

AUDIT, REPORTING AND COMPLIANCE PG  
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Internal Financial Controls- a step towards Integrated  
Financial Reporting in Indian scenario

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strategy. Kognizance. compliance



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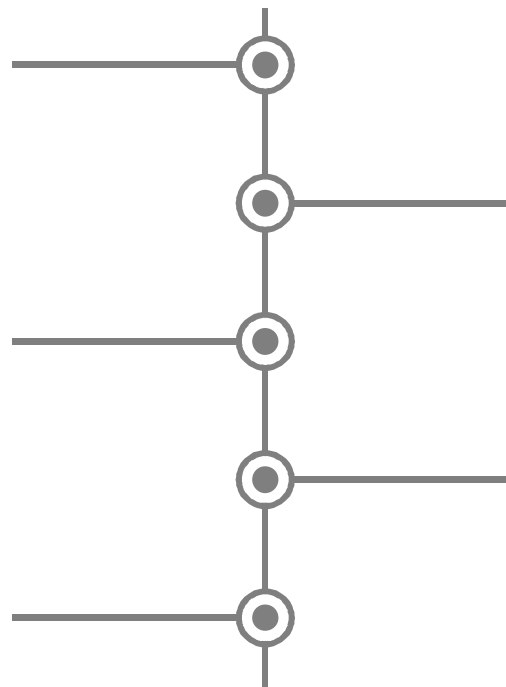
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## Points of Discussion

Evolution of reporting requirements in Indian accounting framework

Opportunities for companies and auditors in India

How SKC can help in creating win-win situation



Additional responsibilities on the company's management and auditors

Benefits and opportunities for companies and consultants across the world

# What is an Audit?

- “ Companies Act 1956 (in force from April 1956 till March 2014)
- “ Stipulated audit of books of account of every company as mandatory by the auditor.
- “ Auditor’s duty is to  
*Report that in his opinion whether the **accounts of the company give true and fair view of the State of affairs of the company, profit and loss and cash flow.***

## Drawbacks

- Restricted to verification of accounts only
- Focus on accuracy of numbers

# Introduction of Integrated Reporting

- “ Companies Act 2013 (in force from April 2014)
- “ Auditor’s duty is to  
*Report that in his opinion whether the accounts of the company give true and fair view of the State of affairs of the company, profit and loss and cash flow.*
  
- “ It further requires auditor to state-  
*Whether company has adequate internal financial controls (IFC) system in place and the operating effectiveness of such controls.*

## Additional Requirements:

- Review the **existence** of control systems
- Review **effectiveness** of those systems

## Objective of introduction of IFC

Ensure effectiveness and efficiency of operations

Ensure compliance with laws and regulations

Safeguarding of assets of the entity

Fraud detection and prevention

# Additional Responsibilities in IFC



## For Management

- “ Documentation of Existing Processes
- “ Setting Up Controls, policies & procedures
- “ Defining Policies & Procedure
- “ Identification of Risks & Controls
- “ Performing Walkthroughs to identify gaps



## For Auditors

- “ Testing of Existing Controls.
- “ Identification of Operating Deficiencies
- “ Reporting on Status of IFCR

## Process Flowchart

Planning

Designing, Documentation & Implementation

Testing of Controls

Reporting

## Stage 1: Planning

Identify key areas of organisation which have material impact on financial statements:

- “ Purchase to Payment
- “ Sales to Collection
- “ Treasury Management
- “ Payroll & HR Management
- “ Fixed Assets Acquisition
- “ Inventory management
- “ Statutory Liabilities
- “ Entity Level Controls
- “ Information Technology Level Controls



