WHAT IS INTERNAL FINANCIAL CONTROL (IFC) [SECTION 134]
As per Section 134 of the Companies Act, 2013. The term IFC means the policies and procedures adopted by the Company for ensuring:

a) Orderly and Efficient conduct of its business, including adherence to Company’s policies
b) Safeguarding of its assets
c) Prevention and detection of frauds and errors
d) Accuracy and completeness of the accounting records and
e) Timely preparation of reliable financial information.

WHAT IS INTERNAL CONTROLS OVER FINANCIAL REPORTING (ICFR)
As per Guidance Note issued by ICAI on Guidance Note on Audit of Internal Financial Controls Over Financial Reporting, ICFR shall mean:

“A process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.”

WHICH PROVISION OF COMPANIES ACT REQUIRE SUCH IFC AND REPORTING
Section 134: In the case of a listed company, the Directors Responsibility states that directors, have laid down IFC to be followed by the company and that such controls are adequate and operating effectively.

Section 143: The auditor’s report should also state whether the company has adequate IFC system in place and the operating effectiveness of such controls.

Section 177: Audit Committee may call for comments of auditors about internal control systems before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.

Schedule IV: The independent directors should satisfy themselves on the integrity of the financial information and ensure that financial controls and systems of risk management are robust and defensible.

Rule 8(5)(vii) of the Companies (Accounts) Rules, 2014: The Director’s report should contain details in respect of adequacy of internal controls with reference to the financial reporting.

TO WHOM DOES THIS APPLY?
The guidance note clarifies that reporting on ICFR by auditors will be applicable to both listed and unlisted companies, including small and one person companies. This is in line with the requirements of Section 143(3)(i) of the Companies Act, 2013.

Furthermore, it states that auditors will have to report on ICFR in respect of both standalone and consolidated financial statements.