

Financial Control Framework

Objective

The company has been in the business of life insurance since 2002 providing the marketing support and the foreign collaborator lending their financial expertise. At the time of the project, the company had begun to stabilize, with the company surpassing three years in the business and enjoying a significant market share. Hence, the management felt the need to streamline the business processes to ensure that the company can take advantage of the insurance industry boom in India. Therefore the company initiated the process of setting up a **Financial Control Framework (FCF)** for the organization. Their Colloborator encouraged this, as they had also done a similar exercise for sox compliance and were experiencing the benefits of the same.

At this juncture, NCRCL was approached to professionally assist the setting up of FCF in their organization. The focus of FCF is to codify the processes that led to preparation of financial statements, identify the internal control gaps in the processes and develop the risk mitigation strategies for the gaps identified.

About FCF

Financial Control Framework has varied connotations and needs to be adapted and understood specifically in the context of the specific environment and needs of the organization. In this project, Financial Control Framework is a process that had to be designed to provide reasonable assurance regarding the achievement of objectives relating to:

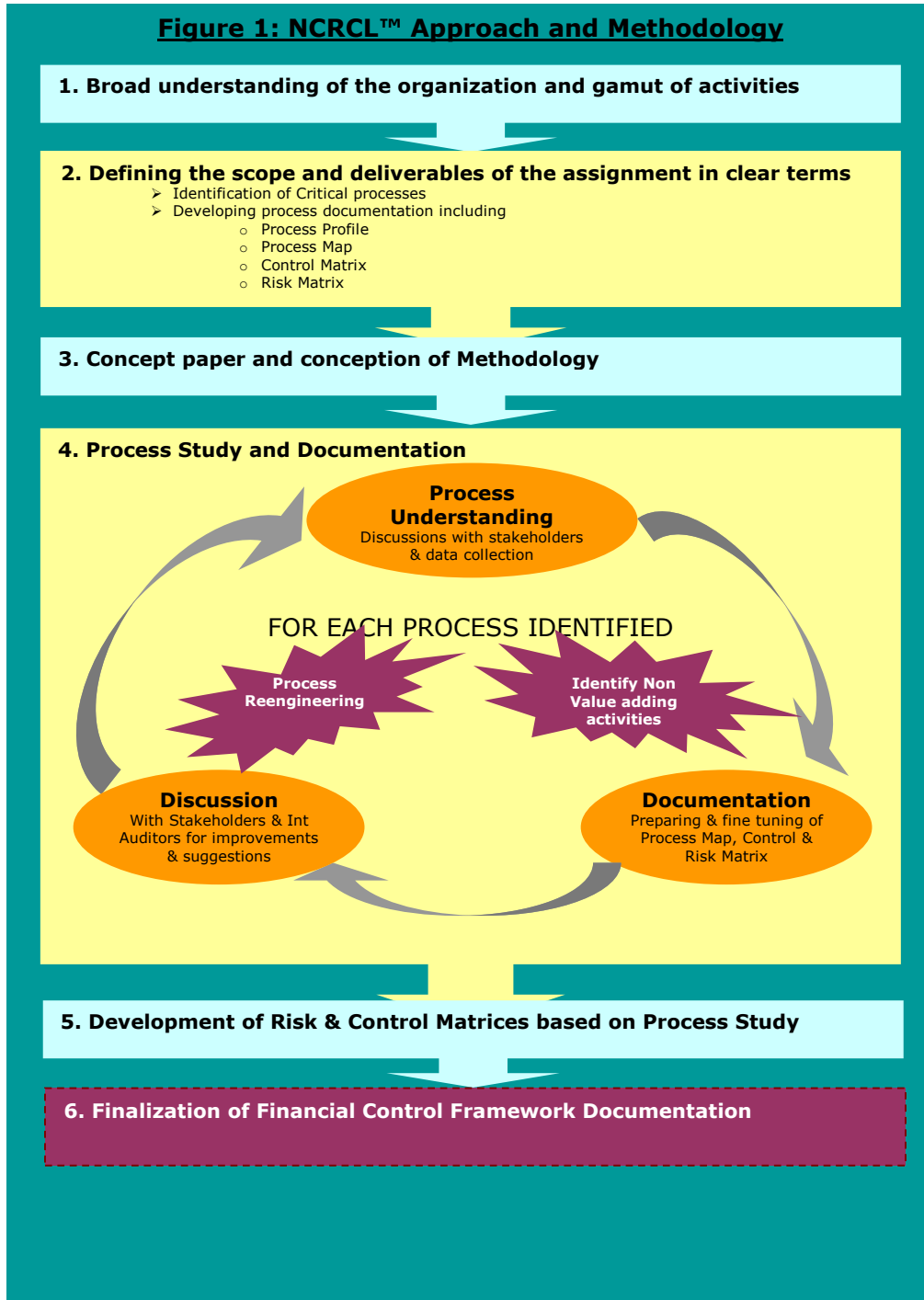
- ❖ Reliability of financial reporting,
- ❖ Effectiveness and efficiency of operations

The objectives and focus of the study included:

- i. Identification of business processes that have an impact on the financial statements.
- ii. Codification of these processes.
- iii. Risk assessment.
- iv. Risk mitigating strategies in respect of risk contributing processes and practices.
- v. Reengineering business processes based on above study, as required.

