

Manual on Internal Audit

DISCLAIMER :

The views expressed in the Manual on Internal Audit are those of the author(s). The Institute of Chartered Accountants of India may not necessarily subscribe to the views of the author(s).



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

The year 2008-09 has been a very active year for the Internal Audit Standards Board. The year has seen the Board issuing a number of Standards on Internal Audit as well as other technical literature such as generic and industry specific technical guides. I am happy to note that the Board is bringing out this Manual on Internal Audit.

This is first of its kind of Manual on internal audit to be published by the Institute as it contains a step by step approach to conduct internal audit, right from appointment to reporting. The Manual has been developed by a team of experts in the field of internal audit and risk management and the fact is amply reflected in the fine balancing of conceptual *vis a vis* practical approach to internal audit in the Manual.

I appreciate that despite being a highly technical document, the Manual has been written in a very simple and lucid manner. Besides, the guidance contained herein being generic in nature, the Manual can be gainfully used by all the internal auditors across the cross section of industry type and size.

At this juncture, I wish to compliment all members of Internal Audit Standards Board, especially, the Chairman, CA. Abhijit Bandyopadhyay for having conceived the idea.

I am sure that this Manual, like other publications of the Board, would be warmly received and appreciated by the members and other interested readers.

January 16, 2009
New Delhi

Ved Jain
President, ICAI

Preface

Contemporary internal audit is a vast field with a number of facets to be understood and addressed. The Internal Audit Standards Board has been working relentlessly to bring out more and more quality literature for the guidance of the members. Till date the Board has brought out not only more than ten Standards on Internal Audit (SIAs) on various significant aspects of internal audit, it has published a number of widely appreciated generic as well as industry specific technical guides for the benefit of the members.

When the Board conceived the idea of having a Manual on Internal Audit, the basic objective behind the same was to bring out a comprehensive publication on internal audit, containing practical guidance on conducting an internal audit in a real life scenario. Accordingly, the Board roped in the services of an expert in the area of internal audit and risk management to prepare this Manual. The Manual, as you would see, is quite comprehensive, providing a step by step guidance on every aspect of internal audit. It is divided into four main parts. Part A deals with Internal Audit Engagement Management, Part B deals with Internal Audit Project Management, Part C deals with Close Outs and Part D deals with General Annexures. While each of the Parts is further divided into relevant sub topics, Part B contains, guidance on aspects such as overall planning, pre audit opening, detailed walk throughs, report, checklists, audit programmes, report compilation, exit meeting and report issuance.

The Manual contains a number of templates as well as checklists for ready reference and easy use of the readers. The Manual has therefore, a wider usage and appeal. I personally feel that the Manual has turned out to be the first of its kind one stop reference for the internal auditors to be issued by the Institute.

I wish to place on record my thanks for Shri Ved Jain, President, and Shri Uttam P Agarwal, Vice President, ICAI for their vision and unstinted support in the activities of the Internal Audit Standards Board. I also wish to express my sincere gratitude to all my colleagues from the Council at the Internal Audit Standards Board, viz., CA. Bhavna G. Doshi, Vice Chairperson, CA. Sunil H. Talati, CA. Mahesh P. Sarada, CA. Shanti Lal Daga, CA. K. P. Khandelwal, CA. Manoj Fadnis, CA. Anuj Goyal, CA. Amarjit Chopra, Shri Manoj K Sarkar, Shri K. P. Sasidharan, Dr. Pritam Singh and Shri O. P. Vaish for their vision and support. I also wish to place on records my gratitude for the co-opted members on the Board, viz., CA. Partha Sarathi De, CA. N. K. Aneja, CA. Charanjit S. Attra, CA. Nagesh D. Pinge as also special invitees on the Board, viz., CA. Harinderjit Singh (my Council colleague), CA. Deepak Wadhawan, CA. Manu Chadha, CA. Santosh Nair and CA. Amit Roy for their free and frank views, invaluable guidance as also their dedication and support to the various initiatives of the Board. I also wish to thanks to CA. K. Raghu (my Council colleague), for his support in bringing out the Manual. I also wish to express my thanks to CA. Puja Wadhwa, Secretary, Internal Audit Standards Board and her

team of officers, CA. Gurpreet Singh, Senior Executive Officer and CA. Arti Aggarwal, Executive Officer for their efforts in giving final shape to the Manual.

I am sure that the Manual would be warmly received by the interested readers and would be recounted as a landmark publication of the Institute.

January 19, 2009
Kolkata

Abhijit Bandyopadhyay
Chairman, Internal Audit Standards Board

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**Internal Audit Engagement
Management**

Initial Introduction Letter

Format No: A/1

Date: <DD MMM YYYY>,
<City>.

To

Mr./Mrs. <Name of the Client Representative>,
<Designation>,
<Name of the Company>,
<City>.

Dear Sir,

Sub: Introduction of Our Internal Audit Services

In continuation to your request, we are very happy to introduce XYZ & Co, one of a specialist in delivering you high value Internal Audit Services based at <City>. We are a team of XX Chartered Accountants, XX Information Systems Auditors, XX Internal Auditors.

Our methodology is adopted from global standards and ICAI standards and would be providing required value add. Some of the clients whom we have delivered the services are Client 1, Client 2, Client 3, Client 4 etc. to name a few.

Please also find attached a detailed profile¹ of our organization for your review. We look forward to hear from you in this regard.

Warm Regards,

For XYZ & Co.

XYZ,

Partner

2

3

¹ Attach your organization's profile to this letter. Please comb-bind the profile for presentation.

² The objective of this letter is just to introduce your organization subject to a request from the client.

³ The letter should be preferably signed by the Partner of the organization or an authorized representative. Keep an office copy of this letter. A file viz., "Initial Introduction Letters" may be opened to track all the letters.

Proposal for Internal Audit Services¹

Format No: A/2

Overview:

<Write a brief overview about the company you are giving a proposal>

<Write a brief overview about the Industry Segment to which the client belongs>

<Write briefly about the general challenges faced by the Industry>

<Write briefly about how Internal Audit can help eliminate them>

<Write briefly about your organization's capabilities in providing Internal Audit Services>

<Write briefly about the contents of this proposal>

Scope and Objective:

The objectives for the internal audit are as under:

- Evaluate the business processes to ensure that they are aligned to the business objectives.
- Evaluate the compliance to both the internal policies and procedures of the company and external regulations to the extent applicable to the following key processes.
- Evaluate the effectiveness and efficiency of the identified processes and related internal controls.
- Evaluate the accuracy of accounting information systems supporting the process.
- Evaluate progressively the risks relating to the business management covering information technology and general process

Scope of work / Areas to be covered as part of Internal Audit:

The scope shall be covering the transactions for the period <Month, Year> to <Month, Year>

Management Process

- Process 1²
- Process 2

Marketing

- Process 1
- Process 2

¹ Proposal may be printed on the letter head of the organization or a simple A4 Size Sheet.

² You may also add a list of risks that shall be looked into in the process.

Contract/Project Management

- Process 1
- Process 2

Client Relationship Management

- Process 1
- Process 2

HR Process

- Process 1
- Process 2

Finance and Accounts

- Process 1
- Process 2

Administration and Logistics

- Process 1
- Process 2

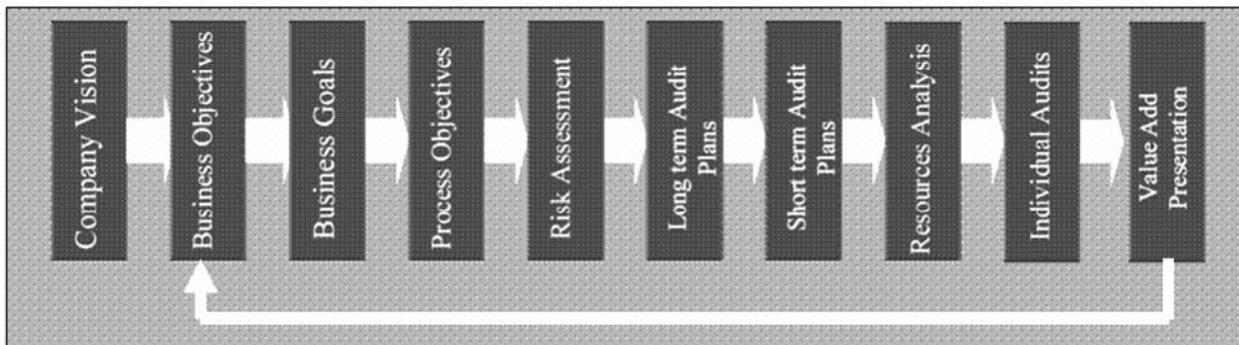
Information Technology

- Process 1
- Process 2

The depth and sample size under the above business processes will be decided based on Risk assessment, where incase the Risk level is high, the area shall be analyzed in depth and the sample size shall also accordingly increase. The coverage shall be based on significant risks identified in the area of concentration. The methodology adopted for internal audit deliveries is separately given in this proposal.

Methodology and Deliverables³

We have structured methodology starts from mapping the corporate vision to audit deliveries and value-add. The following chart displays the steps generally followed by us in an Internal Audit Outsourcing Service.



³ Each firm may have its own methodology / format of deliverables. This is model only.

Manual on Internal Audit

The following are the benefits for the organization from outsourcing:

- Global best methodology for handling Internal Audits
- Relevant business / process / internal audit expertise and access to best practices
- Structured deliveries with performance indicators and terms of delivery
- Saving costs and efforts for the organization and help management concentrate on core competency

Our strong methodology also includes taking the input of the top management, process management and audit management to design a solution that means value addition. Our deliverable will give a road map to make the necessary process improvements that gives a big seat for practicality of implementation of recommendations.

Pre Audit Opening

- General Process Understanding
- Data Analysis and Summary Preparation
- Planning of Audit

Detailed Walk Through

- Detailed Walk Through
- Documentation of Walk Through Results

Risks, Checklists, Audit Programme

- Listing of Risks and Audit Programme (Checklists)
- Generation of Exceptions through Analytics
- Planning of Audit Programme Delivery
- Execution of Audit Programme
- Compilation of Observations and Draft Reporting
- Quality Check of adequacy of Evidences and Work Paper Linking
- Supervisory Review and Confirmation

Report Compilation

- Preparation of Audit Report
- Circulation of the Draft Report for Management Comments
- Collection of Management Comments

Exit Meeting

- Fixing of the Meeting Time
- Presentation and Action Plan Preparation
- Updation of the Action Plan into the Draft Report

Report Issue

- Final Official Report Issue as per Standards on Internal Audit (SIAs) Issued by the ICAI
- Audit Committee Presentation (Where Applicable)
- Audit Feedback Collection

Each Audit Report shall contain the following information:⁴

- Executive summary
- High, Medium, Low Risk Areas classified separately
- Detailed audit observations, covering Risks, Impact, Recommendations, Auditee Comments, Annexures of evidences
- Audit Implementation Action Plans with time lines and responsibility shall be updated after management discussion.
- Presentation to management and Audit Committee

The Audit shall be conducted as per the Standard on Internal Audit (SIA) 4 for Reporting released by ICAI.

Team, Schedule and Professional Fees:

Based on the Information provided to us with regard to the infrastructure and statistics, we estimate the following:

SI No	Particulars / Name of the Resource⁵	No of man days / man months	Qualifications
1	Partner		
2	Senior Manager		
3	Senior Associates / Consultants		
4	Associates / Consultants		
5	Junior Associates / Consultants		
	Total Time		

Taking the above deployments into account, the fee for the assignment is estimated as Rs. XXXXXXX/- excluding applicable service taxes. Incase there is any travel incidental to the delivery of the project we shall adhere to internal policies and shall be reimbursed on actual.⁶

⁴ Incase you would like to expand the deliverables, it can be done. Sometimes clients would like to know what is the format of deliverable, in such cases, an annexure may be added.

⁵ A detailed resource list may be given where necessary.

⁶ It is always good practice to add commentary about service tax and out of pocket expenses (OPEs) applicability / inclusion.

Resources Required

- An audit room will be set up having the sufficient no. of Table and chairs along with White board for meeting and discussion.
- Access to all the data, record, employees required for the effective performance of internal audit.
- Computers with access to company ERP, email and other systems with printing facility with adequate stationary.

Project Coordination:

We understand the importance of a project coordinator over the period of the assignment. The team shall be interacting with the process owners through the project coordinator.

About XYZ & Co

<Write about your organization, history, locations, its team members, no of man years of experience totally, specific points about your organization's capabilities etc.,>

<Write a list of services your firm offers apart from internal audits>

<Give a list of clients and work experiences where applicable>⁷

8

⁷ Logos of clients may be given, whereas prior permission of clients may be necessary.

⁸ Some firms also add confidentiality clause / non-compete clause in the proposal itself.

Engagement Letter

Format No: A/3

<on the letter head>

Date: <DD MMM YYYY>,

<City>.

To

Mr./Mrs. <Name of the Client Representative>,

<Designation>,

<Name of the Company>,

<City>.

Dear Sir,

Sub: Internal Audit Engagement Letter

With regards to the discussions we had on DD/MM/YYYY and in continuation with the proposal given on DD/MM/YYYY, please find the Engagement Letter for the Internal Audit Assignment with the following Scope, Objective and Timelines:

Scope and Objective:¹

The objectives for the internal audit are as under:

- Evaluate the business processes to ensure that they are aligned to the business objectives.
- Evaluate the compliance to both the internal policies and procedures of the company and external regulations to the extent applicable to the following key processes.
- Evaluate the effectiveness and efficiency of the identified processes and related internal controls.
- Evaluate the accuracy of accounting information systems supporting the process.
- Evaluate progressively the risks relating to the business management covering information technology and general process

¹ Specific objectives of client may be elaborated here.

