (SOPs) including relevant policies and guidelines



# *About KrayMan*

# Who we are

KrayMan

KrayMan was founded by professionals from consulting and industry experience with a vision to set up a distinctive accounting services Firm.

Our forte lies in demystifying the complex Indian regulatory compliance environment thereby making it easy for our Clients.

We service diverse Client mix of multinationals, domestic companies, non-corporate entities and expatriates.

We advise and hand-hold foreign companies in establishing their operations in India and partner in their growth story.



## Setting up India operations

- Assessment of legal entity options for entry into India
- Setting up of presence in India and other start-up services
- Simplifying the procedures and addressing the bottlenecks
- Strategic, Governance & Management advisory services
- On-going tax & regulatory advisory & compliance services
- Virtual CFO services

## Audit

- Statutory Audit, Tax Audit, Internal audit
- Review of financial statements
- Risk assessment / advisory
- Certification & Attestation
- Internal control reviews, reporting requirements, physical verification of assets
- Documentation, Testing and Implementation of Internal Financial Controls (IFCs)
- Audit support on behalf of management / management letters

## Accounting & Payroll

- Accounting & Financial Reporting
- Preparation of financial statements
- Accounting system implementation
- Forecasting and projections
- Financial analysis of reports
- Payroll processing of salary

## Tax & Regulatory

- Tax planning & Advisory
- Direct tax compliances: Corporate tax, Withholding tax, Expatriate tax, Transfer Pricing
- Indirect tax compliances: Sales tax, Value added-tax, Service tax
- Litigation management support
- Company law & Exchange control advisory & compliances



Virtual CFO	Corporate Secretarial	Advisory	HR Advisory
<ul style="list-style-type: none"><li>▪ Design and implementation of best practice framework for internal governance</li><li>▪ Setting up standard operating procedures (proper authority for transactions, internal compliance processes, adequacy of documentation, filing system &amp; record keeping)</li><li>▪ Evaluation of internal controls and monitoring results</li><li>▪ Timely and accurate adherence with legal requirements</li></ul>	<ul style="list-style-type: none"><li>▪ Preparing &amp; maintaining statutory registers as per companies law</li><li>▪ Conducting directors' and shareholders' meetings as per secretarial standards</li><li>▪ Preparation of agenda, notices, minutes and resolutions of directors' and shareholders' meetings</li><li>▪ Preparation &amp; filing of Annual Return including Balance Sheet, Profit &amp; Loss account &amp; other documents</li><li>▪ Preparation and filing of forms with Registrar of Companies</li></ul>	<ul style="list-style-type: none"><li>▪ Mergers &amp; Acquisitions</li><li>▪ Due diligence</li><li>▪ Compliance health-check</li><li>▪ Valuation</li><li>▪ Business structuring</li><li>▪ Outsourcing</li><li>▪ Accounting advisory services</li><li>▪ Corporate finance</li></ul>	<ul style="list-style-type: none"><li>▪ Building HR infrastructure for start ups.</li><li>▪ HR policy/ manual design</li><li>▪ Talent Acquisition and Induction policies/ programs</li><li>▪ Role defining and Competency framework</li><li>▪ Employee Engagement/ communication policies and programs</li><li>▪ Performance Management System</li></ul>

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