

ROAD MAP TO ACCESSING EFFECTIVENESS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

By: I&A Associates
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PREFACE

The Presentation aims to provide a brief overview of key procedures to be performed as part of project (the project) to review and enhance internal controls over financial reporting (ICFR)

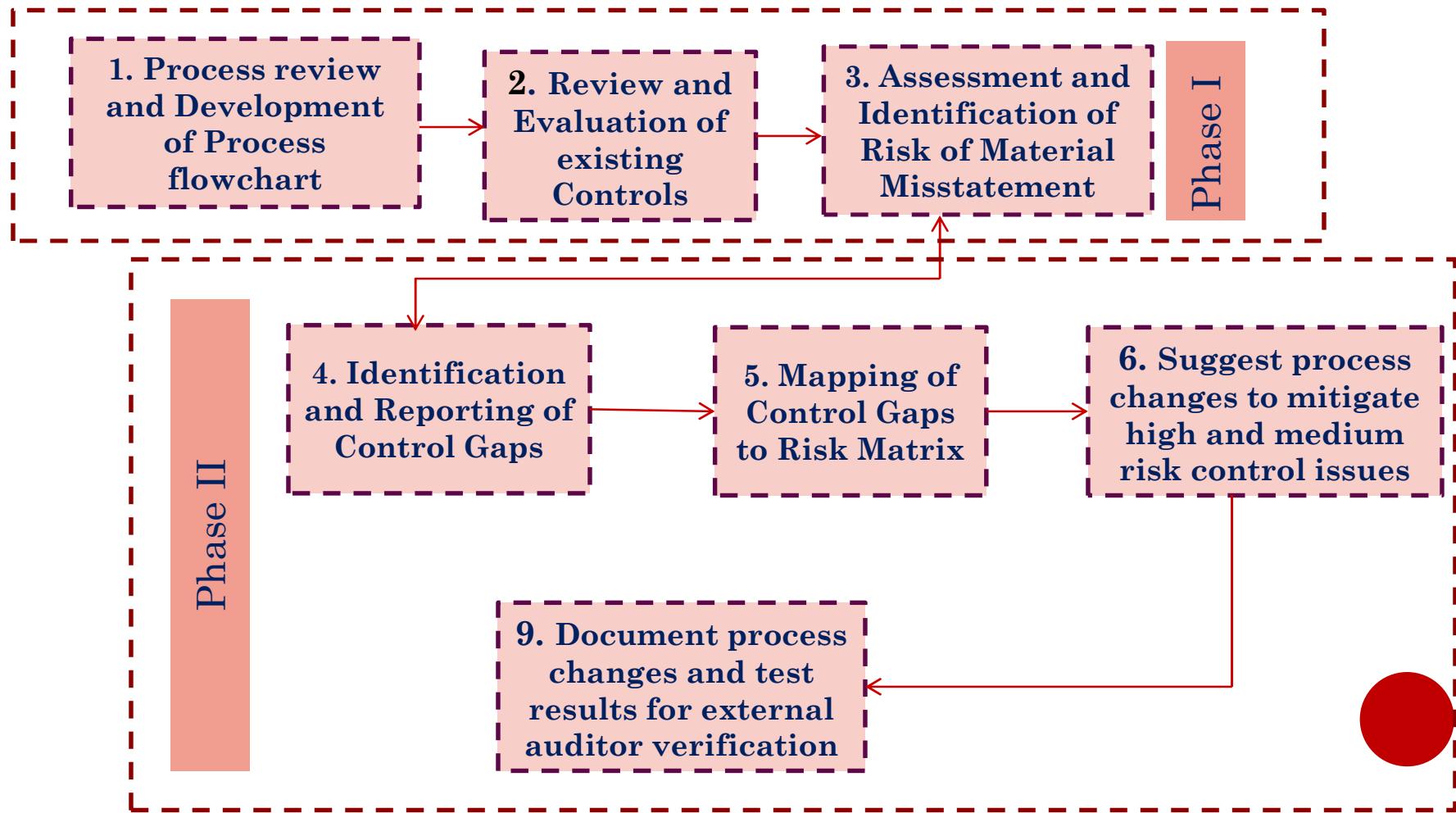
The project involves the following key stages

1. Review of ICFR
2. Identification of gaps in design and /or operation of Controls
3. Mapping control gaps to risk matrix
4. Suggestion of Remedial Measures to mitigate high and medium risk control gaps



WORK FLOW OVERVIEW

Proposed Work Flow for Review and Enhancement of Controls Over Financial Reporting



WORK FLOW OVERVIEW

Objective

Assessment and Identification of Risk of Material Misstatement.