Scope of work / Areas to be covered as part of Internal Audit:

The scope shall be covering the transactions for the period <Month, Year> to <Month, Year>

Management Process

- Process 1
- Process 2

Marketing

- Process 1
- Process 2

Contract/Project Management

- Process 1
- Process 2

Client Relationship Management

- Process 1
- Process 2

HR Process

- Process 1
- Process 2

Finance and Accounts

- Process 1
- Process 2

Administration and Logistics

- Process 1
- Process 2

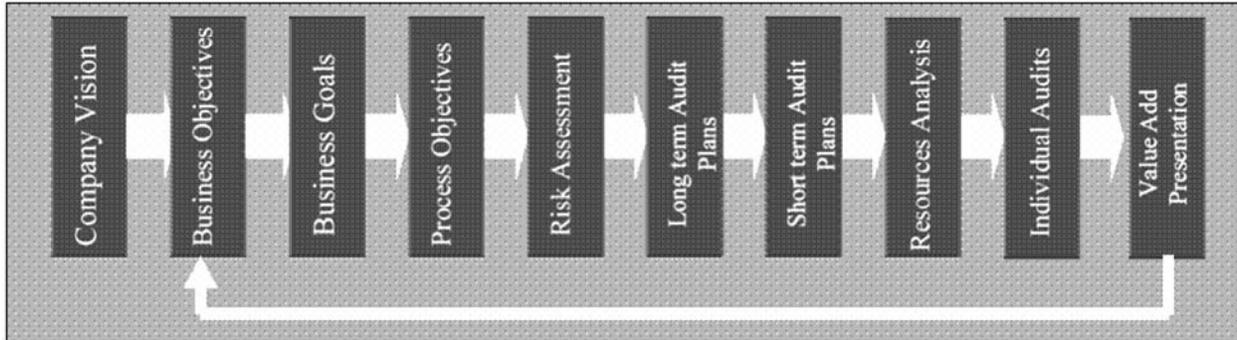
Information Technology

- Process 1
- Process 2

The depth and sample size under the above business processes will be decided based on Risk assessment, where incase the Risk level is high, the area shall be analyzed in depth and the sample size shall also accordingly increase. The coverage shall be based on significant risks identified in the area of concentration. The methodology adopted for internal audit deliveries is separately given in this proposal.

Methodology and Deliverables²

We have structured methodology starts from mapping the corporate vision to audit deliveries and value-add. The following chart displays the steps generally followed by us in an Internal Audit Outsourcing Service.



The following are the benefits for the organization from outsourcing:

- Global best methodology for handling Internal Audits
- Relevant business / process / internal audit expertise and access to best practices
- Structured deliveries with performance indicators and terms of delivery
- Saving costs and efforts for the organization and help management concentrate on core competency

Our strong methodology also includes taking the input of the top management, process management and audit management to design a solution that means value addition. Our deliverable will give a road map to make the necessary process improvements that gives a big seat for practicality of implementation of recommendations.

Pre Audit Opening

- General Process Understanding
- Data Analysis and Summary Preparation
- Planning of Audit

Detailed Walk Through

- Detailed Walk Through
- Documentation of Walk Through Results

Risks, Checklists, Audit Programme

- Listing of Risks and Audit Programme (Checklists)
- Generation of Exceptions through Analytics
- Planning of Audit Programme Delivery
- Execution of Audit Programme

² Some clients may not want a detailed methodology to be given in the engagement letter.

Manual on Internal Audit

- Compilation of Observations and Draft Reporting
- Quality Check of adequacy of Evidences and Work Paper Linking
- Supervisory Review and Confirmation

Report Compilation

- Preparation of Audit Report
- Circulation of the Draft Report for Management Comments
- Collection of Management Comments

Exit Meeting

- Fixing of the Meeting Time
- Presentation and Action Plan Preparation
- Updation of the Action Plan into the Draft Report

Report Issue

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- Audit Feedback Collection

Each Audit Report shall contain the following information:

- Executive summary
- High, Medium, Low Risk Areas classified separately
- Detailed audit observations, covering Risks, Impact, Recommendations, Auditee Comments, Annexures of evidences
- Audit Implementation Action Plans with time lines and responsibility shall be updated after management discussion.
- Presentation to management and Audit Committee

Team, Schedule and Professional Fees:

Based on the Information provided to us with regard to the infrastructure and statistics, we estimate the following:

SI No	Particulars / Name of the Resource	No of man days / man months	Qualifications
1	Partner		
2	Senior Manager		
3	Senior Associates / Consultants		
4	Associates / Consultants		
5	Junior Associates / Consultants		
	Total Time		

³Taking the above deployments into account, the fee for the assignment is estimated as Rs. XXXXXXX/- excluding applicable service taxes. Incase there is any travel incidental to the delivery of the project we shall adhere to internal policies and shall be reimbursed on actual.

Resources Required

- An audit room will be set up having the sufficient no. of Table and chairs along with White board for meeting and discussion.
- Access to all the data, record, employees required for the effective performance of internal audit.
- Computers with access to company ERP, email and other systems with printing facility with adequate stationary.

Project Coordination:

We understand the importance of a project coordinator over the period of the assignment. The team shall be interacting with the process owners through the project coordinator. It is the duty of the Project Coordinator to organize the information and time of the process owners. Any delay due to coordinator or process owner shall not be the responsibility of the Internal Audit Service Provider.

Confidentiality Clause:

We shall maintain confidential all the information collected as part of the engagement and shall not disclose them unless until necessary as per the regulations of the land of assignment. Incase of need to disclose the information, we shall take the permission of the client coordinator before disclosing.

Termination Clause:

The assignment can be terminated by either parties by giving a notice in advance of atleast 1 month. Thereafter the information / documentation collected shall be returned back to the client.

⁴Incuse of negligence, quality standards compromise, and willful default, the client shall have the right to be indemnified for all the costs till the date of termination.

³ Some clients may be interested to add a detailed Gantt chart of the project.

⁴ Some clients may also be interested to add a Quality Assurance Clause.

Signing of the Contract:

For XYZ & Co.,⁵

XYZ,

Partner

On behalf of Client

For <Name of the Client>

<Name of the Authorized Representative>

<Designation>

⁵ Please ensure that the seal is put on the Contract. The engagement letter shall be made in two copies, one for each party.

Scope and Objective Statement

Format No: A/4

Assignment Name	Assignment No
	Engagement Manager
Company Name	

Objective of the Assignment¹

- a.
- b.
- c.
- d.

Scope of the Assignment²

- a.
 - b.
 - c.
 - d.
- 3

¹ Please define in as much detail as possible the objectives for which the assignment is being handled. Objective is the element, one is trying to achieve at the end of the project. It is very important that the objectives are defined as clearly as possible to eliminate ambiguity.

² Define the areas of coverage, it may be in period / departments / divisions / business processes / locations / units etc., The scope should be linked to objectives.

³ It is recommended to do as much brainstorming as possible to define this document at the planning stage.

Organization Background

Format No: A/5

Assignment Name	Assignment No
	Engagement Manager
Company Name	

General Business Understanding

Overview of Business

Overview of Industry Segment¹

Specific Risks faced by Industry Segment

¹ Use Internet search engines, industry publications, websites, research reports.

Important Statistics (Financial, Manpower etc.) Collected²

Organization Structure and Decision Hierarchy³

Business Goals, Objectives

Description about the Business Systems, IT Infrastructure⁴

² Obtain important performance statistics which shall help understand organization's current state of affairs.

³ Please give annexure where necessary. You may use MS-Visio or MS-Excel to prepare organization structures.

⁴ Detail about the systems and procedures currently in place. Also capture the level of standardization in the organization ie. Existence of Standard Operating Procedures, Policies etc.,

Industry Research

Format No: A/6

Assignment Name	Assignment No
	Engagement Manager
Company Name	

The objective of this document is to identify the industry practices / competitor practices so as to enable the organization under to benchmark itself.¹

List of Competitors and availability of Information with regards to financials, processes etc.

List of Best Practices Adopted by Industry

Sl No	Area / Best Practice	Source	Name of the Company

¹ The strength of this document projects you as an industry resource to the clients.

Key Performance Indicators of Various Business Processes in Industry

SI No	Performance Indicator	Business / Business Process	Source	Name of the Company

Names of Industry Publications, Associations, Websites, Industry Consultants, Specialists

List of Files and Contents

Format No: A/7

Assignment Name		Assignment No
		Engagement Manager
Company Name		

SI No	Contents of the Files
A	<i>Name of the File: Client Master File (Project wise divider)</i>
1	Proposal Copy
2	Engagement Letter, Purchase Order, Service Order, Appointment Order
3	Client Strategic Communications
4	Invoices, Cheque Receipts, OPE Claims
5	Any other relevant information
B	<i>Name of the File: Assignment File (Phase of Assignment wise divider)¹</i>
1	Scope, Objective Document
2	Organization Background
3	Industry Research
4	Minutes of Various Meetings
5	Work Papers
6	Risks Listing and Audit Programme with completed work papers
7	Draft Audit Report
8	Management Exit Meet Minutes
9	Final Report and Presentation ²
10	Implementation Status Updates
11	Quality Audit Checklist
12	Documents Collected from the Client for Audit purposes ³
13	Feedback Form
14	Overall Closure Checklist

¹ Open multiple files if one file is not adequate.

² It is a good practice to show links between the observations in the final report to the work papers evidencing them.

³ If the data collected is in bulk form, it may be written on a CD and filed.

**Internal Audit Project
Management**

Overall Planning

Format No: B/1

Assignment Name		Assignment No
		Engagement Manager
Company Name		

Team Identification for the Engagement:

Sl.no	Type of Competency Required	Period for Which Required	Name of Person Selected

Project Costing:

Sl.no	Expenditure type	Planned
1	Man month Costing	
2	Other Direct Costing	
3	Administrative Costs	
	Total	
	Amount Billed	
	Profitability	
	% age of Profitability	

Detailed Planning

Sl. No	Form Name	Planned Date	Auditor
1	Opening Meeting		
2	Scope and Objective of the Assignment		
3	Assignment Scheduling		

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Sl. No	Form Name	Planned Date	Auditor
4	Planning		
4.1	General Process Understanding		
4.2	Data Analysis		
4.3	Walk Through		
4.4	Documentation of Walk Through		
4.6	Risks and Audit Programme Generation		
4.7	Field Work Scheduling		
5	Field Work		
5.1	Field Work Execution		
5.2	Draft Report Generation and Circulation		
6	Exit Meeting		
6.1	Draft Report with management comments		
7	Final Report Issue		
7.1	Structured Reporting		
7.2	Presentation of Finding		
8	Follow up and Implementation		
8.1	Follow Up Check list		
9	General Administrative Closures		
9.1	Invoice Generation		
9.2	Out of Pocket Expenses Collection		
9.4	Client Feedback		
9.5	Opportunity for future Businesses		
9.6	Knowledge Base Updation		
10	Quality Audit		
10.1	Quality Review Report and Action Statement		
10.2	File Closure		

Any Other Remarks

Manager

Partner

Pre – Audit Opening

2.1 Opening Meeting Control Statement

Format No: B/2.1

Assignment Name		Assignment No
		Engagement Manager
Company Name		

Date of Meeting		Department	
Participants from Auditees		Participants from Internal Audit Team	
Name	Designation	Name	Designation

SI No	Steps of Opening Meet	Handled by	Documentation
1	Introduce the Internal Audit members to the Auditees and explain about the objectives and methodology of the Audit		
2	Explain about the time schedule of the project and the names of persons from the Auditee end to coordinate		
3	Understand specific objectives of the Auditees and the business goals etc.,		
4	Understand the specific performance indicators used to measure in the area under Audit		
5	Get a general understanding of the business process, ERP etc.		
6	Collect various operating procedures, policies		
7	(Reffer footnote)		

Any further specific questions may be raised apart from generic. Whereas, the objective of the meet is to give a very high level understanding on the audit.

2.2 General Process Understanding

Format No: B/2.2

Assignment Name		Assignment No
		Engagement Manager
Company Name		

Name of the Process¹			Major Process Name		
Process Owner			Division	Location	
Date of Process Analysis		No of Employees		System	<i>ERP / Manual</i>
Process Objectives			Process – Performance Measures		
Process Map²					

¹ Document only the most important processes which relate to our audit objectives.

² Process Maps can also be done using MS-Visio, Excel. Whereas, MS-Word may be most frequently used tool.



Type of Boxes for Process Mapping³⁴

Process /
Activity /
Action Box

Decision
Box

Filing,
Document,
Form etc.,

Process
Gap
Indicator

³ We recommend basic flow charting techniques for process flow. You may also use advanced techniques where necessary.

⁴ Process flow should be signed off with the process owners.

Detailed Walk Throughs

3.1 Selection of Samples¹

Format No: B/3.1

Assignment Name		Assignment No
		Engagement Manager
Company Name		

Mechanism for Selection of Sample:

SI No	Area of Verification	Type of Sampling Technique to be used
1	To verify a process of very high concern with significant materiality and impact on the bottom line of the organization	100% Verification
2	To verify a process in an ERP for the purpose of controls built inside the system (Automated Controls)	1 Sample
3	To verify a process not inside the ERP involving verification of a manual control and the objective is to get confidence on the entire population	Random Sampling ²
4	To verify a process and understand the controls are working adequately only incase of significant value transactions	Random Sampling of transactions above threshold limit
5	To verify the controls in a specific attribute of transactions viz., of an individual, location, unit, time zone etc.,	Random Sampling of transaction satisfying the attribute

Samples Selected and Result Documentation

SI No	Process to be verified and Objective to be achieved	Type of Sampling Adopted	No of Samples Selected ³	Result of Verification ⁴	Conclusions

¹ Incase of usage of an Audit Tool viz., ACL, IDEA generally 100% transactions can be verified for exceptions study.

² Seed technique may be used for random sample pick up. All the transactions should have equal probability of being picked up. Random number generator may be used for selection to avoid bias.

³ Attach a list of samples selected and the result of verification as an annexure.

⁴ Incase of high critical observations to be made, and the result is negative, you may confirm the conclusion by picking up further more sample.

3.3 Documentation of Walk Through⁷

Format No: B/3.3

Assignment Name		Assignment No
		Engagement Manager
Company Name		

Process 1:⁸

SI No	Sub Process	Area	Comments	Form / Format
		Objective		
		Critical Control Description		
		ERP / Application Used		
		Maker		
		Authorizer		
		Report Generated		
		Input		
		Output		
		Operating Procedures		
		Policies		
		Objective		
		Critical Control Description		
		ERP / Application Used		
		Maker		
		Authorizer		
		Report Generated		
		Input		
		Output		
		Operating Procedures		
		Policies		

⁷ It is not mandatory to document the processes always in the format given above, whereas once documented, it increases the clarity of the auditor on the business process and hence mistakes at the time of report are significantly reduced.

⁸ Process – Sub Process can be as detailed as possible till it identifies an auditable area with clarity.