## Stage 2: Designing, Documentation & Implementation



## Stage 3: Testing of Controls

Test run of each process through documentation maintained

Analyze RCM to identify any gaps

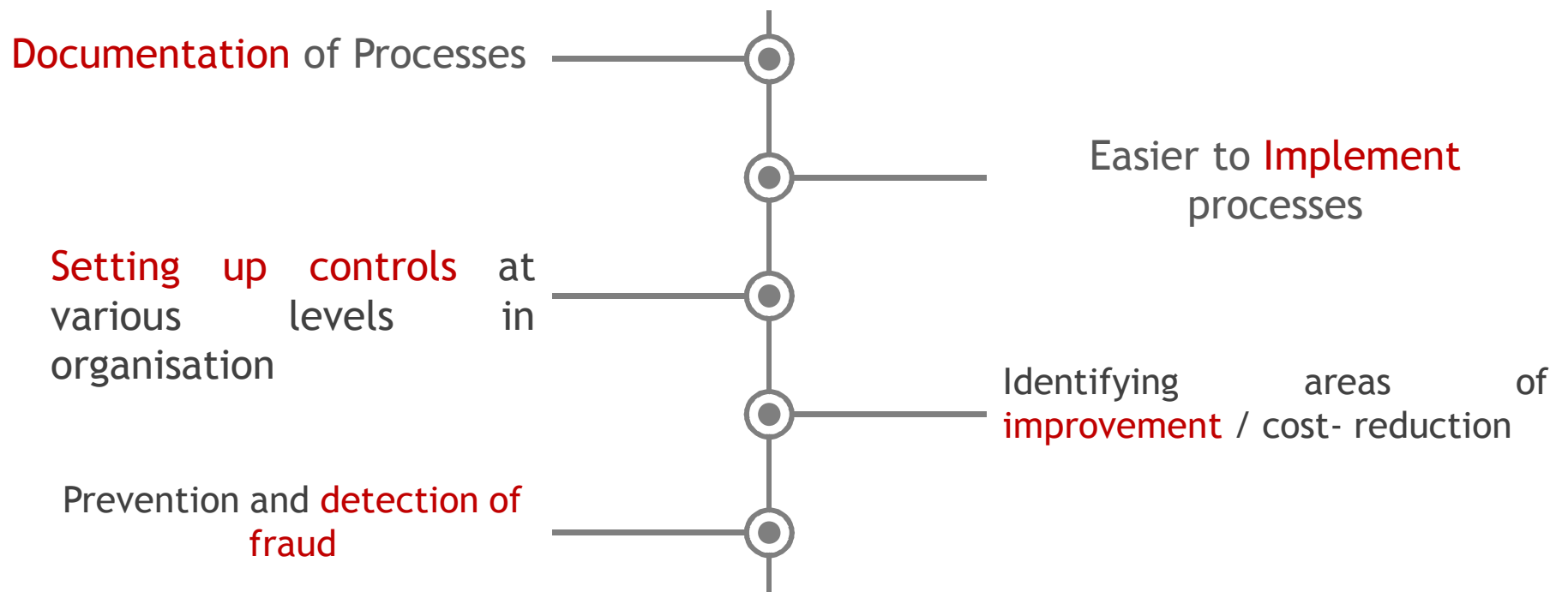
Suggest remedial plan for corrections

## Stage 4: Reporting

Assess impact on audit opinion

Form audit opinion on effectiveness of operative controls and impact on financial statements

# Opportunity for Indian Companies



## Opportunity for Auditors

- “ Better **understanding** of their clients work
- “ Increased **effectiveness** of Audit as a whole
- “ Give valuable **inputs to clients** for improvements
- “ Additional **revenue** stream

## Integrated Reporting Globally

### USA

Sarbanes- Oxley Act, 2002 (SOX) requires certification of the Internal Controls over Financial Reporting (ICFR) by the management and the Auditors.

### JAPAN

Financial Instruments and Exchange Act (J-SOX) was passed in Japan. The requirements of this legislation are similar to the requirements of internal controls over financial reporting under SOX.

## Opportunity for Consultants - Globally

- “ Can add **value to audit** exercise. **Educate clients** that such value added disclosures would add to value with shareholders, bankers, investors and customers.
- “ **Uncover material discrepancies** which are not highlighted in audit of financial statements
- “ **Understand clients business** and process in a better way
- “ Add process documentation as part of **separate service**
- “ Assist in **process implementation** in clients organisations

## What we do at SKC



Provide **compliance** under IFC provisions



Assist **Indian subsidiaries** of foreign companies in **IFC compliance**



Process and SOP **creation and documentation**



Help creating **process manuals** for foreign companies



**Implementation** of processes  
" Creating manuals  
" Training of employees  
" Adoption through attitudinal development



Create **E-learning video modules** for implementation





# Questions?



Thank You 😊



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