

Guidance Note on Audit of Internal Financial Controls Over Financial Reporting

Attention

Readers may note that the CD accompanying this Guidance Note contains some important contents. Readers are therefore requested to also refer the CD along with this Guidance Note.



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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FOREWORD

The Companies Act, 2013 has introduced many new reporting requirements for the statutory auditors of companies. One of these requirements is given under the Section 143(3)(i) of the Act requiring the statutory auditor to state in his audit report whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

The section has cast onerous responsibilities on the statutory auditors because reporting on internal financial controls is not covered under the Standards on Auditing issued by the ICAI and also because of the fact that no framework has been prescribed under the Companies Act, 2013 and the Rules thereunder for the evaluation of internal financial controls. Therefore, a need was felt for providing appropriate guidance on this section so that the requirements and expectations of the section can be fulfilled in letter and spirit by the auditors.

I am happy that the Auditing and Assurance Standards Board has brought out this Guidance Note on Audit of Internal Financial Controls Over Financial Reporting for the benefit of the members. The Guidance Note has been developed in an easy to understand language and contains detailed guidance on various intricacies involved in reporting on Internal Financial Controls. I am also happy that the Guidance Note is comprehensive and self contained reference document for the members.

The efforts made by CA. Abhijit Bandyopadhyay, Chairman, CA. J. Venkateswarlu, Vice-Chairman and other members of Auditing and Assurance Standards Board in bringing out this guiding literature for the benefit of the members are highly commendable. I am sure that the members and other interested readers would find the Guidance Note immensely useful.

August 25, 2015
New Delhi

CA. Manoj Fadnis
President, ICAI

PREFACE

The Companies Act, 2013 has introduced some new requirements relating to audits and reporting by the statutory auditors of companies. One of these requirements is given under Section 143(3)(i) of the Act which requires the statutory auditor to state in his audit report whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls. The section has cast onerous responsibilities on the statutory auditors because reporting on internal financial controls is not covered under the Standards on Auditing issued by the ICAI. Since the concept of reporting on internal financial controls is still new in India this new reporting requirement has thrown up many challenges for the members. To help the members properly understand and perform the various aspects of this reporting responsibility, the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India has brought out this Guidance Note on Audit of Internal Financial Controls Over Financial Reporting. The Guidance Note covers aspects such as Scope of reporting on internal financial controls under Companies Act 2013, essential components of internal financial controls, Technical guidance on audit of internal financial controls, Implementation guidance on audit of internal financial controls. For the benefit of the members, the Appendices to the Guidance Note include Illustrative Engagement Letter, Illustrative Management Representation Letter, Illustrative Reports on Internal Financial Controls, Illustrative Risks of Material Misstatement, Related Control Objectives and Control Activities, Text of Standard on Internal Audit (SIA) 5 – Sampling, Examples of Control Deficiencies. The illustrative formats of the report on internal financial controls also include an illustrative format in case of audit of consolidated financial statements.

At this juncture, I wish to place on record my sincere thanks to CA. K. Sai Ram, Chennai and CA. V. Balaji, Bangalore for taking time

out of their other pressing preoccupations to develop this Guidance Note and to give it its present shape and form.

I also wish to express my deep gratitude to CA Manoj Fadnis, President, ICAI and CA. M Devaraja Reddy, Vice President, ICAI for their vision, guidance and support to the activities of the Board.

I also wish to thank all my colleagues at the Central Council for their cooperation and guidance in formulating and finalizing the various authoritative pronouncements of the Board. My sincere thanks are also due to the members of the Auditing and Assurance Standards Board, viz., CA. J Venkateswarlu, Vice Chairman, CA. Prafulla Preme Sukh Chhajed, CA. Pankaj I Jain, CA. Nihar N Jambusaria, CA. Shrinivas Y Joshi, CA. Dhinal A Shah, CA. Nilesh S. Vikamsey, CA. Babu A Kallivayalil, CA. K. Raghu, CA. G. Sekar, CA. Sumantra Guha, CA. Shyam Lal Agarwal, CA. Sanjiv Kumar Chaudhary, CA. Naveen N.D. Gupta, CA. Charanjot Singh Nanda, Shri A M Bajaj, Shri Salil Singhal, Shri R.K. Jain, CA. Sanjay Vasudeva, CA. Radha Krishna Agrawal, CA. Kamlesh Amlani, CA. Aseem Trivedi, CA. Krishna Kumar T. and CA. Rajeevan M. for their support and guidance to the Board. I also wish to thank the special invitees to the Board, viz., Shri R Kesavan, Shri Narendra Rawat, CA Aniruddh Sankaran, CA. Vijay Sachdeva and Dr. Sanjeev Singhal for their support and guidance to the Board.

