Internal Financial Controls (IFCs)

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Applicability of Internal Financial Controls (IFCs):

- MCA vide its notification dated 13th June 2017 [G.S.R. 583(E)] amended the notification of the Government of India, In the ministry of corporate of affair, vide no G.S.R. 464(E) dated 05th June 2015 providing **exemption from IFCs to following private companies:**

1. Which is one person Company (OPC) or a Small Company; or

2. Which has turnover less than Rs. 50 Crores as per latest audited financial statement and which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less then Rs. 25 Crore.

As per provisions of Section 143(3)(i) of Companies Act,2013 (hereinafter referred as CA 2013), The Auditor Report shall state whether the Company has adequate IFCs with reference to financial statements in place and the operating effectiveness of such controls.

Areas to be Managed for Effective Internal Financial Control:

- A. Control related to Financial Policies
- B. Financial Records and Documentation Control
- C. Inventory Management
- D. Supply chain management
- E. Human Resource Management
- F. IT Systems Related Control
- G. Critical Internal Control – Management Related
- H. Control related to Tangible assets
- I. General Control

A) Control related to Financial Policies :

1. Finance Policies :

- Principles of Accounting and financial controlling and Accounting policies.
- Planning, budgeting, and fund flow policies.
- Internal Control (e.g. segregation of duties, approval thresholds, expense reviews, expense reimbursement, internal audits).
- Invoices, Payments, and Recording.
- Treasury Management.
- Documentation (including document retention).
- Assets and Inventory Management.
- Sub Recipient Financial Management.
- Financial Reporting.

B) Financial Records and Documentation Control :

1. Documents like process flow charts, process narratives.
2. Adequate documentation of financial transactions and processes.
3. Reconciliations (to ensure balances match up across different systems, banks, suppliers, beneficiaries, etc.)
4. Performance reviews and audits.
5. Establish regular reporting and follow-up on aging accounts.
6. Authorization for payment of the invoice after adhering to the terms and conditions of the POs / WOs.
7. Reconciliation with bank statement for receipts side should be done daily.
8. Cash balance should be counter checked by supervisory officer on a daily basis.
9. Systematic review of GL for Revenue, Expenses, Assets and Liabilities should in place.
10. Accounting and Finance Manual.

C) Inventory Management Control :

1. Inventory (holding as per benchmarks, identification of slow non-moving stocks).
2. Storage areas for inventories shall be properly secured with proper security arrangements. It shall be regularly reviewed for improvements.
3. Inventories shall be properly organised and stored for smooth access for both verification & delivery.
4. Physical verification of inventory is to be carried out for all classes of items (i.e. ABC) for the pre-set time schedule for each category.
5. Adequate insurance cover should be in place for all types of risks for inventories.
6. Establish systematic review process for initiation of insurance claims for damaged inventories during storage or transit.
7. Periodical review of obsolete, non-moving inventories to design a plan for periodical disposal.

D) Supply Chain Management Related Control :

1. Procurement (agreement with vendors, supply planning process, vendor evaluation and masters).
2. Sales (sales scheme analysis, order tracked and monitored).

E) Human Resource Management Related Control :

1. Staff safety and security.
2. HR management policies that ensure legal compliance.

F) IT Systems Related Control :

1. Work through of IT Systems (includes billing system, ERP, back-up process, access controls).

G) Critical Internal Control – Management Related Control :

1. Segregation of duties to prevent fraud and errors.
2. Appropriate authorization and approval processes for financial transactions.
3. Compliance with applicable laws and regulations.
4. Sub-Contract Management Guidelines.
5. Administrative Policies and Procedures.
6. Procurement management policies.

G) Critical Internal Control – Management Related Control :

7. Contract/Agreement management policies (including sub-contracts and sub agreements).
8. Whistleblower policy with the option of an anonymous complaint tracking system.
9. Fundraising policy.
10. Receivables Management.
11. Risk management policy, including fraud management.
12. Adequate insurance cover for all risks associated with cash is mandatory.
13. Remittance of statutory liability & filing of prescribed returns on or before due date is the primary responsibility of the concerned accounts head.

G) Critical Internal Control – Management Related Control :

14. Tax ledgers and control accounts are to be reconciled before remittance of taxes, duties based on the applicable laws and regulations.
15. All signatories to any statutory remittances or return or appeal or application or correspondence in whatever manner shall have appropriate authorisation in writing including for digital signatory.
16. Develop a monitoring & reporting system for ensuring compliance of all statutory obligation mapped to its time schedule.
17. Develop a monitoring & reporting system for systematic review of all disputes in appeals before quasi-judicial, judicial fora relating to all statutory compliance or obligations.

G) Critical Internal Control – Management Related Control :

18. Public relations policies.

19. Ethics Policies :

- Conflict of interest
- Related party transactions
- Fraud and corruption, anti-bribery, anti-money laundering
- Confidentiality and use of information
- Nepotism
- Safeguarding

H) Control related to Tangible assets :

1. Physical controls to safeguard assets and prevent theft.
2. Physical controls (i.e. equipment, inventories, cash, and other assets are secured physically).
3. Maintain an asset register with all relevant details of each asset.
4. Asset counts (e.g. hand-counting cash and taking inventories of equipment to give extra reassurance and ensure there are no discrepancies).
5. Take out appropriate insurance cover for all types of assets to cover relevant perils associated to it.

I) General Control :

1. Establish physical security protection measures such as locks on premises.
2. Establish security / surveillance cameras for enhancing protection measures for large area where movements of men and machines are there.
3. Walkthrough of Stores.

THANK YOU

In case of any query please feel free to contact us.

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