
Standard on IA : 120

Internal Controls

By

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*[Seminar on SIAs by BIAMA / SIRC
at Chennai on Thursday 25th May 2023]*

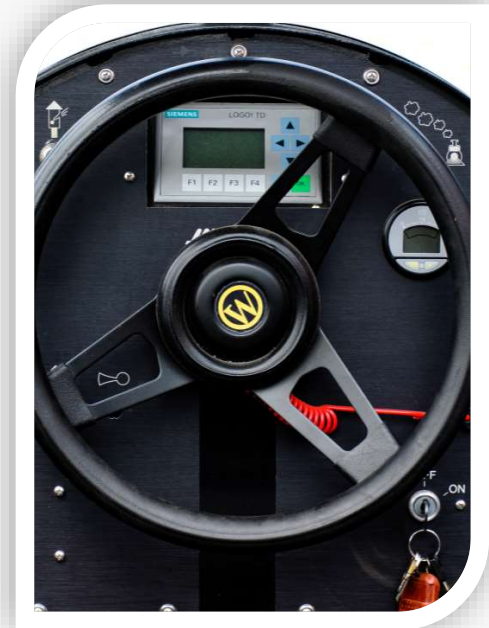


Topics Discussed

- What is Internal Control
- Types of Internal Controls
 - Entity Level
 - Process Level
- Definition of Internal Control
- Three Categories of Internal Controls
- Examples of Internal Controls
- Risk Control Matrix
- Four Most Important Internal Controls
- Essential Elements of Internal Controls

IA To Do the Following

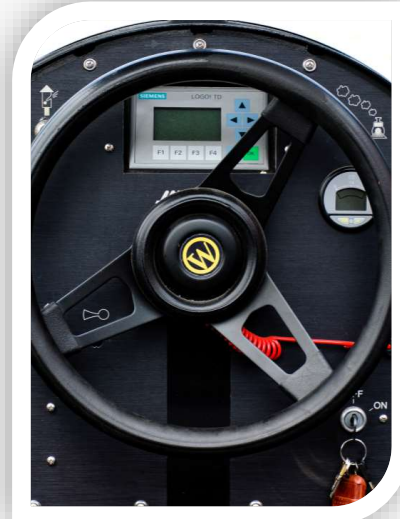
- Assess ICS for existence & operating efficiency
- Give independent assurance on ICs
- Report to Top Management



What is Internal Control

Short Definition

**Systems and Procedures to mitigate Risks
in Financial & Operational Areas**



Types of ICs

Entity Level Controls (ELCs)

- Code of Conduct
- Policies (Leave / Security / Safety / Whistle Blower)
- DOA
- Segregation of Duties
- Job Rotation

Process Level Controls (PLCs)

- Controls in Procurement Process (Vendors Selection Controls)
- Controls in Inventory Management (Minimum Order Level / EOQ)
- Controls in F & A Area (Budget Vs Actual, BRS / Cash Phy Verification)



Comprehensive Definition

Standard on Auditing : 315

Control processes

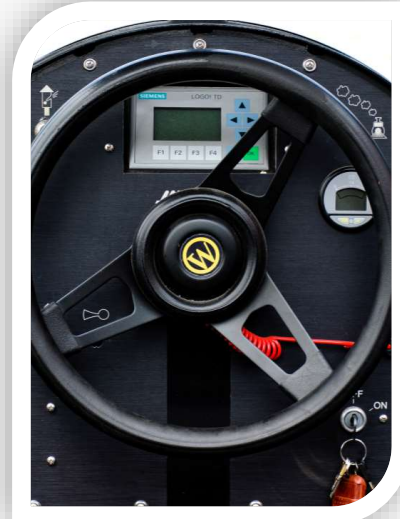
Designed and implemented by Top Management & Functional Managers

To provide assurance about

Achievement of an entity's objectives

In relation to

- Reliability of financial reporting
- Effectiveness & efficiency of operations
- Safeguarding of assets
- Complying with laws and regulations.