I am confident that this Guidance Note would be well received by members and other interested readers.

August 25, 2015
Kolkata

CA. Abhijit Bandyopadhyay
Chairman,
Auditing & Assurance Standards Board

BRIEF CONTENTS

Part A: Overview	1-12
Part B: Detailed Guidance	13-236
Section I: Background	15-20
Section II: Reporting on Internal Financial Controls under the Companies Act, 2013.....	21-32
Section III: Overview of Internal Controls as per SA 315	33-42
Section IV: Technical Guidance on Audit of Internal Financial Controls Over Financial Reporting.....	43-78
Section V: Implementation Guidance	79-236
Appendices	237-300

DETAILED CONTENTS

Section	Topic	Paragraph reference	Page Nos.
PART A	OVERVIEW		1-12
I	Scope of reporting on internal financial controls under clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013		3
II	Applicability of reporting in the case of unlisted companies		6
III	Criteria for internal financial controls over financial reporting		6
IV	Specified date for reporting on the adequacy and operating effectiveness of internal financial controls over financial reporting and applicability in case of interim financial statements		7
V	Auditors' responsibility for reporting on internal financial controls over financial reporting in case of consolidated financial statements		8
VI	Components of internal control and guidance provided		9
VII	Flowchart illustrating typical flow of audit of internal financial controls over financial reporting		11
PART B	DETAILED GUIDANCE		13-236
Section I	Background		15-20
	Introduction	1-3	15
	Auditors' responsibility for reporting on Internal financial controls over financial reporting in India	4-5	17
	Reporting on internal financial controls over financial reporting – global scenario	6-13	18

Section	Topic	Paragraph reference	Page Nos.
Section II	Reporting on Internal Financial Controls under the Companies Act, 2013		21-32
	Criteria to be considered by companies for developing, establishing and reporting on internal financial controls over financial reporting	14-25	21
	Objective in an audit of internal financial controls over financial reporting and interpretation of the term 'internal financial controls' for auditor's reporting under Section 143(3)(i)	26-35	24
	Applicability of standards on auditing for the audit of internal financial controls over financial reporting	36-37	27
	Specified date for reporting on the adequacy and operating effectiveness of internal financial controls over financial reporting	38-42	28
	Auditors' responsibility for reporting on internal financial controls over financial reporting in the case of unlisted companies	43-45	30
	Auditors' responsibility for reporting on internal financial controls over financial reporting in case of consolidated financial statements	46-47	32
Section III	Overview of Internal Controls as per SA 315		33-42
	Components of internal control	48-60	33
	Components of Internal Control and Guidance provided	61	40
	Effective internal control	62-65	41
	Limitations of internal control system	66	42

Section	Topic	Paragraph reference	Page Nos.
Section IV	Technical Guidance on Audit of Internal Financial Controls Over Financial Reporting		43-78
	Introduction	67-71	43
	Combining the audits	72-74	44
	Planning the audit	75	46
	Role of risk assessment	76-78	47
	Customising the audit	79	48
	Addressing the risk of fraud	80-81	48
	Using the work of others	82-85	49
	Materiality	86	50
	Using a top-down approach	87	51
	Identifying entity-level controls	88-93	52
	Identifying significant accounts and disclosures and their relevant assertions	94-99	55
	Understanding likely sources of misstatement	100-104	57
	Selecting controls to test	105-107	59
	Testing controls - testing design effectiveness	108-109	59
	Testing controls - testing operating effectiveness	110-111	60
	Relationship of risk to the evidence to be obtained	112-122	60
	Special considerations for subsequent years' audits	123-127	64
	Evaluating identified deficiencies	128-134	65
	Indicators of material weakness	135-136	68
	Communicating certain matters	137-143	69
	Subsequent events	144-149	70
	Obtaining written representations	150-152	71
	Forming an opinion	153-156	73

