

CONCEPT PAPER ON DIRECTORS' RESPONSIBILITY REGARDING INTERNAL FINANCIAL CONTROL

As per Section 134 of the Companies Act, 2013, requires a Company to attach with the Financial Statement laid before a company in general meeting, a report by its Board of Directors, which shall include Directors' Responsibility Statement;

The Directors' Responsibility Statement referred to in clause (c) of sub-section (3) shall state that –

(a) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

(b) the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;

(c) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the

provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

(d) the directors had prepared the annual accounts on a going concern basis; and

(e) the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

The Companies Act, 2013 defines “internal financial controls” as the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information;

(f) the directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

In view of the above, it can be said that Directors of a Company should formulate a sound methodology and formal process so as

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.

A company's internal financial control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements

Further to this major Components of IFC can Internal Control of Financial Reporting, Anti-Fraud Controls and Operational Controls.

Hope the above clarifies your query regarding Directors' Responsibility as per statutory guidelines with respect to Internal Financial Control of a Bank.

We shall be happy to assist you further in this regard.

Thanks & Regards,

Anang Shandilya
FCS, LL.B., MBA, CAIIB, IP
Advocate & Insolvency Professional
+91 9711914380