Detailed Work Throughs

SI No	Sub Process	Area	Comments	Form / Format
		Objective		
		Critical Control Description		
		ERP / Application Used		
		Maker		
		Authorizer		
		Report Generated		
		Input		
		Output		
		Operating Procedures		
		Policies		

Process 2:

SI No	Sub Process	Area	Comments	Form / Format
		Objective		
		Critical Control Description		
		ERP / Application Used		
		Maker		
		Authorizer		
		Report Generated		
		Input		
		Output		
		Operating Procedures		
		Policies		
		Objective		
		Critical Control Description		
		ERP / Application Used		
		Maker		
		Authorizer		
		Report Generated		
		Input		

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		Output		
		Operating Procedures		
		Policies		
		Objective		
		Critical Control Description		
		ERP / Application Used		
		Maker		
		Authorizer		
		Report Generated		
		Input		
		Output		
		Operating Procedures		
		Policies		

Risks, Checklists, Audit Programme

4.1 Listing of Risks and Audit Programme (Checklists)

Format No: B/4.1.1

Assignment Name	Assignment No
Company Name	Engagement Manager

4.1.1 Corporate Risks Review Checklist

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Leadership Risks						
Risk that the leadership of the firm does not have direction, customer focus, motivation to perform, credibility, trust and alignment of self objectives with organizational goals	a. Does the Company have a vision and mission statement b. Does the Company have long term goals broken into actionable short term goals c. What is the process adopted for communication of goals and objectives				a. Vision and Mission Statement	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
The risk that there is no clear succession plan, leading to uncertainty	<ul style="list-style-type: none"> a. Does the company have clear Organization Chart b. Are the positions adequately filled in c. Is there a succession plan with the management for key positions 				a. Organization Chart	
Operational Risks						
Possibility of frauds, illegal acts	<ul style="list-style-type: none"> a. Has the Company designed processes to ensure that there is no lapse of control leading to frauds b. Does the Management act on Statutory and Internal Audit Reports c. Is there a system for evaluating legal compliance issues 				a. Audit Committee action points	
The use of inappropriate controls/performance measures, leading to wrong conclusions and inferences about the performance of the	<ul style="list-style-type: none"> a. Is there a MIS system highlights the performances of the various department and functions b. Does the Management review the perform- 				a. MIS Reports received by Management	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
firm's operations	ances and take effective actions					
Risk of absence of budget or planning system leading to defocusing of corporate operations apart from lack of important control on spending	<ul style="list-style-type: none"> a. Is there a process of evolving annual budget in the organization b. Is budget converted into Operating plans c. Are budget vis-à-vis actions monitored and corrective actions taken on deviations 				<ul style="list-style-type: none"> a. Annual Plan b. Budget Operating Plans 	
Operational non clarity affecting performance	<ul style="list-style-type: none"> a. Does the Company have <ul style="list-style-type: none"> a. Standard Operating Procedure document for each processes b. Is the SOP implemented successfully c. Is there a review of SOP frequently for incorporating changes 				<ul style="list-style-type: none"> a. Standard Operating Procedures Manual 	
Communication Risks						
Inability of the company to capture and institutionalize learning across the firm	<ul style="list-style-type: none"> a. Are training programs held in the organization for transferring knowledge 				<ul style="list-style-type: none"> a. List of training programs and feedback given 	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
	<ul style="list-style-type: none"> b. Does the company have a knowledge base 					
The risk that communication from top management gets lost in transition	<ul style="list-style-type: none"> a. Capture the process of movement of memos/circulars and evaluate if the process is adequate 					
HR Risks						
Appraisal processes for the employees not linked with the company's objective	<ul style="list-style-type: none"> a. Are Key Performance Indicators designed for each function and each person in the organization b. Are the expectations communicated to the employee 				a. Key Performance Indicators	
Inadequate skill set and knowledge with firm's key people	<ul style="list-style-type: none"> a. Check the process of recruitment for key positions b. Are the requirements of the positions well defined 					
Marketing Risks						
Risk of customer dissatisfaction	<ul style="list-style-type: none"> a. Has the Management taken conscious efforts for quality improvement 				a. Quality documents	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
	b. Has the company implemented quality standards such as Six Sigma or ISO for maintaining quality and thereby customer satisfaction					
Possibility of product getting obsolete or not meeting the budget requirements	a. Does the company invest in Research and Development, Product design etc b. Are efforts taken for exploration of new products c. Are new markets explored for adequate product and market spread					
Possibility of business cycles, whether in own business or in economy in general, creating volatile growth/profitability situation	a. Has the company done a risk assessment exercise to identify key areas of risk b. Does the company have a adequate business continuity and disaster recovery plans				a. Business Continuity Disaster Recovery Plan	

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Risk from choosing partners, inadequate commitment, poor execution	a. Is adequate evaluation done prior to entering into contracts, joint ventures etc b. Are Service Level Agreement drawn for engagements and reviewed					

Assignment Name	Assignment No
Company Name	Engagement Manager

4.1.2 Finance and Accounts Risks Review Checklist

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Receivables Accounting and Management Process							
Ineffective process of invoice generation	Check the following in invoices: a. Are the invoices serially controlled and verify if there are any duplicate, cancelled invoices and ascertain the reasons for the same ¹ b. Check if the calculation of discounts, rebates, prices etc are accurate by verifying it against the terms and conditions	Invoices not booked accurately and completely resulting in revenue loss for the company. Calculate the amount to be invoiced against the amount invoiced and check with receipts to identify the quantum of revenue loss				1. Invoices Register/List 2. Supporting documents such as terms and conditions 3. Payment Register 4. Credit Notes 5. Debtor Reconciliation and confirmation documents 6. Bad Debts written off	

¹ Analysis of Invoice can be done using CAAT tools

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
	Calculate the delays in generation and posting / dispatching of invoices with reasons as well as ageing analysis	Delays in invoicing resulting in delays in receipts and funds blockage. Calculate the average number of days of delay and the cash flow loss due to non receipt of funds on time					
Inadequate receivables management	Check if credit notes are posted accurately and are authorized by the designated personnel	Credit notes not accurately posted resulting in revenue leakage Calculate the revenue loss due to such credit notes					
	Generate receivables ageing report and ascertain reasons for long pending outstanding and check the procedure for follow up of outstandings	Delays in monitoring in receipts resulting in cash flow loss. Calculate the average number of days of delay and the cash flow loss due to non receipt of funds on time.					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
	Obtain the documentation relating to debtor reconciliation and verify if confirmations for the balances are obtained from the debtors	Misstatement of debtor balances in the final accounts. Reperform the reconciliation process to ensure accuracy of calculations.					
	Obtain the bad debts list and check if authorization is obtained for write off of bad debts. Check the procedure for resolution of unreconciled debts	Bad debts written off without sufficient justification resulting in financial loss.					
Payables Accounting and Management Process							
Inadequate Payment Process	Check the payments to ensure the following: a. Payments are supported by related Purchase Orders, Goods/Services Receipt note and approval from the user department for receipt of material/service	Mismatch between actual payment and payment to be made resulting in revenue leakages				a. Purchase Orders b. Payment Vouchers c. Payment Register d. Goods/Ser-vice delivery Notes	

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
	<p>b. Payment entry is made accurately and completely for all the GRN/Service notes</p> <p>c. Payment is made as per the terms and conditions entered into with the vendor</p>					<p>e. Agreement with the vendor</p>	
	<p>Calculate the delays in posting of payment entries with reasons as well as ageing analysis</p>	<p>Delay in payment results in unnecessary liability imposed as per the terms and agreements with the vendor</p> <p>Calculate the interest charged by the vendor for late payment</p>				<p>a. Creditors ageing analysis</p>	
	<p>Check if debit notes are posted accurately and are authorized by the designated personnel. Ensure that the rejections are authorized by designated personnel</p>	<p>Debit notes not supported by Purchase returns and documents replacement/adjustment not made accurately for the debit notes</p>				<p>a. Debit notes</p>	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
	<p>Verify the process of reconciliation of debit/credit notes and accounts payable</p> <p>Ensure that all dues are settled at the time of the full and final settlement and adequate follow up</p>	<p>Duplicate payments made without receipt of goods/service</p> <p>Delay in payment results in unnecessary liability imposed as per the terms and agreements with the vendor</p> <p>Calculate the interest charged by the vendor for late payment</p>				<p>a. Vendor reconciliation documents</p>	
General Financial Closure System							
Books of not a closed on a timely basis	<p>Check the procedure for closure of books and accounts and ensure that the closures are done on a timely basis. Check if the following are closed:</p> <p>a. Ledger Accounts b. P&L account c. Balance Sheet d. Cash Flow statement e. Debtors ageing</p>	<p>Delays in closure leading to non availability of financials for review and decision making.</p> <p>Ascertain delays in closure of books and ensure the reasons for the delay</p>				<p>a. Books of Account b. Ledger summaries c. Ageing reports d. Bank Reconciliation Statement e. Statutory remittances</p>	

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
	f. Creditors ageing g. Bank Reconciliation h. Statutory remittances						
	Perform a GL scrutiny to ascertain any irregularities in transactions posting and undertake a detailed review wherever discrepancies are identified Ensure that there are no unreconciled items on opening balances	Inaccurate updation of accounts resulting in misstatement in financials.				a. General Ledger	
	Study / review of the Notes to accounts appended for adequacy of disclosure and compliance with statutory laws						
	Compare balances with previous periods and preparation variance analysis report						

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
Inadequate provisioning	Check if the provisions made are accurate and subsequent accounting entries passed are correct. Check if the provisions are authorized as per the Delegation of Authority Matrix						
Fund and Cash Management²							
Inadequate budget system	Review the budget system and verify the following: a. Budget is prepared and authorized on an annual basis b. Expenditure incurred is verified with the budget and corrective actions are taken for deviations from the budget c. Revised budget if any is authorized as per Delegation of Authority Matrix	Inordinate deviations from the budget resulting in excess/short spending				a. Annual Budget b. Variance Analysis Report	

² Funds Management would also include review of Foreign Exchange gains/loss, technique of hedging etc depending upon the nature of the company.

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
Inadequate fund utilization	<p>Ensure if review of investments / bank balances, interest earned and identification of idle balances is being done .</p> <p>Compare interest paid on credit obtained from banks vis-à-vis idle balances if any; and credit cycle (credit obtained from suppliers).</p>	Inadequate funds management resulting in idle funds and notional loss on idle funds				<p>a. Investment details</p> <p>b. Bank details and bank statements</p> <p>c. Interest details</p>	
Inadequate control over physical cash/cheques	<p>Ensure if Physical verification of cash is done – Periodicity / timings and reconciliation of differences in balances if any.</p> <p>Review the system of Internal Controls on collection of cheques / cash received – recording and serial issue of cash / cheque received vouchers.</p>					<p>a. Cash Register</p> <p>b. Physical Cash</p> <p>a. Cheque books</p> <p>b. PDCs</p> <p>c. Cash Vouchers</p>	

Format No: B/4.1.3.

Assignment Name	Assignment No
Company Name	Engagement Manager

4.1.3 Human Resources Process Review Checklist

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
HR Planning Process							
HR Plan not meeting the objectives of the Company	a. Understand the process of HR planning to verify that adequate steps are taken to ensure that the candidate requirement projected is justifiable	Positions recruited not adequately justified resulting in increasing HR Costs. Check requirements which are not properly authorized.				a. Annual HR Plan	
	b. Compare actual vis-à-vis the plan and check for major deviations if any	Number of persons recruited in excess/short thereby resulting in inadequate HR sizing					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	c. Verify if any action taken, which is deviating from the plan has got the approval of the concerned person as per the Delegation of Authority defined by the company	Approval not assigned for deviations resulting in non compliance with policy and inadequate control effectiveness					
Recruitment Process							
Selection of Candidate as per the requirements of the Company	a. Verify the process carried out for selection of the candidate. Ensure if it is in-house or outsourced to recruitment agency					a. Requisition form wherein the requirement of the candidate and the expectations are filled in b. Interview/Assessment form c. Candidate's resume d. Offer letter e. Recruitment policy and Operating	
	b. If it is outsourced to a recruitment agency verify if the process carried out for selection of the agency is done after proper evaluation	Improper selection of recruitment agency resulting in recruitment flaws.					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	<p>c. Check if the recruitment of the candidate is supported by documents, viz. resume, interview results, terms of employment, offer letter etc.</p>	<p>Non availability of supporting documents for selected candidate resulting in inadequate justification for candidate selected</p>				<p>Procedure available if</p>	
	<p>d. Ensure if the selection made is as per the requirement raised by checking the skills and qualifications required are met by the person selected</p>	<p>Candidate selected not meeting the requirements of the department resulting in inefficiency in the functional area</p>					
	<p>e. Ensure that the HR department has carried out the recruitment without any delay by comparing the date of request and date of recruitment</p>	<p>Delay in recruitment resulting in positions not filled up within the time required leading to inefficiency and overtime costs for the existing employees</p>					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	<p>f. Check if adequate background verification has been done for the candidate selected. If the selection is through the recruitment agency, check if the agency has carried out adequate background check for the candidate selected</p> <p>g. Check if the recruitment is authorized by the appropriate personnel</p>	<p>Inadequate background verification resulting in selection of candidate not suitable for the related vacancy</p> <p>Selection not as per the requirements of the company</p>					
Induction							
Induction formalities not completed as per requirements	a. Check the personnel files and ensure if the induction formalities checklist is signed and completed on time	Inadequate induction formalities resulting in administrative inconveniences (eg. Salary payment to be processed separately because of not opening bank account of the employee on time)				<p>a. Induction Checklist if any</p> <p>b. Policies/Code of conduct documents signed by the employees</p>	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	b. Check if the new joiner has been made aware of the key personnel policies of the company	Inadequate comm- unication of company's policies resulting in dilution of Company's objectives					
Attendance Management							
Inadequate procedures for monitoring attendance of the employees	a. Select sample of attendance register (manual/system generated) for a month and compare it with the leave records to ensure that the attendance captured is accurate	Inadequate attendance captured resulting in inability to compare the salary paid to number of days worked				a. Attendance Registers. Leave Records	
	b. In case of leave as selected above, check if the leave has been sanctioned by the concerned personnel as defined in the Delegation of Authority.	Leave not sanctioned by the designated authority resulting in control lapses and inaccurate payroll processing					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	<p>c. Check if the leave records of the employees is complete with respect of updation of various types of leave (CL/SL/PL) and verify if the balance leave calculation is done accurately.</p>	<p>Inaccurate calculation of leave resulting in inaccurate payroll processing and salary payment</p>					
	<p>d. Confirm that there is no possibility for modification of attendance/leave records and in case of modifications if any, are authorized by the relevant person.</p>	<p>Possibility for modifications in records resulting in non reliability of data</p>					
	<p>e. If the attendance is captured using electronic devices, check the accuracy and authenticity by reperformance.</p>	<p>Incorrect logic in the system resulting in incorrect payouts</p>					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
Payroll Processing							
a. Inadequate Segregation of Duty	a. Check that the person capturing the attendance and the person processing the payroll is different, to ensure adequate segregation of duty.	Inadequate Segregation of Duty resulting in unauthorized access to records increasing the possibility for manipulation				a. Payroll Database b. Offer letter for salary details c. List of new joinees d. List of resignees e. List of employees transferred/promoted f. Authorized Payroll Register	
b. Inaccurate Payroll Database	b. Compare the employee details as per the attendance register and employee details as per Payroll register and check for any dummy names in the payroll register c. Obtain list of new joinees for the last three months and verify that in case of new joinees the date of updation of the entry in employee list is on the date as mentioned in the offer letter	Fictitious employees in the payroll resulting in higher salary costs for the company Payment made in excess to new joinees					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	d. Obtain list of resignees for the last three months and check if any names still appear in the payroll employee list	Salary paid to resignees resulting in higher salary costs					
	e. Obtain the salary details from the payroll register and select a sample of employees and check if the salary details updated are as per the offer letter	Salary paid not as per the terms and conditions resulting in higher payouts					
	f. Obtain list of employees who have been transferred/promoted in the last three months and check if their salary details have been modified as per the transfer order/promotion letter	Salary paid not as per the terms and conditions resulting in higher payouts					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
c. Statutory Non Compliance	g. If the payroll processing is done by a software, reperform the calculation to ensure that the logic built in the software is correct	Program logic inaccurate resulting in wrong salary processing and inaccurate payouts					
	h. Check if the payroll calculations are authorized by the concerned person prior to transferring it for payment	Inadequate authorization document authenticity for					
	i. PF/ESI/Professional Tax deductions are in compliance with the prevailing Statutory Norms.	Statutory non compliances resulting in penalties and offences as defined under the concerned Statutory Regulation					
Performance Appraisal							
Appraisal not aligned to performance	a. Obtain the Key Performance Indicators (KPIs) defined for each role if available	Non definition of Key Result Areas resulting in inadequate communication of role profile and non alignment of role to the company's objectives				a. Appraisal Recordsb. Appraisal Polycyc. Key Performance Indicators (KPIs) if available	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	b. Obtain the appraisal sheets and check if the appraisal is done based on the KPIs defined	Appraisal not aligned to performance resulting in mismatch between the position and the person					
	c. In case of non availability of standard KPIs, ensure the following: • Appraisal is done by the concerned functional head to whom the employee reports • The scores given are adequately justified	Appraisal not aligned to performance resulting in mismatch between the position and the person					
	d. Ensure that the appraisal records are kept safe and confidential. Check who are the authorized persons for handling the appraisal records and ensure that the records are not made available to anyone other than the authorized persons	Non confidentiality of appraisal records resulting in employee dissatisfaction and unrest					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
Training and Development							
Increasing Training Costs	a. Obtain the list of training programs conducted during the past six months					a. Training Programme details b. Training attendance sheet and Feedback form c. Supporting documents for training cost d. Training and Budget approvals	
	b. Verify the attendance register capturing the training information and also check the training feedback forms	Training provided to fictitious employees resulting in higher training costs					
	c. Enquire on the decisions taken based on training feedback forms	Training feedback forms not analyzed adequately resulting in training inefficiencies and lack of benefit to the trainees					
	e. Check if the salary upgradation for persons promoted is as per the company's policy	Non compliance with Company's policy resulting in inefficiency					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	d. Check the supporting documents for the relevant training program (viz. food, location, trainer's cost etc) and ensure that the cost incurred is supported by the underlying documents	Non availability of supporting documents for cost justified the cost incurred					
	e. Check if the cost is within the training budget or approval is obtained in case of deviations if any	Cost in excess/short of the budget resulting in higher payouts or inefficiency					
Separation							
Inadequate Exit Formalities	a. Is exit happening according to exit policy of the company	Non compliance with Company's policy resulting in inefficiency				a. Exit Policy b. Full and final settlement forms of resigned employees	
	b. Are exit interview documents available for all the employees who have resigned (Check in cases of resigned employees)	Increasing attrition due to dissatisfaction					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	c. Check if the full and final settlement is done only after the employee has obtained a Clearance from all the concerned department. Check the full and final settlement form and ensure that it is authorized by all the concerned departments	Unauthorized access to company's assets resulting in loss of information or resource					
Statutory Compliances							
Statutory Non Compliance	a. List out the various Labour Acts applicable to the Company			Checklist to be prepared for the provisions of various Labour Act applicable to the Company		a. Records maintained under various acts	
	b. List out the various returns and records to be filed and maintained by the Company				b. Copies of returns filed		
	c. Check the records against the list to ensure that all the relevant records are being maintained and updated by the company	Statutory compliances resulting in penalties and offences as defined under the concerned Statutory Regulation			c. Remittances challans		