Section	Topic	Paragraph reference	Page Nos.
	Reporting on internal financial controls over financial reporting	157	74
	Audit Report	158-160	76
	Modified opinion	161-163	76
	Report date	164	77
	Audit documentation	165	78
	Considerations for joint audits and branch audits	166	78
	Considerations for using this guidance for internal financial control over financial reporting assessments on behalf of company's management	167	78
Section V	Implementation Guidance (IG)	IG 1 – IG 21	79-236
IG 1	Multiple Locations Scoping Decisions		79-80
IG 2	Process Flow Diagrams		80-97
	Understanding process flows	IG 2.1	80
	Information system relevant to financial reporting	IG 2.2	80
	Process flow diagrams	IG 2.3–IG 2.4	81
	Audit-specific elements to be added to process flow diagrams	IG 2.5	82
	System overview diagrams	IG 2.6 – IG 2.8	83
	IPE diagrams	IG 2.9 – IG 2.13	84
	Automated control diagrams	IG 2.14	87
	Validate understanding	IG 2.15	88
	Illustrative example of process flow documentation for revenue business cycle	IG 2.16	90

Section	Topic	Paragraph reference	Page Nos.
IG 3	Difference between Process and Control		97-98
IG 4	Understanding IT Environment		98-104
	Understanding IT environment	IG 4.1 – IG 4.6	98
	Understanding general information technology controls (GITCs):	IG 4.7 – IG 4.8	102
	Access security	IG 4.9 – IG 4.11	103
	System change control	IG 4.12	104
	Data centre and network operations	IG 4.13	104
IG 5	Entity-level Controls (ELCs)		104-108
	Entity-level controls	IG 5.1 – IG 5.4	104
	Direct and precise entity-level controls	IG 5.5 – IG 5.8	106
IG 6	Segregation of Duties		108-109
IG 7	Automated Controls		109-112
	Application controls defined	IG 7.1	109
	Automated control in a way is technology used to automate control activities	IG 7.2 – IG 7.3	110
	Assurance on automated controls	IG 7.4 – IG 7.5	110
	Benchmarking of automated controls	IG 7.6 – IG 7.12	111
IG 8	Information Produced by the Entity (IPE)		113-125
	Understanding IPEs	IG 8.4 – IG 8.8	114
	Evaluating IPE	IG 8.9 – IG 8.10	119
	IPE in the context of internal financial controls testing	IG 8.11– IG 8.13	119

Section	Topic	Paragraph reference	Page Nos.
	Testing accuracy and completeness of IPE that the entity's controls are dependent upon	IG 8.14	120
	IPE that the auditor uses in tests of operating effectiveness of relevant controls	IG 8.15	121
	Direct testing of IPE	IG 8.16 - IG 8.19	121
IG 9	Use of Service Organisations		125-129
	Service organisations	IG 9.1	125
	Identifying relevant service organisations	IG 9.2	125
	Situation in which service organisations are relevant for internal financial controls	IG 9.3 – IG 9.11	126
IG 10	Techniques of Control Testing		129-130
IG 11	Internal Financial Controls – Testing of Design		130-135
	Internal financial controls – testing of design	IG 11.1 – IG 11.4	130
	Factors to consider when determining whether control is appropriately designed	IG 11.5 – IG 11.11	131
	Testing design effectiveness	IG 11.12	135
IG 12	Internal Financial Controls – Walk Through		135-138
	Performing walkthroughs	IG 12.1 - IG 12.8	135
	Extent of a walkthrough	IG 12.9 - IG 12.11	137
IG 13	Internal Financial Controls – Testing of Operative Effectiveness		138-156
	Internal financial controls – testing of operative effectiveness	IG 13.1 – IG 13.5	138

Section	Topic	Paragraph reference	Page Nos.
	Process flow for testing operative effectiveness of controls	IG 13.6 – IG 13.8	139
	Factors considered when assessing the risk associated with the control	IG 13.9	140
	Factors related to the risks of material misstatement the control addresses	IG 13.10 - IG 13.13	141
	Factors related to the characteristics of the control activity	IG 13.14 - IG 13.26	142
	Nature of procedures	IG 13.27	146
	Timing of tests of controls	IG 13.28	147
	Extent of procedures	IG 13.29	150
	Dual-purpose tests	IG 13.30 - IG 13.31	152
	Testing review-type controls	IG 13.32 - IG 13.34	154
IG 14	Sampling in Test of Controls		156-164
	Sampling	IG 14.1 – IG 14.10	156
	Sample selection	IG 14.11- IG 14.13	159
	Determining whether a deviation exists	IG 14.14 - IG 14.15	160
	Determining the nature and cause of the deviation	IG 14.16	161
	Evaluate whether the deviation is a control deficiency	IG 14.17 - IG 14.19	162
IG 15	Roll Forward Testing		164-173
	Roll forward testing	IG 15.1 – 15.5	164
	Key activities in the process for planning and performing procedures to roll forward conclusions of design and operating effectiveness	IG 15.6 - IG 15.7	166