



d e - r i s k

Data-driven and risk aware decision making.

**Why Entity Level Control (ELC) Assessment is
Important?**

**How Auditors can be ready for ELC discussions in
15 minutes?**





Before we begin – a Factoid for you

- Whenever a financial or accounting fraud happens, **the auditors are invariably blamed** (even the best of the best are not spared)
- In financial year 2022, the Reserve Bank of India (RBI) reported bank frauds amounting to 604 billion Indian rupees
- This figure was over 1.3 trillion rupees in 2021
- It is reported that, FTX (a Company which was worth \$32 billion) lacked accounting and financial controls. FTX did not have experienced personnel to handle financial reporting, risk management, audits or accounting procedures and the total assets missing were estimated at \$8 billion
- Silicon Valley Bank parent, CEO, CFO sued by shareholders for fraud. Silicon Valley Bank had an estimated \$209 billion of assets and \$175.4 billion of deposits before its collapse, in the largest US bank failure since the 2008 financial crisis.





Do you know about a significant regulatory change in India

The National Financial Reporting Authority (NFRA) was constituted on 01st October, 2018 by the Government of India under Sub Section (1) of section 132 of the Companies Act, 2013

The duties of the NFRA (Independent regulator for auditing profession in India) are to:

- Recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government;
- Monitor and enforce compliance with accounting standards and auditing standards;
- Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service;
- Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.



A peek into the reports issued by NFRA – what it reveals

- **Independence** of the auditors was compromised
- Violation of the **standards on auditing** (as issued by the ICAI)
- Auditors did not display the required professional skepticism and **did not challenge the management** on important issues
- Not questioning the assumptions on the basis of which the management had prepared the financial statements
- Quality control system and process of auditors being inadequate and ineffective
- Evaluation of **Risk of Material Misstatement (ROMM)** Matters
- Controls over management override are important for effective internal financial controls over financial reporting for all companies
- Auditors had failed to exercise due diligence and **controls over management override** did not form part of the evaluation of the **internal financial controls over financial reporting**



Risk of Material Misstatements (ROMM)

According to the Institute of Chartered Accountants of India (ICAI), the auditor has the responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment, including the entity's internal control.

Guidance Note on ICFR requires the auditor to review reports issued during the year by the internal auditor (or similar functions) that address the controls relating to **internal financial controls over financial reporting** and evaluate control deficiencies identified in those reports.

According to the Public Company Accounting Oversight Board (PCAOB), the auditor has the responsibility to identify and assess the risks of material misstatement in the financial statements.





Entity Level Controls (ELC)

Entity-level controls are controls that have a pervasive influence throughout an organization. They are designed to **prevent or detect material misstatements in the financial statements of a company at the account or disclosure level** arising from error or fraud. If entity-level controls are weak, inadequate, or non-existent, they can produce material weaknesses relating to an audit of internal control and material misstatements in the financial statements of the company.

Entity level controls (ELC) are essentially the policies and procedures and the management review controls in an organization, and by their nature, directly or in-directly impact all underlying controls.

Entity level controls (ELC) Include:

- Controls related to the control environment (e.g. Policies, procedures, delegations, code of conduct etc.)
- Controls over management override (e.g. Committees, audit & compliance, segregation of duties, risk management, reporting and monitoring etc.)





Entity Level Controls (ELC) in relation to Internal Controls over Financial Reporting

Entity level controls (ELC) can be:

- **Indirect entity-level controls:** Those ELCs that do not themselves directly address risks of material misstatement at the account/assertion level but are important to effective internal control and therefore relevant in an audit of internal financial controls (e.g. Controls falling in 5 components of COSO Framework)
- **Direct entity-level controls:** Those ELCs that directly address a risk of material misstatement (may or may not be precise enough on their own to fully address a risk of material misstatement at the account/assertion level, e.g. review-type / detective controls that can exist at any level in an organisation~ KPIs and Actual performance against Budget being reviewed at the Group level in a Corporate)







In the context of your engagement, making sure that the work is comprehensive & world class

Relevance of the Entity Level Controls (ELC)