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	<p>d. Check if the returns (PF/ESI) are filed within the applicable due date</p>	<p>Statutory non compliances resulting in penalties and offences as defined under the concerned Statutory Regulation</p>					
	<p>e. Check if the remittances are made within the relevant due date</p>	<p>Statutory non compliances resulting in penalties and offences as defined under the concerned Statutory Regulation</p>					

Format No: B/4.1.4

Assignment Name	Assignment No
Company Name	Engagement Manager

4.1.4 Inventory Risks Review Checklist

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Receipt System							
Inadequate gate controls for material receipts	Check if necessary controls implemented at the gate to ensure that all men/materials (Truck/material by Courier , etc.) entering the premises are recorded.	Inadequate control over men/material entering the premises				a. Entry Register maintained by the Security Guard	
	Is there a procedure of confirming/cross checking the material/men at the gate with the stores/visitee and the time/out time of the truck/men entered in the register	Inadequate confirmation of purpose of visit thereby resulting in unauthorized access to the information and facilities at the premises					

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
	Does the security ensure that before giving entry there is no hazardous/ injurious/ prohibited material in the vehicle	Threat of explosions resulting in damage to men and material					
	Are there clearly defined timings during which the vehicles can enter/leave the factory. If yes, what happens if the vehicles come at some other time	Unauthorized entry during non office hours					
Inadequate process for material receipt at the warehouse	Check if the material into the warehouse is accepted only after checking the gate seal	Unauthorized receipt of material				a. Goods Inward note and register b. Supporting documents viz. invoice and delivery challan, purchase order c. Weighment Certificate	
	Ensure that the goods are unloaded only after checking the supporting documents viz. invoice, delivery challan	Receipt of material not ordered. Also check if payment has been made for the same					
	Check weighment procedures wherever applicable and weigh bridge certificate is available for the receipts	Weight differences between the quantity ordered and quantity received and excess/short payment					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
	Check if the gate entry and receipts entry tally. In case of differences, examine the reasons for the same	Missing receipt entries resulting in unauthorized movement of material Record the missing entries and trace the material. Also check if payment has been made for material not received.					
	Check if there is any delay in posting receipt notes by calculating the number of days of delay between the gate entry and receipts entry	Delay in receipt of material thereby affecting issues and resulting in production delays Calculate the number of days of delay in production due to delayed issue.					

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
	Check for cases which do not adhere to the timeliness/quantity/quality parameters of the purchase order leading to shortages, rejections, etc., to the purchase, accounts, vendor development, claims departments	Receipt of sub standard material thereby affecting the production process Compile cases of rejection in the production line due to substandard quality of material					
Material received without quality clearances	Check if quality clearance is obtained for the material unloaded	Receipt of sub standard material thereby affecting the production process Compile cases of rejection in the production line due to substandard quality of material				a. Quality clearance certificates	
	Analysis of delays if any in performing quality check by comparing the date of receipt of material and date of quality certificate	Delays in quality verification resulting in delays in production					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
Non tracking of goods in transit	Analyse the goods in transit and record if there are inordinate delays in receipt of material	Calculate the number of days of delay between the order date and receipt date. Analyse the average time to be taken and record transactions where there is inordinate delay.				a. List of goods in transit b. Stock Register	
Statutory Non compliance	Compliance with excise laws and ensuring completeness of statutory records required to be maintained	Statutory non compliances resulting in penalties and offences under the relevant regulations				a. Statutory records b. Stock Register	
Material Stacking Procedure							
Unauthorized access to storage area	Check if the storage area (warehouses at multiple places also needs to be considered) is under the control of authorized person and entry for others is barred	Unauthorized entry into the storage area resulting in loss or damage of material stored					
Inadequate transfer of risk	Check the adequacy of insurance cover for the premises and the material	The average amount held in stock at any point of time and the cost for setting up the warehouse after				a. Insurance Policy for warehouse	

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
		damages resulting in financial burden, in the event of any catastrophe					
	Does the inventory have earmarked places for storage material. Are damaged material /material that have not cleared quality/line defects are placed separately from the good quality material	Mixing up of goods resulting in inaccurate issues and inefficiencies in production					
	Are bin cards maintained and all receipts and issues are accurately updated	Non maintenance of bin cards and stock register results in inaccurate knowledge on material availability leading to excess purchases. Check if purchases have been made in spite of availability of material and ascertain the amount incurred for the purchases.					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
Issues Management							
Inadequate system of material from the warehouse	Select the issues made from the stock register and check if the issues are tracked to request from various departments	Issues made without the requests resulting in inaccurate dispatch of stock leading to misutilization				a. Issue Request/BO M b. Stock Register	
	Check if there are delays in issue of material by calculating the number of days of difference between the issue request and the actual issues	Delay in issues resulting in production delays.					
	Check for material returns from the line due to wrong issues.	Inaccurate issues resulting in production delays. Calculate the time difference between the issue request and the correct issue quantity for the delays				a. List of returns from the line	
	Check if the issues are updated accurately in the bin card and in the stock register for each of the issue requests	Inaccurate updation resulting in incorrect stock position. Check the stock reconciliation records and identify cases where the reconciliation was				a. Stock Register b. Bin Card c. Stock Reconciliation Records	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
		necessitated due to inaccurate updation in stock records.					
Stock Reconciliation Process							
Inadequate process for reconciliation of stock	<p>Check the following to ensure the adequacy of the stock reconciliation process:</p> <ul style="list-style-type: none"> a. Frequency of carrying out the stock reconciliation and the last date when it was carried out b. Cut off procedures at the time of stock taking c. Documentation for stock verification and ensure if reasons are captured for the differences and the action taken for ensuring non recurrence of such reasons d. If any write off is necessitated as a result of such 	Difference is any resulting out of stock reconciliation implies the funds lost due to inadequate stock handling procedures				<ul style="list-style-type: none"> a. Stock Register b. Physical verification documents c. Approvals for write off 	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
	<p>reconciliation check if it is authorized as per the delegation of authority matrix and such written off stocks are physically available</p> <p>e. Physically verify certain sample cases to ensure that the stock are physically available</p>						
<p>Inadequate Monitoring of non moving, damaged stock</p>	<p>Check if non moving stock is kept separately and is reported to the Management from time to time</p> <p>Ensure that damage stock is kept separately and is reported to the Management from time to time</p>	<p>Holding of stock for a long period, implies blockage of funds.</p> <p>Perform an ageing analysis of non moving stock and ascertain the interest lost on funds blocked.</p>				<p>a. List of non moving/damaged stock</p>	
<p>Inaccurate fixing of reorder levels</p>	<p>Check if reorder levels are fixed adequately to ensure that ordering of stock is accurate</p>	<p>Check for cases where orders are made before the stock reaching the reorder level and the financial payouts for such procurement</p>				<p>a. Reorder level policy</p>	

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4.1.5 Information Security Review Checklist

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Security Policy Review							
Non definition of Security Policy in accordance with business requirements and relevant laws and regulations	<ul style="list-style-type: none"> Enquire about information security policy availability If exists ask for its last renewal and approval Ensure that the policy has been communicated to all employees and other third parties involved in aspects relating to information security in the organization 	Lack of definition of information security aspects results in risk of compromise of availability, confidentiality and integrity of data and information processing assets				a. Information Security Policy b. Minutes of Meetings in which the policy is reviewed	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
	<ul style="list-style-type: none"> • Check if confidentiality agreement exists with employees and other third parties who have access to critical information in the organization • Review the agreement and note the clauses of security. Ensure that clauses for legal recourse, in case of compromise of confidentiality is included in the agreement 					Confidentiality Agreements with employees and third parties	
IT Assets Management							
Inadequate Maintenance of IT Assets	<ul style="list-style-type: none"> • Check if inventory of assets exist (software and hardware) • Review the columns and adequacy of heads • Check if licenses are live for all the software in the listing 	Observe if no inventory of IT assets exists.				<ul style="list-style-type: none"> a. IT asset Register b. IT assets procurement details 	

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
	<ul style="list-style-type: none"> Review if the register is maintained adequately. Ensure that the register is complete and is updated for every purchase, transfer and disposal of assets 						
	<ul style="list-style-type: none"> Check if any guidelines exist for classification of information as sensitive, non sensitive etc. Identify if the asset holding such sensitive information is classified and protected adequately 					a. Information Classification guidelines if any	
Inadequate procedure for disposal of IT assets	<ul style="list-style-type: none"> Review the IT assets/media disposal procedures in place List out the cases of computer sales in the last 1 year and analyze how the hard discs were removed from the system before sale 	Access to information to outsiders due to inadequate disposal methods				a. List of assets disposed	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
Human Resources Security							
Allowing access to persons without thorough background check	<ul style="list-style-type: none"> Are background checks done on all candidates, third party users and contractors Verify in few cases who is responsible for background verification 	Unauthorized access to information to persons who may misutilize the same					
Lack of awareness about information security in the organization	<ul style="list-style-type: none"> Were there any training programmes conducted on IT security What was the last date the training was conducted Review the training documents and the participants list 	Inadequate training resulting in lack of awareness and financial pay outs				a. List of training programmes conducted and their details	
Inadequate separation procedures	<ul style="list-style-type: none"> Review the procedure for employee resignation. Review the checklist for full and final settlement to review IT access settlements 	Access to information even after resignation of the employee. Observe cases where the full and final settlement process is not complete. Probe into list of items not returned by the employee.				a. List of resigned employees b. Full and final settlement	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
Physical and Environmental Security Process							
<p>Inadequate Security at the server room</p>	<ul style="list-style-type: none"> • Review the security system for IT facility, server room • Note down all the checks available 	<p>Compromise of security at the server room would result in compromising the entire IT infrastructure of the company.</p> <p>Identify the threats due to compromise in the server room physical security and list.</p>					
<ul style="list-style-type: none"> • Review the environment hazards and threats and related controls. Eg. Fire, water logging etc • Review the list of support utilities and identify protection in case of failures • Review whether the telecommunication and power cables are properly protected (test basis) 	<p>Production/operations stoppage due to occurrence of such events</p> <p>Downtime and recovery time to be calculated due to occurrence of such failures.</p>	<p>Production/operations stoppage due to occurrence of such events</p> <p>Downtime and recovery time to be calculated due to occurrence of such failures.</p>				<p>a. Insurance policies</p>	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
Inadequate Maintenance of IT assets	<ul style="list-style-type: none"> Review whether AMC exists for all the assets (Server, Desktops, Back up, Network, UPS, Power, AC etc.,) 	Downtime due to repairs and damages. Check the average downtime and frequent reasons for repairs.				a. AMC details b. Repairs register	
Information Security Department Responsibilities review							
Inadequate control against malicious codes	<ul style="list-style-type: none"> Note the anti virus software being used Verify whether the anti-virus is updated regularly 	System breakdown or inefficiencies due to non update of anti virus					
Inadequate back up of information	<ul style="list-style-type: none"> Is there a back up system in existence. Review the back up frequency, media, data coverage, storage, recovery procedures 	Loss of data due to inadequate back up procedures. Check the number of days of data that would be lost in case of failure of backup mechanism					
Inadequate network management	<ul style="list-style-type: none"> Understand the network software being used Obtain the detailed network diagram and identify the points of contact with external environment 	Compromise on security due to inadequate network design and network monitoring				a. Network diagram b. Network security policy	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
	<ul style="list-style-type: none"> Review the security procedures implemented in the external environment contact points Review the network security policy and procedures in place Run the network security analyzer on the network (if in case necessary) Analyze the network log reports to verify threats 						
Non availability of audit logs	<ul style="list-style-type: none"> Review the set of logs generated, printed by the server / IT operator and check the procedure of analysis Review the retention procedure of the audit logs generated 	Non traceability of actions due to non availability of audit logs				a. Audit logs details	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
Access Controls Review							
Inadequate access definitions	<ul style="list-style-type: none"> • Is there an access control policy in place • Review the procedure for giving login / access for new users (for domain / server / network, application systems, email systems, internet etc.,) • Review the procedures for deleting the login / access for users who have resigned. • Review whether the parameters are updated for regular password changes, password restrictions (alphanumeric, symbols etc.), automatic locking • Is there a procedure in place for regular management review of access roles given to various users. 	Unauthorized access to data resulting in compromise of confidentiality, availability and integrity				a. Access control policy	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observ- ations
	<ul style="list-style-type: none"> When was the last management meeting conducted 						
	<ul style="list-style-type: none"> Is there login and password system before logging on to the operating system 						
Information Security Events Management							
Inefficient Security incidents management	<ul style="list-style-type: none"> Were there any security breaches that have taken place in the last one year (hacking, data theft, web attack etc.) Review the procedure how they are managed 	Managing security breaches recurrence of such events				a. Security Incident details	

