

The Companies Act 2013 has introduced some new requirements relating to audits and reporting by the statutory auditors of companies. One of these requirements is given under Sec 143(3)(i) of the Act which requires the statutory auditor to state in his audit report whether the company has adequate internal financial control system in place and the operating effectiveness of such controls. This is applicable from 01/04/2015 and hence will be applicable for FY 2015-16.

The auditor's objective in an audit of internal financial controls over financial reporting is to express an opinion on the effectiveness of the company's internal financial controls over financial reporting and the procedures in respect thereof are carried out in addition to the audit of financial statements.

Considering the above we as Statutory Auditors need to obtain reasonable assurance to state whether an adequate internal financial controls system was maintained and whether such internal financial controls system operated effectively in the company in all material respects with respect to financial reporting. Hence reporting on internal financial controls would constitute additional scope in addition to the audit and reporting on financial statements.

Note that Rule 8(5)(vii) of the Companies (Accounts) Rules 2014 also requires Board of Directors report of all companies to state the details in respect of adequacy of internal financial controls with reference to the financial statements.

The Institute of Chartered Accountants of India (ICAI) has issued a guidance note (available on ICAI's website) which provides guidance to Companies on their preparedness for such audit and also the audit methodology which would be adopted by the Auditor for such audit and expressing an opinion on the same.

Requirement: Company to have all the process and controls related to Financial Transactions to be documented which has to be tested by the Statutory Auditor and Statutory Auditors to give a separate report on the effectiveness of such controls.

This will be an additional certification to be issued by the Auditors over and above the report on the financial statements.