Annexure – B to OSED Circular No. 01 of 2014

ROADMAP OF INTERNAL CONTROLS OVER FINANCIAL REPORTING (ICFR)

Stage No.	Stage Description
I	**Documenting Internal Controls over Financial Reporting:** It covers the documentation of the control environment at entity level as well as the scoping exercise to identify significant accounts & disclosures and mapping their processes, financial reporting risks and mitigating controls at activity levels. It also includes development of process flow documentation and related Risk and Control Matrices (RCM).
II	**Identification of Gaps and Recommendations:** The conduct of institution-wide compliance readiness assessment exercise to identify the areas where design or operational deficiencies exist at various levels, risk grading of control deficiencies/ gaps identified and making recommendations for rectification thereof.
III	**Development of Detailed Implementation Plans to Rectify the Gaps:** Creating action plans for remediation of each deficiency. This consists of setting up initiatives as per recommendations in gap report which includes: a) Required amendments/ updation in existing policies/ procedures; b) Development of new policies/ procedural frameworks; and c) Assigning responsibilities and timelines for remediation initiatives
IV	**Development of Management Testing Plan for Testing of Key Controls:** This encompasses to identify key controls to be tested, extent of testing, timing of procedures to be performed, description of the test, testing frequency and responsibilities assigned to the relevant testing authorities considering the test performing function.
V	**Implementation of Initiatives, as planned under stage III:** In order to address the deficiencies identified, this phase comprises of remediation activity undertaken by the management, as planned in stage III.
VI	**Quality Assurance/ Validation on Initiatives Completed:** This includes assurance whether after completion of remedial plans, gaps have been bridged.
VII	**Conduct of Management's own Testing of Key Controls and Reporting of Results to Board of Directors:** This consists of testing of key controls, as planned in stage IV, to evaluate their effectiveness, reporting of exceptions to the Board of Directors and appropriate action taken.
VIII	**Design and Implementation Review**

STAGE I & II DESCRIPTION DETAIL:

Scoping, Mapping and Gaps/ Deficiencies:

- **Scoping** is the study to identify all the significant financial statement accounts and disclosures based on the quantitative and qualitative factors, and materiality at the financial statement level. The management shall use the same materiality considerations as used in the audit of annual financial statements.
- **Mapping** (As-Is process) is the documentation of cycles, sub-cycles, process flows, related activities, associated risks and mitigating controls regarding significant accounts and disclosures identified as a result of scoping study.
- Scoping and Mapping shall be updated annually, based on last annual audited accounts of the institution, in order to incorporate the effect of changes between the periods.
- **Gap/ Deficiency** is the difference between As-Is (existing/ current) and To-Be (effectively controlled) process. It exists when the design or operation of a control does not allow preventing or detecting misstatements in financial reporting on a timely basis.
- A **Significant Deficiency** is less severe than a material deficiency, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.
- A **Material Deficiency** is more severe than a significant deficiency such that there is a reasonable possibility that a material misstatement of the institution's annual or interim financial statements will not be prevented or detected on a timely basis.

Process Flow Documentation:

- The processes, cycles, transactions and allied activities of significant accounts and disclosures shall be documented properly through Policies, Manuals/ Standard Operating Procedures and Flow Charts. The associated Risks and mitigating Controls shall also be documented through Risk and Control Matrices (RCM).
- Similar documentation of New Product/ Process/ Technology shall also be done before their introduction. The documentation shall be updated regularly to include the changes resulted from automation of manual procedures, change in processes and/ or change in technology.
- The process flow documentation should include complete procedure of all end-to-end activities (covering the initiation, authorization, recording, processing and reporting of individual transactions).
- The documented controls must correspond with the actual controls.