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4.1.6 Marketing Risks Review Checklist

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Target Fixation							
Inaccurate fixation targets	a. Check if targets are fixed for the marketing department is based on the annual sales plan	Inaccurate targets result in inadequate plan for the marketing team. Identify if the marketing team is aligned to achieve the targets.				a. Annual Sales Plan b. Short terms sales plan with targets	
	b. Review if targets are broken into short term targets and are communicated to the marketing team						

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
Marketing strategies evaluation							
Inappropriate marketing strategies	<p>c. Is the target revised based on analysis of actual performance. If there is a revision, is it approved by the concerned authority</p> <p>a. Is a marketing plan developed for meeting the targets.</p> <ul style="list-style-type: none"> • Evaluate the marketing strategies with respect to Branding, Advertisement and other marketing strategies. • Is selection of agencies for advertisement and branding, for media and publishing is done based on evaluation of quality parameters • Is evaluation done for increasing customer base, increased sales 	<p>Inadequate marketing plans resulting in insufficient market coverage and targets achievements.</p> <p>Analyse the trend of marketing costs, under each strategy. Analyse deviations from budget</p>				a. Advertisement spend details	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	etc from the market spends						
	<p>c. Evaluate the following for ensuring the adequacy of marketing strategies:</p> <ul style="list-style-type: none"> • Is there a dependence on single customer. Calculate the proportion of sales vis – a- vis the customer • Is there dependence on single product. Analyse the product wise sales • Is there dependence on single market 	Lack of diversification of sales results in single point failure.					
Customer Relationship Management							
Inadequate Customer Information	a. Does the company maintain a customer database. Is it manual/software based. Check for the following	Inadequate information on customer results in inaccurate decisions.				a. Customer database	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	<p>in the database:</p> <ul style="list-style-type: none"> • Is the updation in the database made on a timely basis. • Are all the required fields in the customer database completed by the sales team • Does it throw entire information about the customer, ie. products ordered, no. of calls made to the customer, delivery details etc 	<p>Identify cases of inaccurate, incomplete and unreliable data.</p>					
<p>Inadequate action on Customer Feedback</p>	<p>Are Customer rejections captured separately and actions are effectively taken on the same. Ensure if reason wise analysis is made and corrective actions are taken</p>	<p>Frequent Customer rejection results in poor reputation of the company.</p> <p>Analyse the rejection cases and perform root cause analysis on cases of frequent rejections</p>				<p>a. Customer rejections summary</p>	
	<p>Is customer feedback obtained on company's projects/performance on</p>	<p>Customer feedback collections helps in designing the market</p>					

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	a frequent basis and steps taken for improvement	strategy and hence needs to be taken on a frequent basis					
Monitoring							
Inadequate incentive system	<p>Check the following for the evaluating performance measurement system of the marketing team:</p> <p>a. Are targets set for every person in the marketing team</p> <p>b. Are the targets being reviewed on a monthly basis</p> <p>c. Is an incentive system designed for rewarding achievement of targets</p> <p>d. Are suitable actions taken for non performance</p>	Inadequate monitoring of performance resulting in poor sales and employee motivation.				<p>a. Target vis-a actuals comparison</p> <p>b. Incentive system and payment</p>	

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4.1.7 Process Risks Review Checklist

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Indent Raising Process							
Inadequate indenting system	a. Obtain indents raised for the last one month and check the adequacy, authenticity and completeness of indents with respect to sanctioning authorities, desired information, cost analysis, back-papers etc.,	Indent raised without sufficient justifications resulting in purchase of items not required and thereby financial payouts				a. Indents raised for a month b. Delegation of Authority matrix for sanctioning the indents c. Supporting documents for indents	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
	b. Study cycle time between receiving of an indent and raising of PO and evaluate reasons in case of exceptional delays ³	Delay in procurement of required items resulting in production delays				a. Purchase Orders raised for the requisitions b. Procurement budget	
	c. Check if the requested item is as per the budget or else authorized by the designated authority	Procurement without sufficient authorization resulting in purchases made without justification					
	d. Generate an exception report on open indents for a long time with reasons and analyze the root cause for such delays	Delay in procurement of required items resulting in production delays				a. List of open indents	
	e. Check if any indents have been raised on an emergency basis and ensure that they have been authorized adequately	Procurement without sufficient authorization resulting in purchases made without justification					

³ 1. The process for calculating the delays can be done using CAAT tools

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
Purchase Order Process							
Inadequate selection of vendors	<p>Check if the procurement has been made as per the Purchases policy of the organization. In case of non availability of purchase policy, for the selected purchase orders verify the following:</p> <ol style="list-style-type: none"> At least quotations from three vendors have been obtained for finalizing Check if the vendor selected has offered the best rate Verify the para-meters considered for evaluation of quality of the product/service Check if adequate justifications and authorization exist in case of purchase from sole supplier or at higher rates 	<p>Inadequate vendor selection resulting in the following:⁴</p> <ol style="list-style-type: none"> Procurement at higher cost⁵ Procurement of sub standard quality material Vendor not competent to deliver the service/material Possibility of collusion with vendors and thereby not adhering to the vendor selection policy 				<ol style="list-style-type: none"> Procurement Policy Vendor selection documents Delegation of Authority Matrix 	

⁴ Use of CAAT tools is recommended for generating exceptions

⁵ Exceptionally high cost of procurement needs to be recorded in the Final generation of Exceptions report

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
	<p>e. Check if negotiations have been made for better terms of purchase</p> <p>f. Check if authorization for the purchases as per the Delegation of Authority defined by the organization</p> <p>Review the agreement with the vendor and check if the terms and conditions are met for the material/service delivered</p>	<p>Receipt of material/service not as per the terms and conditions agreed upon</p>				<p>a. Agreement between the company and the vendor</p>	
<p>Inadequate Ordering process</p>	<p>Check if there is any process for annual vendor evaluation and the performance of the vendor based on quality, timely delivery, compliance with terms and conditions etc are evaluated</p> <p>Generate list of Purchase Order not serviced on time and ascertain the reasons for the same. Compare the PO date and GR/service receipt note date and ascertain the delays</p>	<p>Delay in procurement leading to production delays</p>				<p>a. Goods delivery/service receipt note</p>	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
Statutory non compliance	In case of imports check if the statutory regulations viz. customs regulations, FEMA regulations etc are complied with	Statutory Non compliances resulting in penalties and offences under various regulations		Statutory Compliance Checklists		a. Copies of payment challans and returns filed	
Vendor Database Management							
Inaccurate vendor database	Obtain the dump of vendor database and analyze for the following: a. Duplicate vendor codes b. Duplicate vendor names c. Inaccurate updation of vendor details viz. item /service supplied, rate, terms of delivery etc by comparing it with the agreement d. Access to the vendor database to unauthorized person (persons in departments other than procurement department)	Purchases made from fictitious vendors not supported by physical delivery and resulting in payout to the company				a. Vendor database dump b. Agreements with vendors c. Purchase orders to the vendor d. Goods receipt note/service delivery note	

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4.1.8 Production Risks Review Checklist

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
Production Planning Process							
Inadequate Production Plan	<p>a. Is there a Bill of Material (BOM) available for the production</p> <p>b. Check the process for evolving the Bill of Material</p> <p>c. Are the purchases made according to the BOM. Check for an order, of the purchases are made as per BOM</p> <p>d. Is BOM comprehensive,</p>	<p>Inaccurate estimation of requirements results in unnecessary purchases.</p> <p>Obtain list of very old items in the inventory and ascertain the reason for not using the items and against which BOM the purchases were</p>				a. Bill of Material	

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	reliable and accurate. Check for modifications if any in BOM for similar orders and obtain the justification for the same	made. Check the overtime payments made and analyze the reasons for working overtime. Check if the overtime was pre planned or was it in the process of production.					
	<p>a. Is production plan reviewed on a frequent basis for making necessary adjustments</p> <p>b. Is the cycle time from Raw material charging to finished goods calculated and evaluated</p>	<p>Inadequate review of the production plan resulting in production inefficiencies.</p> <p>Review the minutes of the meeting relating to production reviews and check if decisions made in the meeting are implemented.</p>				a. Minutes of meeting for production review	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
Raw Material Charging							
Inadequate controls on raw material charging process	<p>a. Are the raw materials charged as per the production plan</p> <p>b. Does a review happens to ensure that the correct quality and quantity of raw material for the batch is charged</p> <p>c. Are safety procedures complied with in case of raw material which are of hazardous nature</p>	Inaccurate charging of raw material resulting in quality mismatches.				<p>a. Production Plan</p> <p>b. Raw Material charging checksheet if any</p>	
Inadequate quality check	<p>a. Is the raw material certified for quality prior to charging</p> <p>b. Check for quality clearance for the items introduced into the production process</p> <p>c. Check the process</p>	<p>Inadequate quality check results in inadequate quality of the final product leading to customer rejections.</p> <p>Calculate the percentage of</p>				<p>a. Quality clearance certificates</p> <p>b. Quality checklist</p> <p>c. Customer rejections</p> <p>d. Pending claims</p>	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	<p>checklist used by the department checking the quality parameters at this stage.</p> <p>d. Verify if the checklist is being filled up accurately and completely for every input of material</p>	<p>rejection at the raw material stage and ensure if the procurement department has taken it up with the supplier for claims if any.</p> <p>Identify the cases of customer rejection and ensure if it is due to raw material quality.</p> <p>Compare the production quantity deviations due to low quality of raw material.</p>					
Line Processes							
Inadequate review of line activities	<p>Does the production happen as per the defined procedure. Ensure the following for evaluating the efficiency of line processes:</p> <p>a. Are line activities</p>	<p>Production not carried out as per the procedure.</p> <p>Check on quality rejection in line and calculate the</p>				a. Documents showing output of line activities	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	<p>supervised at each stage</p> <p>b. Is the output at each process recorded and signed off</p> <p>c. Are transfers within internal processes adequately documented and reviewed</p>	<p>percentage of such rejections and frequent reasons for the same.</p>					
Inadequate rejections/rework Management	<p>a. Are the rejections/damages and wastages adequately recorded</p> <p>b. Is the physical stock sent to raw material warehouse</p> <p>c. Is over and under consumption calculations made and reviewed by the production department</p>	<p>Non monitoring of rejection and damages resulting in material leakages.</p> <p>Physically verify if the material is available</p>				a. Rejections/ damages records	
Inadequate Machinery	Check if the equipments and machinery used in	Production down time due to				a. Preventive Maintenance	

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
Maintenance	<p>the lines are maintained adequately.</p> <p>Is there a preventive maintenance schedule evolved and adhered to by the company</p>	<p>machinery breakdown</p> <p>Review the instances of machinery breakdown and time taken to rectify the same and the number of times the instance has recurred</p>				<p>Schedule</p> <p>b. Equipment failure details</p>	
Non availability of utilities	<p>Identify the key utilities required for the production process and ensure if the company has adequate back up for shortage in supply of utilities.</p> <p>Also ensure if records are maintained showing utilization details of key utilities</p>	<p>Non availability or inefficient usage of utilities resulting in down time</p> <p>Identify instances of down time due to non availability of key utilities and the actions taken for ensuring continuous supply of the same</p>				<p>a. Production down time details</p>	
Inadequate quality check in	<p>a. Is the output in the line certified for</p>	<p>Inadequate quality check results in</p>				<p>a. Quality clearance</p>	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
the lines	<p>a. quality prior to passing it to the next process or to the finished goods warehouse</p> <p>b. Check for quality clearance for the output</p> <p>c. Check the process checklist used by the department for checking the quality parameters at this stage.</p> <p>d. Verify if the checklist is being filled up accurately and completely for every input of material</p>	<p>inadequate quality of the final product leading to customer rejections.</p> <p>Calculate the percentage of rejection and quantify the financial burden</p> <p>Identify the cases of customer rejection and ensure if it is due to processing quality.</p> <p>Compare the production quantity deviations due to low quality of output</p>				<p>certificates</p> <p>b. Quality checklist</p> <p>c. Customer rejections</p> <p>d. Pending claims</p>	
Finished Goods Management Process							
Inadequate storage of finished goods	a. Are the finished goods stored in a safe location prior to transferring it to the warehouse	Quality rejections due to improper storage				a. Quality rejections	

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Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
		Check for instances of quality rejections due to damage to material after production and prior to transfer to packing section					
Inadequate procedure for packing and labeling of material	<p>Check for controls adopted during the packing and labeling process to ensure the following:</p> <ul style="list-style-type: none"> • Containers used for packing are correct • The quantity of material packed is accurate • Tagging of the final product to the batch is made accurately • Labelling is done as per the standards defined • Prices are printed as per the approved price list 	<p>Quality rejections – internal and external due to inadequate packing and labeling.</p> <p>Identify the reasons for rejections and evaluate the action taken for avoiding recurrence of the same.</p>					