- **Identification of Significant accounts and Disclosure.** Significant account and disclosures, are accounts or disclosures, that have material impact on financial statement. Hence, error in such accounts or disclosures poses risks of material misstatement
- **Identification of significant components.** Significant component includes business units, products and services that have material impact on the financial statement
- **Identification and Evaluation of fraud risk**

Work Approach	Prerequisites	Key Deliverables
Review of Financial Statement and key financial reports along with review of financial statement closing process (FSCP) document.	<ol style="list-style-type: none">1.List of all financial reports (including system reports prepared by Financial reporting Department.2.Latest financial reports and quarterly /annual financial statements3.Financial Statement Closing process document.	<ol style="list-style-type: none">1.List of significant accounts and disclosures where errors can result in material misstatement.2. Assessment of current controls (including general IT controls and controls related to MIS /ETL) as to there validity and effectiveness to ensure completeness and accuracy of disclosures.3.List of products/ services for which process review is required

WORK FLOW OVERVIEW

Objective	Process Review and Development of Process flowchart.
	<p>Obtain clear understanding and documentation of process flow. Process flow represents the flow of transaction from initiation through the organization's processes, including IT systems until the transaction gets reflected in the Bank's financial statement</p>
	<p>Identification of process risk points (PRP) and risk of misstatement (RM). PRP represents where and how in a process flow error or fraud can be introduced. RM represents what can go wrong at various stage of process flow</p>
	<p>Assessing impact of each RM on the Bank's financials and identifying RM that can cause material misstatement</p>

Work Approach	Prerequisites	Key Deliverables
<p>Process Walkthrough with process owners and preparation of process flow chart.</p> <p>Brainstorming sessions with key stakeholders to identify PRP and RM</p> <p>Key processes to be covered includes:</p> <ul style="list-style-type: none">➢ Financial Statement closing process➢ Processes related to accounting estimates➢ Processes related to significant component.➢ IT and ETL processes.	<ol style="list-style-type: none">1.Process documents.2.Brainstorming sessions with product owners and key stakeholders.	<ol style="list-style-type: none">1.Process flow chart.2.List of Process Risk Points in a process flow3.Assessment of what can go wrong (RM) at each stage of a process flow.4.Identification of RM that can have material impact on financial statement

WORK FLOW OVERVIEW

Review and evaluation of Existing Controls.

Objective

- Obtain understanding about existing control activities related to a process. This involves identifying nature and type of control activities, frequency of control operation, authority of control operator, judgement involved, exception reporting and actions, accuracy and completeness of information used in control process
- Assess ability of control activities to mitigate risk of material misstatement and fraud risk.

Work Approach	Prerequisites	Key Deliverables
<p>Review of policy and procedure document related to key processes to identify control activities established to mitigate risk of material misstatement and fraud risk.</p> <p>Prepare control matrix showing PRP and RM mitigated by each control activity in the process flow.</p> <p>Evaluating operating efficiency and validity of existing controls. The following evaluation strategies will be applied.</p> <ul style="list-style-type: none">➤ Enquiry with key stake holders.➤ Inspection of documents➤ Observation➤ Reperformance	<ol style="list-style-type: none">1. Policy and Process documents.2. Recent documents showing performance of control activity3. Observation and monitoring session with control operators .	<ol style="list-style-type: none">1. Documents demonstrating test operating efficiency and validity of control over financial reporting2. List of PRP and RM where controls are inadequate to mitigate chances for misstatement or fraud.

WORK FLOW OVERVIEW

Identification of Control Gaps and Mapping Control Gaps to Risk Matrix.

Objective

- **Identifying control gaps.** Control gaps indicate that the control is either missing, designed inappropriately or not operating effectively. Existence on control gaps indicates PRP and corresponding RM not mitigated appropriately by existing control activities and hence, there is a risk that a material misstatement will not be detected by the organization in normal course of its business
- **Identification of high and medium risk control gaps.** Each control gap will be classified into high, medium or low risk control gap based on its impact on the financial statement.

