

OVERVIEW ON IFC

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WIRC Seminar, Cuffe Parade
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Scope:

- Clause 143 (3) of the Companies Act 2013 ('The Act') requires auditors report to state whether the Company has adequate internal financial controls system in place and operating effectiveness of such controls.
- The scope of reporting under section 143 (3) is much larger than reporting under CARO 2015.
- Under CARO reporting of internal controls is limited to adequacy of controls over purchase of fixed assets and inventory.

Meaning of IC:

- The process designed implemented and maintained by management to provide reasonable assurance for the achievement of entity's objective with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets and compliance with applicable laws and regulations.

Management responsibility:

- The Act has significantly expanded the scope of controls for the Company for all the operations
- Section 134 (5) requires the directors responsibility statement to state that for **Listed Company** has laid internal financial controls to be followed and that such controls are adequate and were operating effectively.
- However Rule 8(5) of the Companies Rules, 2014 requires report of all Companies to state details of adequacy of internal financial controls with reference to Financials.
- Further section 143 (3) applies to all statutory auditors of all Companies Pvt and

Auditor responsibility:

- Auditors have to carry out an audit of IFC over financial reporting and express an opinion on effectiveness of financial controls.
- Auditor must obtain sufficient appropriate evidence to obtain reasonable assurance about whether material weakness exist as on balance sheet date.
- The Auditors opinion **does not assure future viability** of the Company.
- Section 404 of SOX in USA also requires certified Accountants to attest

Reporting date:

- Auditor has to report IFC on balance sheet date. Hence not required to be reported on quarterly basis unless required by any other Law.
- Testing of controls should be done during the financial year and not just as at Balance sheet date.
- Auditor's report should state that whether the Company has adequate internal controls in place and whether it was operating effectively as on Balance sheet date.

Applicability to Consolidation (CFS) :

- As per Section 129 (4) of the Act IFC also applies to preparation of CFS.
- Reporting based on audit report of other Components