Assignment Name	Assignment No
Company Name	Engagement Manager

4.1.9 Sales and dispatch Risks Review Checklist

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Sales Plan							
Inaccurate of fixation targets	<p>a. Evaluate the process adopted for making annual sales plan. Check the following:</p> <ul style="list-style-type: none"> • Is the annual sales plan prepared after consideration of performance in the previous period • What are the aspects analyzed for preparation of plan and are they adequate 	<p>Inaccurate targets result in inadequate plan for the marketing team.</p> <p>Identify if the marketing team is aligned to achieve the targets.</p>				<p>a. Annual Sales Plan</p> <p>b. Short terms sales plan with targets</p>	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	<ul style="list-style-type: none"> Is the annual sales plan approved by the concerned authority Is the sales plan made for all the products and locations of the company Has it been communicated to all the departments 						
Order Booking and Delivery							
Incomplete/inaccurate orders booked	<p>Review the process of order booking and verify the following:</p> <ol style="list-style-type: none"> Are the orders booked completely. Check if all the calls as updated in the customer call database is booked. If not ascertain the reasons for non conversion of the order Compare the date of call and date of order and identify reasons for delays if any 	<p>Risk of delivery without booking of orders.</p> <p>Evaluate the monitoring system for customer calls, follow up and closure and identify points of control lapses leading to non booking of orders.</p>				<ol style="list-style-type: none"> Sales Order copies Customer call information 	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
Mismatch between orders and delivery	<p>a. Verify if the delivery is supported by sales order</p> <p>b. Ensure that the delivery is monitored and authorized</p> <p>c. Verify the controls for ascertaining that the material has actually reached the customer. Does the person delivering the goods carry the acknowledgement copy from the customer and is it checked.</p> <p>d. Verify if there are any delays in delivery by comparing the call closure, order and delivery</p> <p>e. If the delivery is outsourced to an agency, analyze the supporting documents for making payments to the agency and also the systems for monitoring the agency's performance</p>	<p>Customer rejections due to inadequate delivery.</p> <p>Check for instances of rejections from the customers and analyze the reasons for the same. Calculate the monetary impact, due to repeated dispatches or wrong dispatches, damages during transportation etc.</p>				<p>a. Delivery Orders</p> <p>b. Customer acknowledgements</p> <p>c. Customer rejections</p>	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	f. Analyze the logistics arrangements and identify areas of duplication, inefficiencies etc						
Invoicing							
Inaccurate invoicing	<p>a. Check if the invoices are serially controlled and identify duplicate, cancelled or missing invoices if any</p> <p>b. Check if the invoices are prepared at the right price for the right material. If the invoices are system generated, check the application logic for rate and material/services selection</p> <p>c. Check if there has been any delays in invoicing by comparing the order date and invoice date and ascertain reasons for the same</p> <p>d. Check if all the orders and deliveries are</p>	<p>Inadequate invoicing results in direct revenue loss for the company.</p> <p>Identify cases of inaccuracies and delays and calculate the revenue lost due to the same.</p>				<p>a. Invoice Register</p> <p>b. Sales orders and delivery notes</p>	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observa- tions
	e. Are the invoices authorized by the designated person						
Collection Process							
Inadequate controls in collection process	<p>Check if the collection is made by the marketing team. If yes evaluate the following:</p> <p>a. Are adequate controls designed in the collection process to ensure that there is no leakage at the point of collection and remitting it to the company</p> <p>b. Are cash collections disallowed, if allowed is it supported by suitable documents</p> <p>c. Is there a possibility for collusion between the marketing team and customer</p> <p>d. Is ageing analysis done on receivables and follow up taken periodically</p>	<p>Inadequate controls result in revenue leakage.</p> <p>Assess the trend of collections, check if they are as per the terms and conditions and is there any possibility for relaxation in the cycle</p>				<p>a. Ageing report</p> <p>b. Collection summary</p>	

Format No: B/4.1.10.

Assignment Name	Assignment No
Company Name	Engagement Manager

4.1.10 Statutory Compliances Review Checklist⁶

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Central Excise Act					
<ul style="list-style-type: none"> Does the excise registration certificate cover all chapters/subheadings/products 				<ul style="list-style-type: none"> a. Excise Registration Certificate b. RG23D Register c. Excise Returns 	
<ul style="list-style-type: none"> Is the storage ground plan approved by the Excise Range superintendent 					
<ul style="list-style-type: none"> Has notice of the last change in the unit head been given to Excise authorities 					
<ul style="list-style-type: none"> Are the Excise authorities informed about the pre-authenticated serial nos. of invoices 					

⁶ The Checklist is inclusive and is subject to change as per the changes to the Statutes. The checklist can be used as an indicative checklist and is not final.

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
<ul style="list-style-type: none"> Are duplicate for transporter copies of excise invoices available for all consignments entered in RG23D register (for receipt of goods from plants or other locations) 					
<ul style="list-style-type: none"> Is the RG23D register maintained properly (consignment-wise) and always kept upto date 					
<ul style="list-style-type: none"> Do physical stocks reconcile with book stocks as shown in RG23D register as on the date of report 					
<ul style="list-style-type: none"> Are excise returns filed by the 10th of the subsequent month 					
Income Tax Act					
<ul style="list-style-type: none"> Has the unit made any cash payments for expenses above Rs 20000 				a. TDS Challans b. TDS returns	
<ul style="list-style-type: none"> Has the unit paid loans / advances / deposits in cash above Rs 20000 					
<ul style="list-style-type: none"> Has the unit received loans / advances / deposits in cash above Rs 20000 					
<ul style="list-style-type: none"> if yes, then has the unit obtained the PAN number and address of the party 					

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
<ul style="list-style-type: none"> Is tax being deducted at source at correct rates on all payments liable for deduction of tax at source 					
<ul style="list-style-type: none"> Has TDS remittances and returns made as per the due date 					
Services Tax					
<ul style="list-style-type: none"> Verify the Registration of the assessee with the Service Tax Commissionerate 					
<ul style="list-style-type: none"> Whether separate regn. taken for each service provided 					
<ul style="list-style-type: none"> Check the opening credit of the current year and closing entries of the previous year 					
<ul style="list-style-type: none"> Check whether the tax invoice is proper and mentions the Regn. No. of the assessee, Separately mentions the rate of tax and amount of tax. (From samples of the bills raised for collecting the service tax.) 					
<ul style="list-style-type: none"> Check whether the tax invoice is proper and mentions the Regn. No. of the service provider and Separately mentions the rate of tax and amount of tax. (From samples of the bills received by the assessee from service providers) 					

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
<ul style="list-style-type: none"> • If the rates applied are different, take a copy of the authority/notification under which such change is approved. Ex. Composition, Notification, etc. 					
<ul style="list-style-type: none"> • Check whether month wise statement of service tax receivable/payable account matching with the monthly payments of service tax. 					
<ul style="list-style-type: none"> • Check whether the service tax has been deposited with in the due dates 					
<ul style="list-style-type: none"> • Check Half Yearly returns filed. Tally it with both the monthly payments and as well as the ledger entries as the relevant dates. 					
<ul style="list-style-type: none"> • Review the return and see whether the return is accurate as to, input credit, output tax payable, valuation of services, carry forward of credit, etc. 					
<ul style="list-style-type: none"> • Check the Correspondence if any with the Department and its compliance and impact. 					

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Sales Tax Act/ Value Added Tax/ Central Sales Tax Act					
<ul style="list-style-type: none"> Does the establishment have registration certificates for LST and CST 				Registration Certificate Sales Tax Challan Sales Tax Returns	
<ul style="list-style-type: none"> Has the unit included additional godown / seasonal godowns as additional places of business in the sales tax registration certificate 					
<ul style="list-style-type: none"> Have all the products handled been declared in the sales tax registration certificates 					
<ul style="list-style-type: none"> Is the LST and CST certificate prominently displayed at the unit and additional godowns 					
<ul style="list-style-type: none"> Has sales tax been charged on sale of assets at correct rates 					
<ul style="list-style-type: none"> Are the records, required to be maintained for Sales Tax/ Income Tax purposes available at the location 					
<ul style="list-style-type: none"> Has the unit reconciled the variance between the sales tax payable as shown in books of accounts (ERP) and the amount actually paid 					

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
<ul style="list-style-type: none"> Does the unit maintain acknowledged Sales Tax challans 					
<ul style="list-style-type: none"> Does the unit deposit sales tax dues duly within due dates 					
<ul style="list-style-type: none"> Does the unit file the sales tax returns duly within due dates 					
ESIC Act					
<ul style="list-style-type: none"> Is the unit registered under ESIC <ol style="list-style-type: none"> Employees drawing wages (excluding overtime) less than or equal to Rs 7500/- are covered under the Act. If not covered under ESIC, Workmen Compensation Act will apply. 				ESI Challans of both company / contractor ESI Returns of both company/ contractors ESI Compliances Files (Various forms filed with ESI authorities)	
<ul style="list-style-type: none"> If security contractors have been registered separately, then are the copies obtained from them and kept in safe custody 					
<ul style="list-style-type: none"> Have declaration forms (Form 1) and return of declaration form (Form 3) for new employees been submitted immediately on their day of joining 					

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Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
<ul style="list-style-type: none"> Has the unit preserved all ESIC payment challans and returns 					
<ul style="list-style-type: none"> Has the unit maintained an Accident register (Form 15) 					
<ul style="list-style-type: none"> Has the unit reported all reportable accidents (i.e. which prevent an employee to report from duty for a period greater than 48 hours) to the ESIC authorities vide Accident Report (Form 16 - available in the Act) 					
<ul style="list-style-type: none"> Has the unit maintained Form-7 register showing monthly ESIC contributions and all the details of employees covered under the ESIC Act (The Company or the contractor, in case he has his own code, needs to maintain Form 7) 					
<ul style="list-style-type: none"> Has the unit maintained ESIC Records for previous years (no maximum limit) as inspection can be carried out by authorities at any time. 					
<ul style="list-style-type: none"> Has the unit deposited ESIC monthly contributions (both employer and employee) before 21st of the next month 					

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
<ul style="list-style-type: none"> Has the unit filed ESIC half-yearly return in Form-6 within 42 days of the half-year ended September 30 or March 31, as the case may be 					
Workmen's Compensation Act					
<ul style="list-style-type: none"> Has the unit filed the annual return under Workmen's compensation Act within the due dates? (This act is not applicable to those covered under the ESIC Act) 					
Minimum Wages Act					
<ul style="list-style-type: none"> Has the unit displayed a copy of the Abstract of the Minimum Wages Act 					
<ul style="list-style-type: none"> Has the unit displayed the notice containing the minimum rates of wages applicable 					
<ul style="list-style-type: none"> Is minimum wages paid to contract labour /security personnel, in the presence of company employees 					
<ul style="list-style-type: none"> Has the unit filed the Annual returns under Minimum Wages act 					

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Payment of Wages Act					
<ul style="list-style-type: none"> Does the unit appropriately maintain records specifying names of employees and wages paid to them 					
<ul style="list-style-type: none"> Does the unit prominently display the abstract of payment of wages act and rules 					
<ul style="list-style-type: none"> Has the unit filed Annual returns under Payment of Wages Act NOT APPLICABLE FOR UNITS IN MAHARASHTRA 					
Professional Tax					
<ul style="list-style-type: none"> Does the unit maintain acknowledged Profession tax challans 					
<ul style="list-style-type: none"> Has the unit deposited the monthly profession Tax within the due dates (Time period for the payment of tax is State specific) 					
<ul style="list-style-type: none"> Has the unit filed Profession Tax returns within due dates 					
<ul style="list-style-type: none"> Has the unit paid company profession tax within due date 					

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Shop and Establishment Act					
<ul style="list-style-type: none"> Is the Shop and Establishment Registration certificate valid as on date 					
<ul style="list-style-type: none"> Is the Shop and Establishment registration certificate prominently displayed 					
<ul style="list-style-type: none"> Has notice of the last change in the unit head been given to Shop and Establishment authorities 					
<ul style="list-style-type: none"> Has the unit submitted notice of weekly holidays and notice of daily working hours to the Inspector under Shop and Estb Act 					
<ul style="list-style-type: none"> Has the unit displayed a copy of the notice of daily working hours submitted to the Inspector under Shops and Estb Act 					
<ul style="list-style-type: none"> Is the name and address of the local labour inspector displayed as per Shop and Estb Act 					
<ul style="list-style-type: none"> Does the unit maintain an inspection book for visit remarks of the Inspector 					

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
<ul style="list-style-type: none"> Does the unit maintain a muster register as per Shop and Estb Act for all company and contracted employees 					
<ul style="list-style-type: none"> Are the employee leave cards maintained and updated as on date 					
Payment of Bonus Act					
<ul style="list-style-type: none"> Does the unit maintain payment of Bonus register 					
Payment of Gratuity Act					
<ul style="list-style-type: none"> Has the unit submitted notice of opening of establishment (Form A) under the Gratuity Act to the Controlling Authority within 30 days of starting of the unit (Note: This point is applicable only for new units) 					
<ul style="list-style-type: none"> Has the unit prominently displayed the abstract of Payment of Gratuity Act 					
<ul style="list-style-type: none"> Has the unit intimated any change in the unit head or address of unit to the Controlling Authority in Form B 					
<ul style="list-style-type: none"> Has the unit displayed the name of Company's officer authorized to receive notices under the Act 					

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Contract Labour [Regulation and Abolition] Act					
<ul style="list-style-type: none"> Is this Act applicable to the unit? 					
<ul style="list-style-type: none"> Has the unit obtained Registration Certificate under the Act for engaging Contract Labour? 					
<ul style="list-style-type: none"> Does the unit maintain Registers of Contractors containing all the names of Contract Labour staff (from various contractors), the nature of work performed by the contract labour and the rates of wages paid to contract labour? 					
<ul style="list-style-type: none"> Are the wages to contract labour staff paid in presence of management representative Company? 					
<ul style="list-style-type: none"> Has the unit displayed the abstract of the Contract Labour Act/Rules? 					
<ul style="list-style-type: none"> Has the company entered into legal agreement with the Contractors? 					
<ul style="list-style-type: none"> Has the unit (principal employer) filed annual returns under the Act? 					
<ul style="list-style-type: none"> Have the Contractors obtained License under the Act? 					

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Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
<ul style="list-style-type: none"> Do the Contractors renew their License every year? 					
<ul style="list-style-type: none"> Have the Contractors taken a separate code number for PF and ESI coverage and contributions are remitted accordingly? 					
<ul style="list-style-type: none"> Do the contractors maintain the following: <ul style="list-style-type: none"> Muster Roll Register of Wages Register of Deductions Register of Overtime Register of Fines Register of Advance 					
<ul style="list-style-type: none"> Are the Contractors keeping the registers/records relevant to the employment within 3 kms nearer to the work place? 					
<ul style="list-style-type: none"> Have the Unit displayed notice showing rates of wages/hours of work/wage period/date of payment of wages/date of payment of unpaid wages and the name and address of the Inspector having jurisdiction over the Unit? 					