- Corporate Governance
- Enterprise Risk Management
- Internal Audit
- Audit of the Culture / 'Tone at the Top'
- Audit of Governance Practices
- SOX Design and Testing
- Internal Control / ICFR / IFC design and testing
- Fraud Risk Assessment
- Fraud Investigations
- Design of Policies and Procedures
- Improvement and Benchmarking of Internal Controls
- External Audit / Opinion on the Financial Statements



Let's see if you can identify some of the areas for assessment of ELC



Board of Directors

- 4. Audit Committee
- 5. Audit Committee Oversight & Mandatory Statutory Committee functioning and oversight
- 1. Board Procedures
- 2. Governance & Oversight
- 3. Committee Charters & Reporting


CEO

- 7. Strategy Execution
- 8. Delegation of Authority (DOA)
- 9. Business Plan

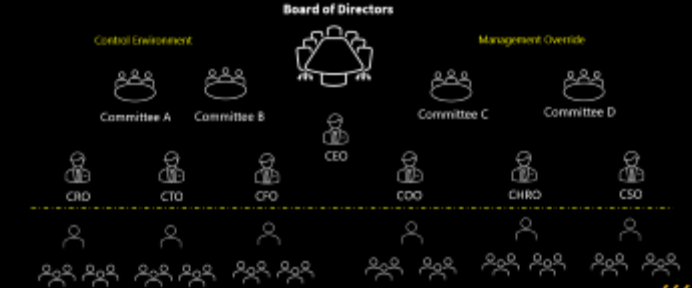
Departments and SOX Controls:

- CRO: 22. Risk Management Policies & Procedures, 23. Risk Identification, Risk Assessment, Risk Analysis & Reporting, 24. Anti-Fraud Framework & Whistle Blower Mechanisms, 25. Audit & Reporting
- CTO: 26. IT Governance, 27. IT Org, 28. IT Infra, 29. Cyber
- CFO: 17. Financial Planning, 18. Financial Reporting, 19. SAS, 20. Finance Policies and Procedures, 21. Internal Control Framework & ICFR
- COO: 10. Business Planning & Operations, 11. Performance Management
- CHRO: 12. Code of Conduct & Ethical Values, 13. Org Structure, 14. HR Policies and Procedures
- CSO: 15. Sales Forecasting, 16. Business Development


Note: Yellow Ovals are areas for ELC Assessment



Let's draw a line in the Org structure to remember




Controls which are defined, reviewed and evaluated at a level above the yellow line will be direct & precise ELCs



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SOX Control	Area / Authority to Govern	ES&T Principle	ES&T Risk/Opportunity	ES&T Control	ES&T Example
Entity-Wide Objective: Look of Control and Look of Risk		Principle 1	Control Environment	The organization demonstrates a commitment to integrity and ethical values.	Control in related assessment
Entity-Wide Objective: Board Procedures, Governance & Oversight	Board Procedures, Governance & Oversight	Principle 2	Control Environment	The Board of Directors demonstrates independent oversight of the development and performance of internal control.	Control in related assessment
Entity-Wide Objective: Audit Committee & Statutory Committee Oversight	Audit Committee & Statutory Committee Oversight	Principle 2	Control Environment	The Board of Directors demonstrates independent oversight of the development and performance of internal control.	Control in related assessment
Entity-Wide Objective: Mandatory Statutory Committee Oversight	Mandatory Statutory Committee Oversight	Principle 2	Control Environment	The Board of Directors demonstrates independent oversight of the development and performance of internal control.	Control in related assessment
Entity-Wide Objective: Organization Structure and Delegation	Organization Structure and Delegation	Principle 3	Control Environment	Management establishes, with board oversight, structure, reporting lines, and appropriate authorities and responsibilities in the organization.	Control in related assessment




Relevance of the Entity Level Controls (ELC)

- **Corporate Governance**
- **Enterprise Risk Management**
- **Internal Audit**
- **Audit of the Culture / ‘Tone at the Top’**
- **Audit of Governance Practices**
- **SOX Design and Testing**
- **Internal Control / ICFR / IFC design and testing**
- **Fraud Risk Assessment**
- **Fraud Investigations**
- **Design of Policies and Procedures**
- **Improvement and Benchmarking of Internal Controls**
- **External Audit / Opinion on the Financial Statements**