Work Approach	Prerequisites	Key Deliverables
<p>Identification of Control gaps or points, where controls are ineffective or invalid based on</p> <ul style="list-style-type: none">➤ Review of process flow➤ Review of external auditor's report➤ Review of internal audit report➤ Review of Error log➤ Report from regulatory agencies. <p>Each control gap will be classified into high, medium and low risk control gap, based on its impact on financial statement.</p> <p>Impact assessment of control gap will be done both on individually and on aggregate basis.</p> <p>Each control gap and its impact will be corroborated with process owners and key stakeholders</p>	<ol style="list-style-type: none">1. Completion of stage 3,2. External auditor's report3. Internal audit reports4. Error log5. Regulatory agency inspection report.	<p>1. List of control gaps along with clear description of:</p> <ul style="list-style-type: none">➤ Type of Control gap➤ The accounts or disclosure affected.➤ The financial statement assertion affected➤ The component affected. <p>2. Classification of control gaps into high, medium and low risk control gaps, based on there impact on financial statement individually and on aggregate basis.</p>

WORK FLOW OVERVIEW

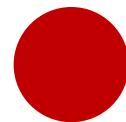
Suggesting process changes and documentation.

Objective

- **Identifying optimal process flow to mitigate control gaps.** The suggested process change will ensure that the Organization is able to detect all the errors (both intentional and unintentional) in a timely manner in the normal course of its business.
- **Documenting the suggested change and assessment of how the process change will optimally mitigate high and medium risk control gaps..**

Work Approach	Prerequisites	Key Deliverables
<p>Brainstorming session with process owners and key stakeholders to find optimal process changes to address control gaps. Process changes includes</p> <ul style="list-style-type: none">➤ Amendment in process flow➤ Introduction of IT controls.➤ Introduction of quality check both manual and system generated➤ Development of exception reports. <p>The agreed changes in process flow will be documented along with clear description as to how it will ensure timely detection and correction of material error in financial reporting</p>	Completion of stage 4 and 5	<ol style="list-style-type: none">1. Detailed document showing suggested changes in the process flow and how these changes will optimally mitigate risk of material misstatement. Hence, will ensure clear report from external auditors

Thank You



CONSULTANT PROFILE

Imtiyaz Ahmed Attari



Imtiyaz is an experienced Banker, with over 18 years of banking experience within GCC banks. Imtiyaz's expertise is primarily into Financial Reporting, Regulatory and Risk Reporting , Management reporting, Review of internal and enhancement of existing processes to mitigate risk of error and fraud. and Change management involving building of data mart, automation of reporting and implementation of new system, formalization of policies and procedures.

During his professional tenure Imtiyaz had held senior management responsibilities like:

- Deputy General Manager Commercial Bank of Kuwait,
- Head of Financial Accounting and Reporting at Commercial Bank of Dubai,
- Deputy Manager Business Planning and Analysis at Dubai Bank (A Islamic Banking institution, now part of Emirates Islamic Bank)
- Head of formalization at Habib Bank AG Zurich.

In addition to Banking experience within GCC he has also worked with a leading audit firm in India M/s Haribhakti and Associates where he was involved with NAV verification of HSBC, Deutsche Bank and JPMorgan Chase Mutual funds.

Imtiyaz is a qualified Chartered Accountant from India and also holds Bachelor of Business Management degree from Mohan Lal Sukhadia University, India.

Key Functional Expertise,: Financial Reporting, Review of Internal Control, Formalization of policies and procedure , IFRS compliance, Change Management, Strategic Planning, Formalization of policies and procedure, Treasury and derivative risk review and reporting, Review of Internal Control.

Sample of Clients as Part of Audit Engagement: NAV verification of HSBC, Deutsche Bank and JPMorgan Chase Mutual funds India. Reliance Infocom.

CONSULTANT PROFILE



Aftab Gul Attari

Aftab works with client across multiple industries to develop and implement financial and operation controls, implement ERP and provide guidance and support for Bond /sukuk issuance. Further, during his professional career he spear headed various strategic projects involving Financial planning and analysis, Valuation and risk analysis of the investment portfolio and setting up accounting system in line with IFRS

During his profession tenure Aftab has held Senior management position which Includes:

- CFO Dubai Investment Park
- Senior Auditor KPMG Dubai

Key Clients at KPMG: Commercial Bank of Dubai, EPPCO, HSBC, HSBC MAFFCO, Internal Audit of Oman International bank.

During tenure as Auditor with KPMG he was responsible to ensure that financial reports are prepared in line with IFRS Further, he was responsible for critically evaluation internal control system, identifying weakness and suggesting remedial measures.

Aftab is a qualified Chartered Accountant from India and also holds Bachelor of commerce degree from Mohan lal Sukhadia University, India.

Key Functional Expertise: Development and implementation of financial and operational Controls, Implementation of ERP, Issuance of Bond / Sukuk and managing ratings

Prior to joining moving to KPMG Dubai, Aftab has worked as an auditor in India M/s Haribhakti and Associates, where he has worked on Standard Chartered Bank, SBI Mutual Funds, L&T Cement.