

Business Process Documentation for Internal Financial Control

Storyline...

The client is an undertaking of the Government of Karnataka, India established in 1971. The company is engaged in cultivation of pulpwood and rubber and in rubber processing. The client owns plantations and rubber factories across the state of Karnataka.

The Client's Management appointed MaGC to identify and document its existing business processes and controls, in order to comply with 'Internal Financial Control' (IFC) requirements as per Companies Act.

Once upon a time...

The Client had established procedures, and standard documentation for most business activities. However, these were documented in one place and did not clearly identify role, responsibility, and control points for each process.

The Companies Act requires the Management of a company to affirm that internal financial controls are adequate and operating effectively. It further requires auditors to comment on the IFC. In order to satisfy these requirements, there was a need to document business processes and link them to IFCs.

Moving on...

The MaGC team undertook a preliminary study to understand the business environment and compliance framework within which the Client functioned. Field study teams visited the Head Office, Executive Offices, Divisional Offices, and factories to conduct structured interviews. Activity/information flows and processes were examined through observation, walk-throughs, and document/report reviews. Discussions were held with and inputs taken from Management, the CFO, and Internal Auditors.

The business processes were documented in the form of flowcharts followed by descriptive text. The salient features of the process documentation were: Unique coding of processes and activities, clear identification of person responsible for each activity, and identification and coding of critical control points in each process. Based on the documented processes, separate Risk Control Matrices (RCMs) were prepared for entity level and process level controls. The control points in process charts were cross-referenced to the RCMs. Each RCM tabulates the controls and identifies the person responsible for it; objective of the control; risks that the control intends to mitigate; IFC objectives that are achieved directly or indirectly by the control; COSO component which it addresses; and whether it is a Manual or Automated control. The RCMs were designed as spreadsheet templates to facilitate scoring and objective evaluation by Internal Auditors and the Management.

The Financial reporting Process was captured in detail with steps, review responsibility, approval responsibility, and timelines. Detailed checklists for accounts closure, preparation of Financial Statements, and Disclosures were provided along with process steps and checks required, process owner, reviewer, proposed timelines and actual timelines.

Finally...

The Business Process document (BPD) totally covered about 200 different processes. It served as a ready reference for Management and staff at all levels. Internal Auditors use the RCM as an objective tool to assess the existence and adequacy of IFCs in the organisation. Deficiencies are easily identified and responsibilities fixed using the BPD. Management is able to assert the adequacy and effectiveness of IFC with confidence.