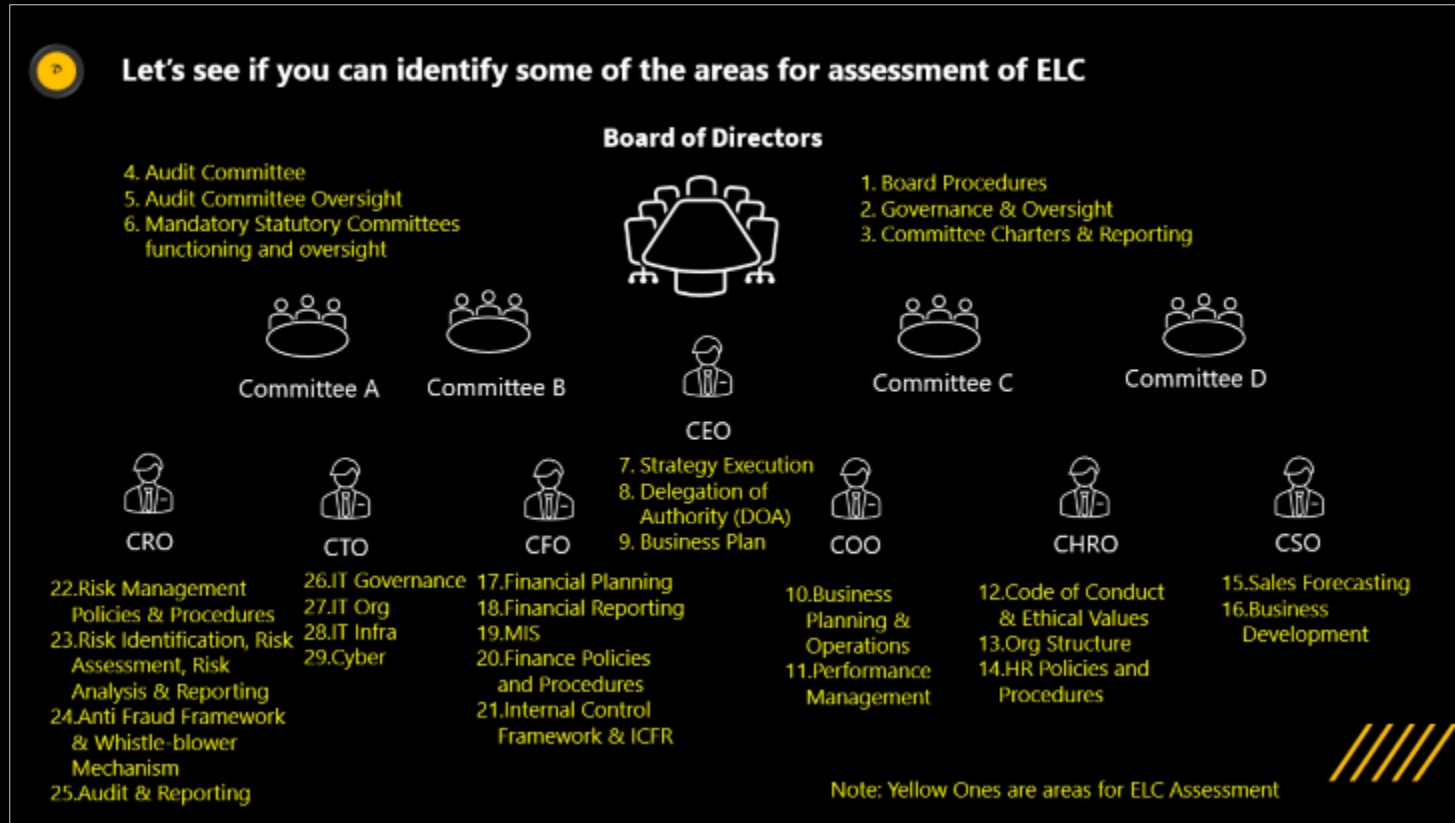




As an Auditor you might have a lot of "Blame" sitting as an open risk



Identifying areas for ELC assessment

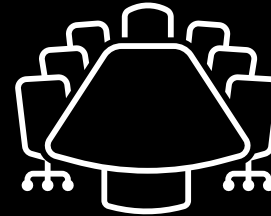




Let's see if you can identify some of the areas for assessment of ELC

Board of Directors

- 4. Audit Committee
- 5. Audit Committee Oversight
- 6. Mandatory Statutory Committees functioning and oversight



