IFC & ICFR

AN OVERVIEW OF REPORTING REQUIREMENTS

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Introduction

This presentation is focused on the legal reporting requirements on IFC and ICFR in India.

It also talks about the date of reporting by auditors in India and touches upon international reporting requirements and its frequency under SOX.

Legal Requirements For Reporting On IFC and IFCR

Legal Provision	Reporting Requirement	To Be Reported In	To Be Reported By
Sec 143 (3)(i) of Companies Act, 2013 read with Guidance note issued by ICAI on Audit of IFC over Financial Reporting Part A (I)	Adequacy and operating effectiveness of internal controls over financial reporting (ICFR)	Auditors Report	All companies
Sec 134(5)(e) of Companies Act, 2013	Details in respect of adequacy of internal controls with reference to financial statements (ICFR)	Boards Report	All companies
Rule 8(5)(viii) of Companies (Accounts) Rules, 2014	Directors have laid down IFC for the company to follow	Directors responsibility statement	Listed Companies
	IFC are adequate and operating effectively		
Clause 49 of Listing Agreement	Acceptance of responsibility by CEO / CFO to establish and maintain ICFR, evaluate effectiveness of ICFR. Disclosure to auditors and audit committee known deficiencies in design and operating effectiveness of ICFR and steps taken to remediate those.	Certification by CEO / CFO	Listed Companies

Specified Date for Reporting By Auditor

- Auditor should report on adequacy and operating effectiveness of ICFR as at balance sheet date
- Controls throughout the reporting period to be tested and not just controls as at the balance sheet date
- If any errors observed during testing of transactions during the reporting period but was corrected by management as at balance sheet date, auditor is not required to report it.
- Reporting not applicable to interim financial statements

IFC and ICFR – International Requirements

- Section 302 of SOX Act requires principal officers to certify annual and quarterly filings with SEC and to sign off on the validity and accuracy of information contained in their financial statements and to certify the controls and procedures behind their financial reports
- Section 404 of SOX Act requires organizations to ensure that the audit process behind their financial reporting is comprehensive and accurate. Also, it requires them to meet strict quarterly reporting timelines on an ongoing basis.
- J-SOX (Financial Instruments and Exchange Act was passed by national legislature of Japan in 2006 for reporting on ICFR

Integrated Reporting By Auditors On FS and ICFR

- Objective of audit of FS and audit of ICFR are not same.
- Auditor should design his testing of controls in such a manner to achieve the objectives of both in a integrated manner.
- Also, reporting responsibility on ICFR in audit of CFS is limited to components included in the CFS only

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