Methodology

The Approach and Methodology adopted by NCRCL™ for the assignment has been represented diagrammatically in **Figure 1**.

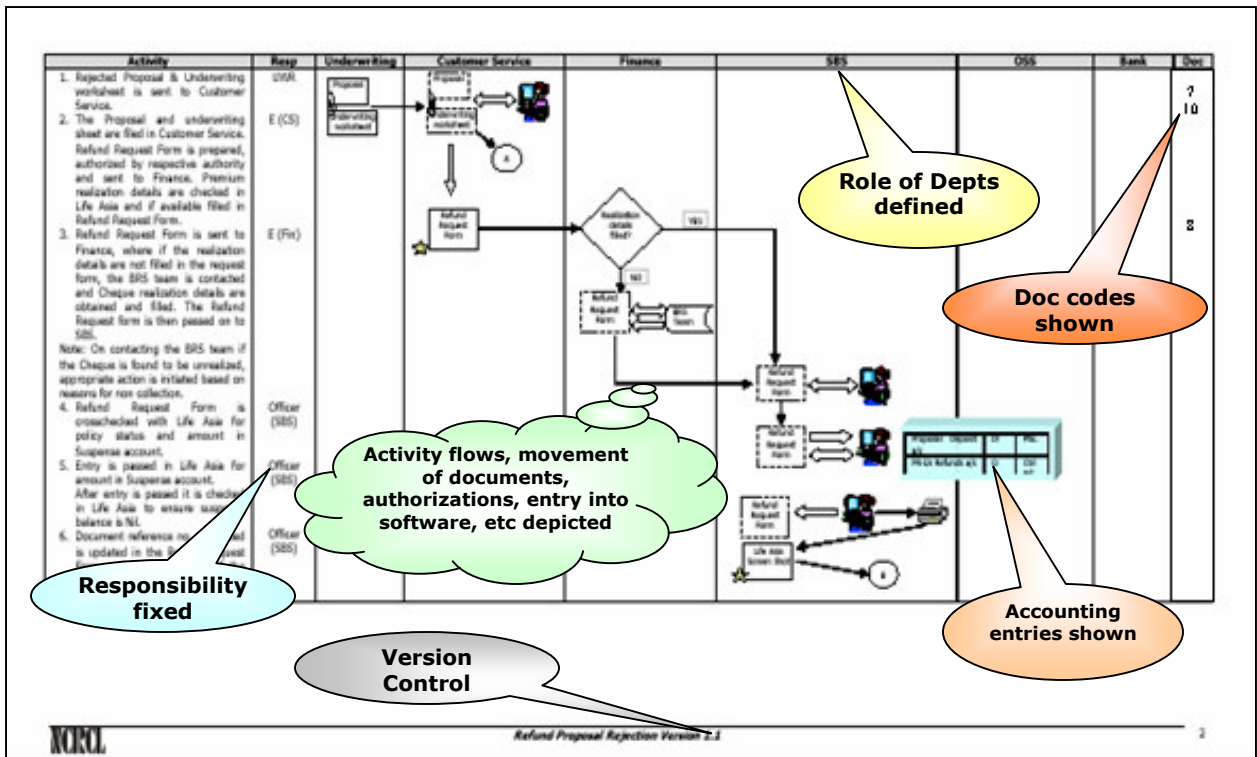


¹The framework takes into account controls as required under SOX¹ and incorporates COBIT² and COSO³ frameworks.

Solution

- i. A complete documentation of the Financial Control Framework outlining the FCF policy, overall control framework, approaches for identification and mitigation of risk, review mechanisms, etc.
- ii. A complete process documentation including
 - a. Process Map. (a sample given in **Figure 2**)
 - b. Control Matrix with mechanism for control scoring.
 - c. Risk Matrix detailing the uncontrolled risks.
 - d. Risk mitigating actions to be undertaken.
- iii. Other suggestions such as
 - a. Process reengineering possibilities.
 - b. Identification of non-value adding activities.

Figure 2: Sample Process Map with the key details labelled in callouts



¹ SOX - The Act is designed to oversee the financial reporting landscape for finance professionals. Its purpose is to review legislative audit requirements and to protect investors by improving the accuracy and reliability of corporate disclosures.

² COBIT - The **Control Objectives for Information and Related Technology (COBIT)** is a set of best practices (framework) for information (IT) management created by the Information Systems Audit and Control Association (ISACA), and the IT Governance Institute (ITGI) in 1992.

³ COSO - COSO refers to a document produced by the Committee of Sponsoring Organizations of the Treadway Commission providing a common definition of internal controls, standards, and criteria against which companies and organizations can assess their control systems. It is one of the most widely-accepted internal control frameworks for the audit of internal controls.

Benefits

The purpose of the project was to equip the organization with a powerful data base that would facilitate the following:

- i. A Comprehensive risk management tool and a flexible control environment,
- ii. Easy understanding of relationship between activities of every department and financial statements,
- iii. Easy understanding of the inter relationships between departments,
- iv. Clear definition of the responsibilities of each designation,
- v. An accounts manual with all accounting entries,
- vi. Proper structuring of business activities,
- vii. Elimination of non-value adding activities.