- 1. Board Procedures
- 2. Governance & Oversight
- 3. Committee Charters & Reporting



Committee A



Committee B



CEO



Committee C



Committee D



CRO



CTO



CFO

- 7. Strategy Execution
- 8. Delegation of Authority (DOA)
- 9. Business Plan



COO



CHRO



CSO

- 22. Risk Management Policies & Procedures
- 23. Risk Identification, Risk Assessment, Risk Analysis & Reporting
- 24. Anti Fraud Framework & Whistle-blower Mechanism
- 25. Audit & Reporting

- 26. IT Governance
- 27. IT Org
- 28. IT Infra
- 29. Cyber

- 17. Financial Planning
- 18. Financial Reporting
- 19. MIS
- 20. Finance Policies and Procedures
- 21. Internal Control Framework & ICFR

- 10. Business Planning & Operations
- 11. Performance Management

- 12. Code of Conduct & Ethical Values
- 13. Org Structure
- 14. HR Policies and Procedures

- 15. Sales Forecasting
- 16. Business Development

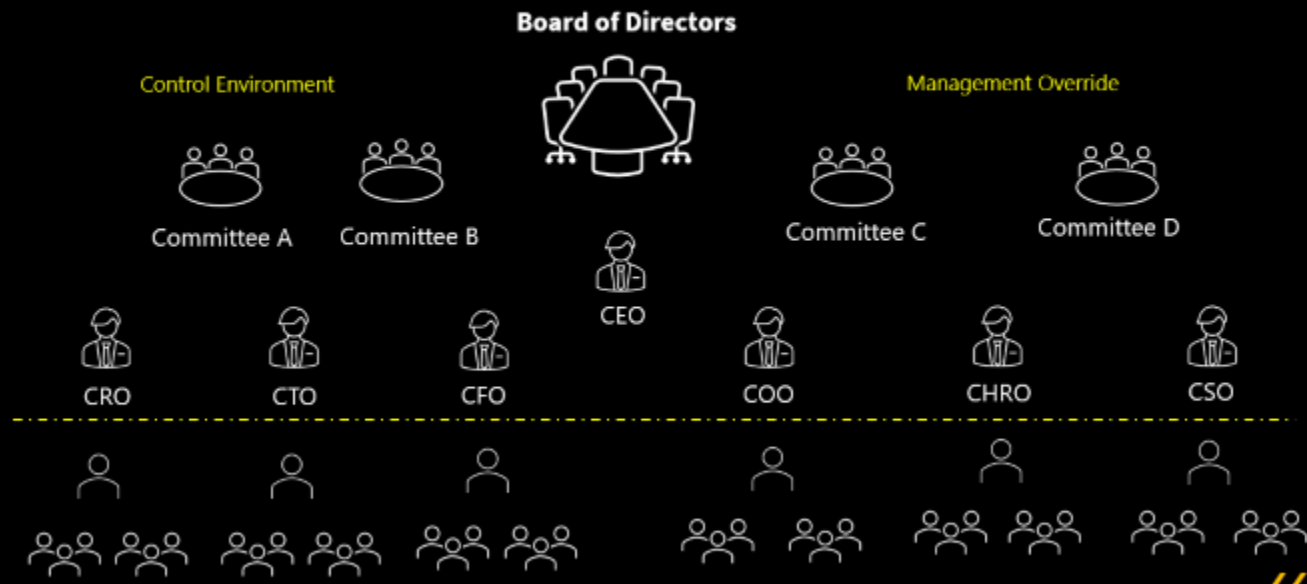
Note: Yellow Ones are areas for ELC Assessment





Let's try and memorize it for a layman who knows – Above the Line & Below the Line

