

**COMPANY LAW UPDATE**

**Note on Applicability of  
Internal Financial Controls  
(IFCs)**



**Note on Applicability of Internal Financial Controls (IFCs)**  
**(Legal Status as at 25<sup>th</sup> February 2023)**

**Internal Financial Controls (IFCs)– Applicability on Private Limited Companies**

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.

MCA vide its notification dated 13<sup>th</sup> 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 05<sup>th</sup> June 2015 providing exemption from IFCs to following private companies:

- i. Which is one person Company (OPC) or a Small Company; or
- ii. 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.

\*MCA vide Notification No 2218(E) dated 13th july 2017 clarified that for the words “statement or” to be read as “statement and” in Notification No G.S.R. 583(E).

The above exemption shall be applicable to a private company which has not committed a default in filing its financial statements under section 137 of the CA 2013 or annual return under section 92 of CA 2013 with the Registrar.

**Analysis**

Based on above legal position, in case of

- OPC, or
- Small Companies or
- Private companies with turnover less than INR 50 Crore and aggregate borrowings (FIs, Banks & Body Corporate) less than INR 25 Crore at any point of time during the financial year

The auditor is not required to report about the IFCs with reference to financial statements in place. However, the exemptions available to Private Company under section 143(3)(i) would be available only if private company has not committed a default in filing its financial statements under section 137 of the CA 2013 or annual return under section 92 of the CA 2013 with the Registrar.

**Note 1** One-person company means a company which has only one person as a member.

**Note 2** Small Companies means

- a. paid-up share capital of which does not exceed four crore rupees; and
- b. turnover of which as per profit and loss account for the immediately preceding financial year does not exceed forty crore rupees:  
Provided that nothing in this clause shall apply to—
  - (A) a holding company or a subsidiary company;
  - (B) a company registered under section 8; or
  - (C) a company or body corporate governed by any special Act;

**Scenarios**

<b><u>Type of Reporting for Private Companies</u></b>	<b><u>Turnover (INR)</u></b>	<b><u>Borrowings (INR)</u></b>
IFCs Reporting Required	<b>≥50 Cr</b>	<b>≥25Cr</b>
IFCs Reporting Required	<b>≤50Cr</b>	<b>≥25Cr</b>
IFCs Reporting Required	<b>≥50 Cr</b>	<b>≤25Cr</b>
IFCs Reporting not required	<b>≤50Cr</b>	<b>≤25Cr</b>
IFCs Reporting not required	<b>One Person Company</b>	
IFCs Reporting not required	<b>Small Company</b>	

**Practical Issues**

1. As per exemptions as mentioned above, some private companies are not required to report on IFCs. Do we need to consider the same while reporting under consolidated financial statement?
2. What is the meaning of committed default and at what point of time default need to be seen? If default is made good then whether exemption is available prospectively or retrospectively from the date when the default started.

**MCA Notification/Clarification**

<http://www.mca.gov.in/Ministry/pdf/ExemptionPrivateCompanies.pdf>

[http://www.mca.gov.in/Ministry/pdf/NotificationxEmptionPrivateCompany\\_14072017.pdf](http://www.mca.gov.in/Ministry/pdf/NotificationxEmptionPrivateCompany_14072017.pdf)

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