Audit Steps to Verify	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
<ul style="list-style-type: none"> • Has the Contractors issued Employment Card/Wage slips to their workers? 					
<ul style="list-style-type: none"> • Have the Contractors filed Half yearly returns under the Act? 					
<ul style="list-style-type: none"> • Do the Contractors issue Service Certificate to their workers on termination? 					

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Assignment Name	Assignment No
Company Name	Engagement Manager

4.1.11 Administration Risks Review Checklist

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observations
Facilities Plan							
Non availability of administration plan	<ul style="list-style-type: none"> • Check if facilities plan is made based on Annual Operating Plan • Check if it is communicated adequately • Check if the administration department has an internal procurement plan generated for the approved facilities and placed it with the procurement department 	Inadequate plan resulting in inadequate purchases and non availability of the relevant facilities on time				Annual operating Plan Facilities Plan	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
Security Functions							
Inadequate selection and monitoring of security functions	Review if the Security functions are managed in house or outsourced. If outsourced, check the adequacy of evaluation done for selection of security persons ⁷	Compromise to physical security aspects due to wrong selection of guards					
	Review the security process and ensure the following: a. Does the Security Guard note down details of all persons (employees/visitors) moving in and out of the company premises b. Does the Security stop and check the visitors and understand the purpose of visit before letting them in c. Are vehicles adequately checked and registered prior to giving entry	Unauthorized entry and exit resulting in unauthorized access to the company and company's resources.				a. Visitors Register b. Inward Gate Pass c. Outward Gate Pass d. Visitors passes e. Inward and Outward Registers	

⁷ The risk involved in outsourcing activity is not included as a part of this checklist.

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
House Keeping							
Inadequate house keeping	<p>d. Is the movement of material monitored by Inward Gate Pass and Outward Gate pass</p> <p>Review if the house keeping functions are managed in house or outsourced. If outsourced, check the adequacy of evaluation done for selection of persons undertaking housekeeping activity</p>						
	<p>Check the following:</p> <p>a. Does the housekeeping function have a checklist for their activity</p> <p>b. Is their activities monitored</p> <p>c. Is the cost of house keeping high</p> <p>d. Is the house keeping material kept under safe custody</p>	<p>High spending on house keeping without a budget resulting in inefficient utilization of funds.</p> <p>Analyze the trend in house keeping cost. Compare the cost as a percentage of total cost and sales and comment if it is on a higher side</p>				<p>a. Housekeeping Checklist</p> <p>b. Housekeeping costs breakup</p> <p>c. House keeping staff attendance</p>	

Risk Listing (What Wrong Can Happen)	Audit Steps to Verify	Impact Analysis	Auditor	Checklist	Time for Audit Step	Information Required from Auditee	Observat- ions
Maintenance							
Inadequate Maintenance of facilities	<p>a. Check if there is a maintenance schedule and it is being adhered to</p> <p>b. In case of AMCs or warranties, is the follow up done with the vendor for services</p> <p>c. Is the maintenance cost too high</p> <p>d. Does the company have any service level agreement for maintenance activity and is it being adhered to and monitored</p> <p>e. Is all the complaints registered and actions are taken on time</p>	<p>Inadequate maintenance results in frequent machinery breakdowns.</p> <p>Calculate the number of breakdowns and the time taken for rectifying. Analyse the trend in maintenance cost to see if it is rising due to inadequate preventive maintenance.</p>				<p>a. Maintenance Register</p> <p>b. AMCs</p> <p>c. Maintenance Cost details</p>	

4.2 Planning and Execution of Audit Programme

Format No: B/4.2

Assignment Name		Assignment No
Company Name		Engagement Manager

SI No	Process / Area	Auditor	Process Owner	Planned Date	Actual Date	Status	Work Paper	Remarks
A	Corporate							
1	Leadership							
2	Operational							
3	Communication							
4	Marketing							
B	Finance and Accounts							
1	Receivables							
2	Payables							
3	Financial Closures							
4	Cash Management							

SI No	Process / Area	Auditor	Process Owner	Planned Date	Actual Date	Status	Work Paper	Remarks
C	HR							
1	Planning							
2	Recruitment							
3	Induction							
4	Attendance							
5	Payroll							
6	Performance Appraisal							
7	Training							
8	Separation							
9	Statutory							
D	Inventory							
1	Receipts							
2	Stacking							
3	Issue							
4	Reconciliations							
E	IT							
1	Security Policy							
2	IT Assets							

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SI No	Process / Area	Auditor	Process Owner	Planned Date	Actual Date	Status	Work Paper	Remarks
3	HR Security							
4	Physical Security							
5	IT Dept							
6	Access Controls							
7	Events							
F	Marketing							
1	Targeting							
2	Strategic Evaluation							
3	CRM							
4	Monitoring							
G	Procurement							
1	Requisitions							
2	PO Releases							
3	VD Management							
H	Production							
1	Production Planning							
2	Raw Material Charging							
3	Production Line							

SI No	Process / Area	Auditor	Process Owner	Planned Date	Actual Date	Status	Work Paper	Remarks
	Finished Goods							
I	Sales and Despatch							
1	Sales Planning							
2	Order Management							
3	Invoicing							
4	Collection							
J	Statutory							
1	Central Excise							
2	Income Tax							
3	Service Tax							
4	Sales Tax / VAT							
5	ESI							
6	Workmen's Compensation							
7	Minimum Wages							
8	Payment of Wages							
9	Professional Tax							
10	Shop & Establishments							

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SI No	Process / Area	Auditor	Process Owner	Planned Date	Actual Date	Status	Work Paper	Remarks
1	Payment of Bonus							
2	Payment of Gratuity							
3	Contract Labour							
K	Administration							
1	Facilities Planning							
2	Security							
3	House Keeping							
4	Maintenance and Fixed Assets							
L	Others							

4.3 Compilation of Observations and Draft Reporting

Format No: B/4.3.

Executive Summary

- <Overview about the assignment may be explained initially>
- <Update on the schedule of audit completion>
- <Important Strategic Observations to be given here>

SI No	Observations and Impact	Risk Level	Area	Observation No Reference	Need for Management Intervention
		Only High			

Scope and Objective of the Assignment

- <Repeat as given in the Engagement Letter. If there is any change in the Scope please give details when the scope was amended>
- <Give a list of meetings, interviews conducted during the assignment along with the dates>

Detailed Report

- <Give the Detailed Report Process-wise or Area-wise>

Process / Area Name:

Observation No. X1: <Define the Observation as a Heading>

Observation	Risk Level and Impact	Recommendation	Management Comments
<What should be>	Risk Level: High / Medium / Low	<How to rectify the existing condition, transaction>	<Comments from the Auditee – as it is>
<What is currently practiced>	<Value of the Risk>	<How to rectify the system so as to avoid repeat of a similar situation>	<Date by which the implementation shall be completed>
<The problem definition>	<Give Annexure for break up of evidences / Calculations etc.>	<Details of how change should be brought in>	<Name of the Person Responsible>
<Root cause of the problem>			

Annexure to the Observation:

<Give the annexure relevant to the observation. Ensure that the evidence satisfies the three conditions as under:

- a. Accurate – Calculations etc., should match to the observation
- b. Relevant – The evidence should be relevant to the observation
- c. Complete – The evidence should be complete, there should not be any ambiguity>

Observation No. X2: <Define the Observation as a Heading>

Observation	Risk Level and Impact	Recommendation	Management Comments

Annexure to the Observation:

Observation No. X3: <Define the Observation as a Heading>

Observation	Risk Level and Impact	Recommendation	Management Comments

Annexure to the Observation:

Process / Area Name:

Observation No. Y1: <Define the Observation as a Heading>

Observation	Risk Level and Impact	Recommendation	Management Comments

Annexure to the Observation:

4.4 Quality Checklist of Evidence Collection

Format No: B/4.4.

Assignment Name		Assignment No
		Engagement Manager
Company Name		

Obs No	Observation Brief	Work Papers Collected	Accurate ⁸	Relevant ⁹	Complete ¹⁰	Annexure
	Area:					
	Area:					
	Area:					

Prepared by

Check by

⁸ Accuracy – Evidence accurately confirms the observation without ambiguity.

⁹ Relevant – Evidence is relevant and relates to the observation. Irrelevant evidence may result in the observation being disputed.

¹⁰ Complete – All the supporting, calculations necessary to confirm the observation are provided. The evidence should not be incomplete. Incomplete evidence is sometimes as good as no evidence.

Report Compilation

5.1 Draft Audit Report

Format No: B/5.1.

Title and Date of the Audit Report

Addressed to: <Name and Designation of the Person Addressed to >

Report Distribution List:

- a.
- b.
- c.
- d.
- e.

<Mention that the report is not intended to anyone other than included in the distribution list>

Introduction:

<Give a brief overview about the functions / processes audited>

<Give a statement of responsibility of the management of the organization and Internal Audit in the organization>

Executive Summary

<Overview about the assignment may be explained initially>

<Update on the schedule of audit completion>

<Important Strategic Observations to be given here>

SI No	Observations and Impact	Risk Level	Area	Observation No Reference	Need for Management Intervention
		Only High			

Scope and Objective of the Assignment

<Repeat as given in the Engagement Letter. If there is any change in the Scope please give details when the scope was amended>

<Ensure that the period of coverage is given in the Scope>

<Please mention scope limitations>

<Give a list of meetings, interviews conducted during the assignment along with the dates>

<Give reference to the adoption of Generally Accepted Audit Procedures of India>

<Give a brief methodology (do not give it in detailed. Give it as necessary for the reader to understand the extent and way of study)>

Detailed Report

<Give the Detailed Report Process-wise or Area-wise>

Process / Area Name:

Observation No. X1: <Define the Observation as a Heading>

Observation	Risk Level and Impact	Recommendation	Management Comments
<What should be>	Risk Level: High / Medium / Low	<How to rectify the existing condition, transaction>	<Comments from the Auditee – as it is>
<What is currently practiced>	<Value of the Risk>	<How to rectify the system so as to avoid repeat of a similar situation>	<Date by which the implementation shall be completed>
<The problem definition>	<Give Annexure for break up of evidences / Calculations etc.>	<Details of how change should be brought in>	<Name of the Person Responsible>
<Root cause of the problem>			

Annexure to the Observation:

<Give the annexure relevant to the observation. Ensure that the evidence satisfies the three conditions as under:

- a. Accurate – Calculations etc., should match to the observation
- b. Relevant – The evidence should be relevant to the observation
- c. Complete – The evidence should be complete, there should not be any ambiguity>

Observation No. X2: <Define the Observation as a Heading>

Observation	Risk Level and Impact	Recommendation	Management Comments

Annexure to the Observation:

Observation No. X3: <Define the Observation as a Heading>

Observation	Risk Level and Impact	Recommendation	Management Comments

Annexure to the Observation:

Process / Area Name:

Observation No. Y1: <Define the Observation as a Heading>

Observation	Risk Level and Impact	Recommendation	Management Comments

Annexure to the Observation:

Closure:

Signature of the Member

Membership No:

5.2 Covering Letter for Draft Report – By email / letter head

Format No: B/5.2.

Date: <DD MMM YYYY>,

<City>.

To

Mr./Mrs. <Name of the Process Owner>,

<Designation>, <Department>

Dear Sir,

Sub: Circulation of Draft Report for Management Comments

With regard to the Internal Audit Engagement captioned – “<Name of the Engagement>” assigned to us, we have completed the field work of the engagement and have firmed up the “Draft Report” and is being circulated to you for your comments. The process from now onwards shall be as under:

- a. The process owners shall go through the observations and give their comments in the designated zone provided against each observation.
- b. A copy of email is also sent to your official id.
- c. The documents shall be returned to us by DD/MMM/YYYY either by an email or printed copy.
- d. Incase you need our team member to explain you the observation, you can contact Mr. XYZ, (Mob No: XXXXXXXX) for the same.

We look forward for your dates availability for holding Exit Meeting for this engagement. We look forward for your response in this regards.

Warm Regards,

For XYZ & Co.,

YZ,

Manager / Partner

5.3 Collection of Management Comments

(Refer to Format No – B/5.1)

Exit Meeting

6.1 Fixing of the Meeting Time

(Refer to Format No – B/5.2)

6.2 Presentation and Action Plan Preparation

Format No: B/6.2A.

Assignment Name		Assignment No
		Engagement Manager
Company Name		

Observation-wise Discussion

Obs No.	Observation Details	Status	Management Comments
		<i>Dropped / Retained</i>	

Action Plan Statement

SI No	Action Plan Statement	Ref of Observation	Responsibility	Dead Line	Remarks

Signature of the Process Owner¹

Signature of the Auditor

¹ It is important to take the signature of the Process Owner as it shall act as an evidence and the Process owner does not disclaim

Format No: B/6.2B.