Let's draw a line in the Org structure to remember

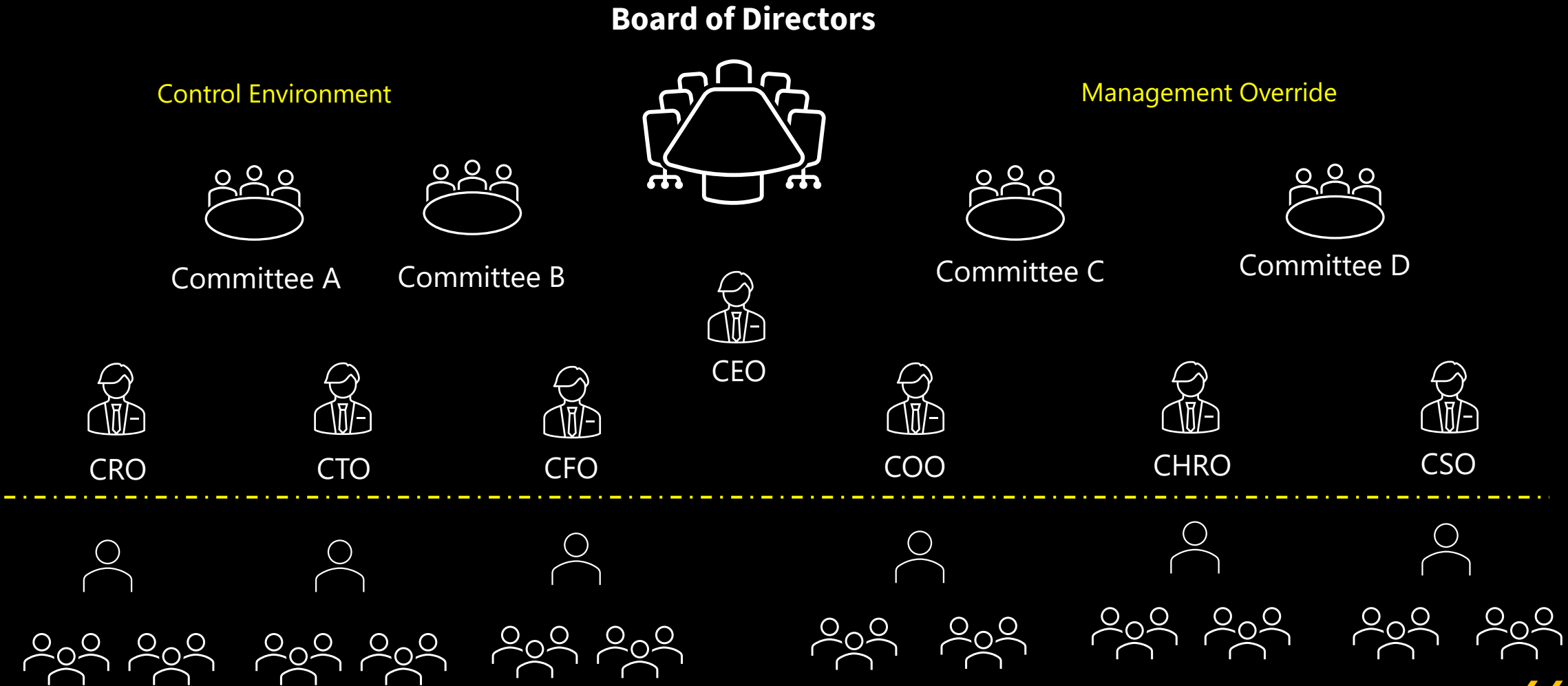


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Sr. No.	Area for Assessment
1	Code of Conduct and Ethical Values
2	Board Procedures, Governance & Oversight
3	Audit Committee & Audit Committee Oversight
4	Mandatory Statutory Committees
5	Organization Structure and Delegation of Authority (DOA)
6	HR and Organization wide Policies & Procedures

7	Business Planning and Plant Operations
8	Budgeting and Management Information System (MIS)
9	Risk Management Policy and Procedures
10	Risk Identification, Risk Assessment, Risk Analysis
11	Internal Control Framework and ICFR
12	IT Organization, IT Governance and IT Infrastructure
13	Financial Reporting and Disclosures