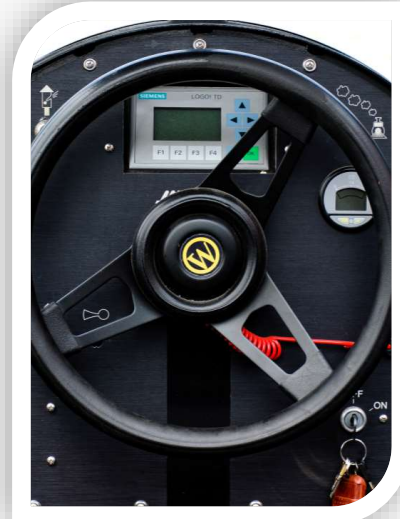


3 Types of Internal Controls

Preventive Controls

Detective Controls

Corrective Controls



Identify the Type of Control

Control

Preventive

Detective

Corrective

Segregation of Duties



Reconciliation



Variance Analysis



Physical Access Control



Employee Screening



Approval of Transaction



Confirmation of Balance



Identify the Type of Control

Control

Preventive

Detective

Corrective

Internal Audit



Log File



Audit Trail



Stock Adjustment Note



Root Cause Analysis



Online Access Control



Physical Verification



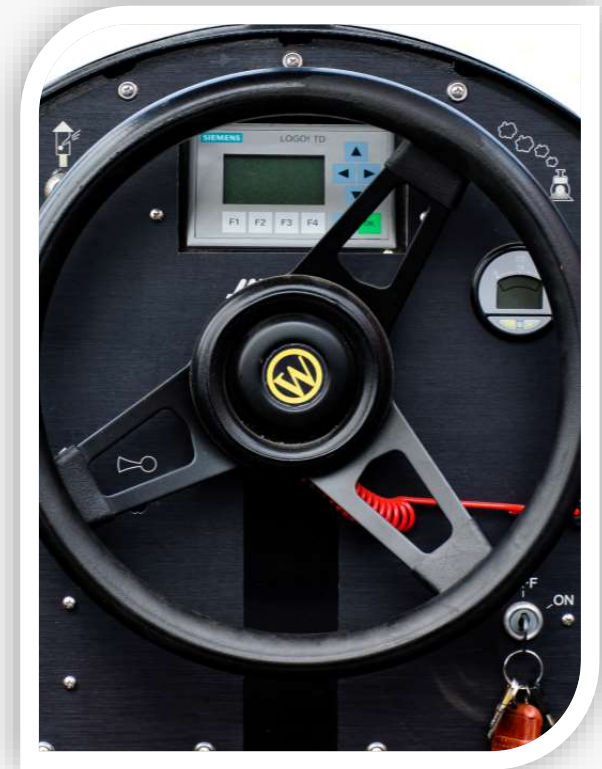
4 Most Important Controls

Segregation of Duties

Delegation of Authority

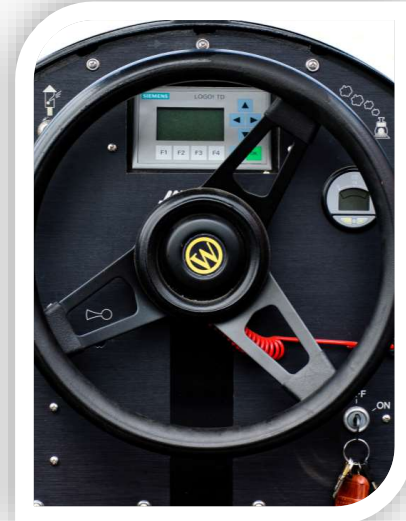
Documentation

Internal Audit



Risk Control Matrix

Process Area	
Risks	
Controls in Place	
Type of Control	
Controls Tested	
Test Results	
Risks Mitigated	
Residual Risks	



Essentials Elements of Internal Controls

Cost of Control Taken into
Consideration

Collusion would make controls
ineffective

Top management should encourage
implementation of IC

Top Management should have Zero
Tolerance towards violation of IC

Severe punishment to be given to
violators

The Following to be Noted

As per Section 134(5)(e) of Companies Act, 2013:

Responsibility for designing & implementing ICs rests with BOD.

SEBI Listing Agreement LODR – Listing Obligation & Disclosure Requirements

Management has to evaluate the effectiveness of ICs on Financial Reporting

And Disclose to Auditors & ACB on Deficiencies in design & Operation of ICs.

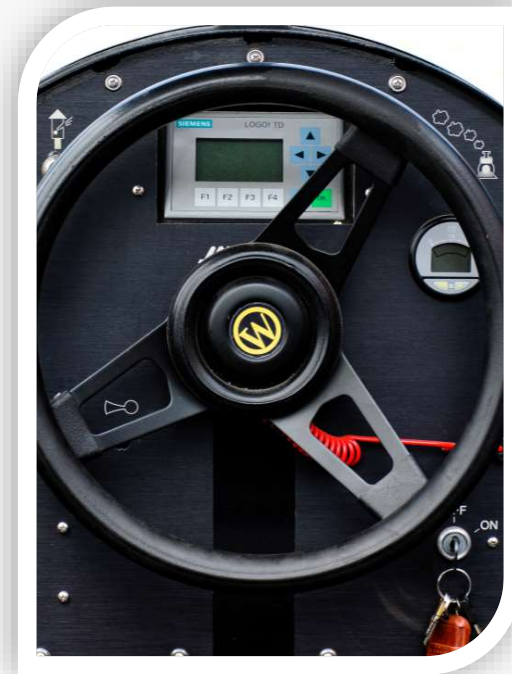
Rule 8(5)(viii) of Companies (Accounts) Rules, 2014:-

Directors' Report to include details of adequacy of IFCs wrt Financial Statements.

Section 143(3)(i) of Companies Act, 2013

SA has to report to Shareholders whether Company has adequate IFCs in place

And whether these are operating effectively.



Thank You!



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