Areas / Activities for Coverage	COSO Principle	COSO Principle Description	Point of Focus	Control Objectives
Code of Conduct and Ethical Values	Principle 1	Principle 1: Demonstrates Commitment to Integrity and Ethical Values -The organization demonstrates a commitment to integrity and ethical values.	Tone at the TOP, Standards of Conduct, Adherence to standards, Assessment of Deviations	The Board shall lay down a code of conduct (containing principles of integrity and ethical values) for all Board members, senior management and employees of the company The code of conduct shall be approved by the Board and be posted on the website of the company and communicated to all the employees through Intranet Management maintains a structured program for creating and maintaining awareness and educating directors and employees about the code of conduct & whistle blower / vigil mechanism (for reporting breach) Reported breaches to the code of conduct instances (through whistle blower / vigil mechanism or other reporting channels) shall be reviewed and disposed off as per the procedures laid out in the code of conduct and as per the applicable regulatory requirements

Control Reference	Specific activities, programs or controls in place that satisfy the objective.	Control Owner	Documentation Reference (Illustrative)	Controls operating effectively?
ELC_001	As Is controls existing at the Organization on the date of ELC Assessment	HR Head	1)- Code of Conduct (latest version) 2)- HR Manual 3) - Code of Conduct communication to Directors & Employees 4)- Minutes of Board meeting for approval of the Code of Conduct 5)- Screenshot of Intranet hosting	Effective / Partially Effective / Ineffective
ELC_002	As Is controls existing at the Organization on the date of ELC Assessment	HR Head	1)- Discussion with the HR personnel about creating awareness to the employees (e.g. details of the existing ethics and compliance program) 2)- New Director appointment letter	Effective / Partially Effective / Ineffective
ELC_003	As Is controls existing at the Organization on the date of ELC Assessment	HR Head	1)- Code of Conduct and Complaint Response Process / Matrix 2)- Vigil Mechanism / Whistleblower Policy 3)- Agenda & Minutes of Audit Committee Meeting 4)- Action report on the Code of Conduct breach & Vigil Mechanism cases	Effective / Partially Effective / Ineffective





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#	ELC Attribute	Areas / Activities for Coverage	COSO Principle	COSO Principle Description	Point of Focus	Coverage
1	Entity-Wide Objectives	Code of Conduct and Ethical Values	Principle 1	Principle 1: Demonstrates Commitment to Integrity and Ethical Values —The organization demonstrates a commitment to integrity and ethical values.	Tone at the TOP, Standards of Conduct, Adherence to standards, Assessment of Deviations	Covered in detailed assessment
2	Entity-Wide Objectives	Board Procedures, Governance & Oversight	Principle 2	Principle 2: Exercises Oversight Responsibility —The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.	Establishes oversight responsibilities, Applies relevant expertise, Operates Independently, Provides oversight on System of Internal Controls	Covered in detailed assessment
3	Entity-Wide Objectives	Audit Committee & Audit Committee Oversight	Principle 2	Principle 2: Exercises Oversight Responsibility —The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.	Establishes oversight responsibilities, Applies relevant expertise, Operates Independently, Provides oversight on System of Internal Controls	Covered in detailed assessment
4	Entity-Wide Objectives	Mandatory Statutory Committees	Principle 2	Principle 2: Exercises Oversight Responsibility —The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.	Establishes oversight responsibilities, Applies relevant expertise, Operates Independently, Provides oversight on System of Internal Controls	Covered in detailed assessment
5	Entity-Wide Objectives	Organization Structure and Delegations	Principle 3	Principle 3: Establishes Structure, Authority, and Responsibility —Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.	Considers all structures of the Entity, Establishes Reporting Lines, Defines, Assigns, and Limits Authorities and Responsibilities	Covered in detailed assessment



What will you have

- You followed a globally accepted framework
- Your assessments and supporting documents are world class
- You are not on the wrong side of the law / standards, even if your client tries to be
- You maintain a professional approach
- You deliver value for money to your clients
- You de-risk your own process to avoid the blame / shame / financial or reputational loss and have the confidence of the regulators for accounting and auditing





d e - r i s k

Data-driven and risk aware decision making.

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