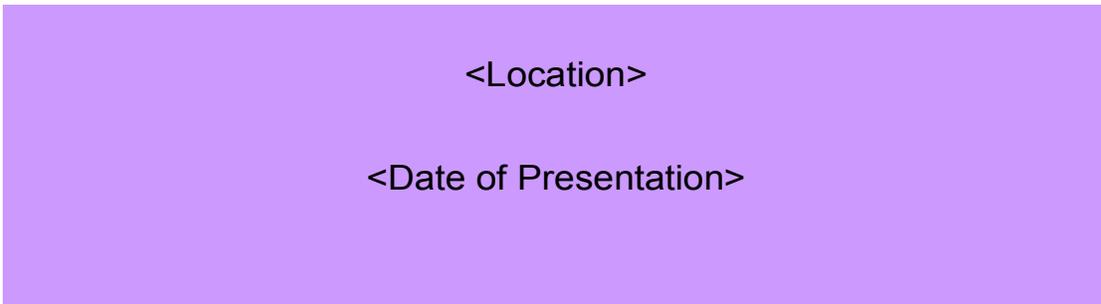
XYZ & Co.,
Format:B/6.2

<Client Logo>

Internal Audit Report

<Name of the Company>

Presentation



XYZ & Co.,

Contents of the Presentation

<Client Logo>

- 1. Overview<Page No>
- 2. Detailed Observations<Page No>
- 3. Action Plan for Implementation<Page No>



XYZ & Co.,

<Client Logo>

Overview



XYZ & Co.,

Overview

<Client Logo>

<Give engagement details>

<Give detailed Scope & Objective of the Engagement>

<Timelines & Delivery Dates>



XYZ & Co.,

Most Important Observations

<Client Logo>

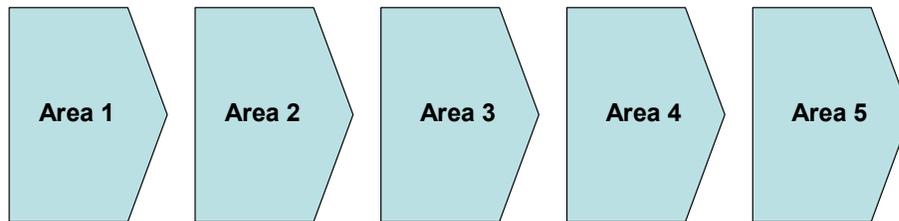
- 1. Observation 1: (Reference)
Impact: Value:
- 2. Observation 1: (Reference)
Impact: Value:
- 3. Observation 1: (Reference)
Impact: Value:
- 4. Observation 1: (Reference)
Impact: Value:
- 5. Observation 1: (Reference)
Impact: Value:



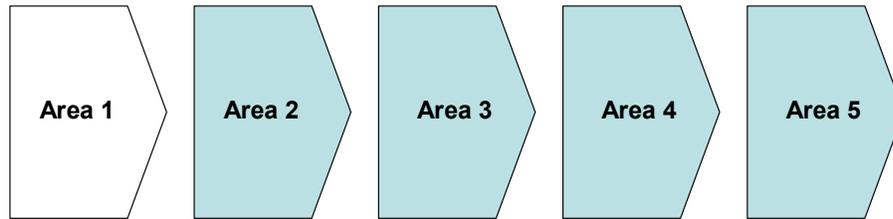
XYZ & Co.,

<Client Logo>

Detailed Audit Observations



Detailed Audit Observations



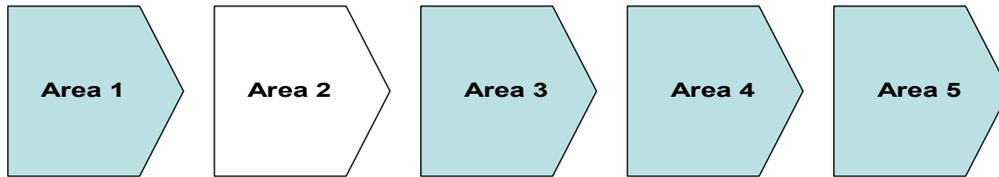
1.1. Observation Heading

Observation	Risk Level & Impact	Recommendation	Management Comments
<What should be> <What is currently practiced> <The problem definition> <Root cause of the problem>	Risk Level: High / Medium / Low <Value of the Risk> <Give Annexure for break up of evidences / Calculations etc.>	<How to rectify the existing condition, transaction> <How to rectify the system so as to avoid repeat of a similar situation> <Details of how change should be brought in>	<Comments from the Auditee – as it is> <Date by which the implementation shall be completed> <Name of the Person Responsible>

Annexure



Detailed Audit Observations



Detailed Audit Observations

2.1. Observation Heading

Observation	Risk Level & Impact	Recommendation	Management Comments
<What should be> <What is currently practiced> <The problem definition> <Root cause of the problem>	Risk Level: High / Medium / Low <Value of the Risk> <Give Annexure for break up of evidences / Calculations etc.>	<How to rectify the existing condition, transaction> <How to rectify the system so as to avoid repeat of a similar situation> <Details of how change should be brought in>	<Comments from the Auditee – as it is> <Date by which the implementation shall be completed> <Name of the Person Responsible>

Annexure



Action Plan



XYZ & Co.,

Action Plan Statement

<Client Logo>

SI No	Action Plan Statement	Ref of Observation	Responsibility	Dead Line	Remarks



6.2 Updation of the Action Plan into the Draft Report

(Refer to Format No – B/5.1)

Report Issue

7.1 Final Report Release Checklist

Format No: B/7.1

Assignment Name		Assignment No
		Engagement Manager
Company Name		

SI. No	Checklist	Status	Remarks
1	Whether there is an Executive Summary written with summary of high risk observations for a top management view		
2	Whether Objective and Scope Document is given and relates to the Engagement Letter		
3	Whether the Language used in the Reports are positive, affirmative and objective		
4	Whether the language is easily understandable to a general person and jargon free		
5	Whether there are no comments which are in an attacking tone and adequate care is taken to keep them free of abuses		
6	Whether there is adequate numbering system followed and there is a table of contents referring to the report and observations		
7	Whether all the observations are supported by evidences and are not ambiguous		
8	Are there any trend, performance information which may be represented using Graphs		

Manual on Internal Audit

SI. No	Checklist	Status	Remarks
9	Is caution taken in usage of logos of the clients with adequate written permissions		
10	Is the formatting of the report done using your standardized formats signed of with the client. Please give extra check on headers, footers, first page, annexure etc.,		
11	Check the valuation of Risk levels is as per the methodology / score matrix signed off with the client		
12	All the observations are linked / mapped to the evidences		
13	Ensure that the Audit Report adheres to the Standard of Internal Audit (SIA) 4 for Reporting issued by Institute of Chartered Accountants of India. (ICAI)		
14			
15			

Team Leader

Engagement Manager

Partner

7.2 Audit Committee Presentation (Where Applicable)

Format No: B/7.2

XYZ & Co.,

Format:B/6.2

<Client Logo>

Quarterly Report

<Name of the Company>

Audit Committee Presentation

<Location>

<Quarter No / Date>

XYZ & Co.,

<Client Logo>

Contents of the Presentation

- 1. Plan vis-à-vis Actual.....<Page No>
- 2. Quarterly Critical Audit Observations.....<Page No>
- 3. Old Pending Audit Observations<Page No>

Plan vis-à-vis Actual



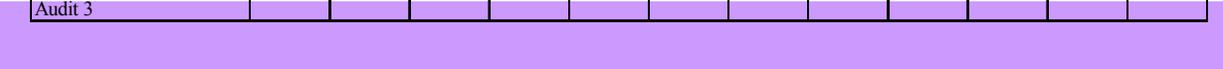
XYZ & Co.,

Plan vis-à-vis Actual

<Client Logo>

Status of Plan vis-à-vis Actual Report of various projects planned during the quarter

Details	Month 1				Month 2				Month 3			
	Week 1	Week 2	Week 3	Week 4	Week 1	Week 2	Week 3	Week 4	Week 1	Week 2	Week 3	Week 4
Area 1												
Audit 1		←→										
Audit 2			←→				→					
Audit 3	←→											
Area 2												
Audit 1		←→										
Audit 2				←							→	
Audit 3							←→					
Area 3												
Audit 1		←→										
Audit 2								←→				
Audit 3				←→								
Area 4												
Audit 1									←→			
Audit 2	←→											
Audit 3											←→	
Area 5												
Audit 1												
Audit 2										←→		
Audit 3												



XYZ & Co.,

Plan vis-à-vis Actual

<Client Logo>

Audit No	Audit Name	Status	Reason	Remarks
		Delayed		
		Not Started		



XYZ & Co.,

<Client Logo>

**Quarterly Audits –
Critical Observations
Presentation**



XYZ & Co.,

High Risk / High Critical Observations

<Client Logo>

Audit No	Audit Name	
Observation	Risk / Impact	Management Comments

Audit No	Audit Name	
Observation	Risk / Impact	Management Comments



XYZ & Co.,

<Client Logo>

**Status of Closures of
Old Observations**



7.3 Audit Feedback Collection

Format No: B/7.3

Assignment Name		Assignment No
		Engagement In-charge
Company Name		

a. How do you find the methodology adopted by us in delivering the assignment				
Excellent	Very Good	Good	Average	Poor
<i>Additional Comments:</i>				

b. How do you rate the knowledge levels of our team members in delivering the assignment				
Excellent	Very Good	Good	Average	Poor
<i>Additional Comments:</i>				

c. How do you find the report content and presentation and the general visuals				
Excellent	Very Good	Good	Average	Poor
<i>Additional Comments:</i>				

d. How do you rate the overall team performance				
Excellent	Very Good	Good	Average	Poor
<i>Additional Comments:</i>				

e. How do you rate the time schedules adherence and general project management of the our Team				
Excellent	Very Good	Good	Average	Poor
<i>Additional Comments:</i>				

f. How do you rate the client communication levels				
Excellent	Very Good	Good	Average	Poor
<i>Additional Comments:</i>				

Overall rating about us				
Excellent	Very Good	Good	Average	Poor
<i>Additional Comments:</i>				

Additional Comments (Any other):

Client Coordinator

Work Paper Closures

8.1 Work Papers Compilation and Quality Audit Closures

A. Quality Audit Checklist

Format No: B/8.1A

Name of the Client:

Name of In-charge:

Manager:

Assignment Details:

Date of Start:

Completion Status:
(on a scale of 1 to 10 for every bullet point)

Sl. No	Particulars	Score Achieved*	Work Paper for Details (to list out observations and Recommendation)	Recommendations	Remarks
1	Visual Presentation of the work papers – files, folders etc.: <ul style="list-style-type: none"> • Do the files have title sheets on the top • Is the filing neat and tidy • Are the files and folders serially numbered 				

Sl. No	Particulars	Score Achieved*	Work Paper for Details (to list out observations and Recommendation)	Recommendations	Remarks
2	<p>Filing distribution:</p> <ul style="list-style-type: none"> • Are the files broken phase wise of the assignment • Is there a master file • Are there dividers in the files to identify sets of work papers 				
3	<p>Assignment Phase Files:</p> <ul style="list-style-type: none"> • Does it contain the final report released • Does it contain the list of interviews conducted and their relevant minutes and supporting documents collected • Are all the working papers referred in the conclusions drawn for final reports • Are there any phases which are complete without reports 				
4	<p>Maintenance of Work Papers in Soft form:</p> <ul style="list-style-type: none"> • Are the files in the folder properly arranged, named and retained 				

Sl. No	Particulars	Score Achieved*	Work Paper for Details (to list out observations and Recommendation)	Recommendations	Remarks
	<ul style="list-style-type: none"> • Are there irrelevant files in the folder • Is there adequate version control retained on the files 				
5	Closing of the assignment: <ul style="list-style-type: none"> • Is there a costing statement available • Is there a knowledge derived from the assignment statement prepared • Is there client feedback note available 				

A.1 Final Score Card

Sl No	Particulars	Total Score Achieved	Maximum Score Possible
	Visual Presentation of Work Papers		
	Filing Distribution		
	Assignment Phase Files <ul style="list-style-type: none"> ▪ <i>Planning</i> ▪ <i>Field Work</i> ▪ <i>Exit Meeting</i> ▪ <i>Final Reporting</i> ▪ <i>Implementation</i> 		
	Maintenance of Work Papers in soft form		
	Closing of the assignment		
	Total		

Sl. No	Particulars / Remarks	Deadline for Implementation

Signature of the Auditor

Signature of the Engagement Manager

B. Quality Audit Action Plan Statement

Format No: B/8.1B

Assignment Name		Assignment No
		Engagement In-charge
Company Name		
Name of the Quality Auditor		

SI. No	Non Conformities Identified	Improvements	Responsibility	Future Action Plan
1				
2				
3				
4				

8.2 Knowledge Bank Updation

Format No: B/8.2

Assignment Name		Assignment No
		Engagement In-charge
Company Name		

Sl.no	Particulars	Updation Status	Work Paper Reference	Acted on and By
1	Please make a separate statement listing the major industry segment value adds learnt during the assignment delivery			
2	Key Performance Indicators / Best Practices identified during the assignment attached as a separate statement			
3	Updation of the credentials statement with brief description of the assignment			
4	Updation of team level credentials with brief description of the assignment			
5	Updation of website incase of any innovation			
6				
7				
8				

PART – C

Clouse Outs

Close Outs

C.1 Invoice Format

Format No: C/1

<On Your Letter Head / Pre Printed Form>

Date: <DD MMM YYYY>,
<City>.

To
Mr./Mrs. <Name of the Client Representative>,
<Designation>,
<Name of the Company>,
<City>.

Invoice No:
Service Tax Registration No:
PAN:
TAN:

Invoice

S. No.	Particulars	Amount (Rs.)
1.	Add: Service Tax @ 10% Excluding OPEs as per the annexure	
Total		

(Rupees only)

For XYZ & Co.,,

Authorized Signatory

C.2 Out of Pocket Expenses Tracking

Format No: C/2

Travel Expense/ General Expense Re-imbursment Statement												
Start	Travel Details	Date	Client Code	Particulars	Ticket	Lodg- ing	Board- ing	Conve- yance	Courier	Xerox	Others	Total
	Destination											
				TOTAL								

<u>Train Ticket Summary</u>	
Cost of the ticket	
Less: Spent by Company	
Balance from Advance	

Total Expenses incurred	
Less: Advance Taken	
Due From/To	

C.3 Overall Closure Checklist

Format No: C/3

Assignment Name		Assignment No
		Engagement Manager
Company Name		

SI. No	Form Name	Planned Date	Complete Date	Signature
1	<i>Opening Meeting</i>			
2	<i>Scope and Objective of the Assignment</i>			
3	<i>Assignment Scheduling</i>			
4	<i>Planning</i>			
4.1	General Process Understanding			
4.2	Data Analysis			
4.3	Walk Through			
4.4	Documentation of Walk Through			
4.6	Risks and Audit Programme Generation			
4.7	Field Work Scheduling			
5	<i>Field Work</i>			
5.1	Field Work Execution			
5.2	Draft Report Generation and Circulation			
6	<i>Exit Meeting</i>			
6.1	Draft Report with management comments			
7	<i>Final Report Issue</i>			
7.1	Structured Reporting			
7.2	Presentation of Finding			
8	<i>Follow up and Implementation</i>			
8.1	Follow Up Check list			
9	<i>General Administrative Closures</i>			
9.1	Invoice Generation			
9.2	Out of Pocket Expenses Collection			
9.4	Client Feedback			

Manual on Internal Audit

Sl. No	Form Name	Planned Date	Complete Date	Signature
9.5	Opportunity for future Businesses			
9.6	Knowledge Base Updation			
10	Quality Audit			
10.1	Quality Review Report and Action Statement			
10.2	File Closure			

Any Comments:

Major Learning from Assignment:

Partner's Comments:

General Annexures

General Annexures

D.1 Confirmation of Meeting Format

Format No: D/1

Dear Sir,

With regards to the Engagement “ _____ ”, we have been appointed, we would like to have a meeting with you to discuss the following:

- a.
- b.
- c.
- d.

We shall be needing _____ hours to complete the discussion. Please provide us suitable time for the same.

Regards,

XYZ

Team, XYZ & Co.,

D.2 Minutes of Meeting Formats

Format No: D/2

Details of the Meeting		Meeting No	
		Date of Meeting	
Company Name			
Participants			
From Client		From Auditor	

Important Issues Discussed:

- a.

- b.

- c.

- d.

D.4 Standards on Internal Audit Issued by the Institute of Chartered Accountants of India

Internal audit is an independent appraisal involving specialized application of techniques of auditing in accordance with the specific needs of an enterprise. The nature and scope of internal audit depends upon the requirements of an enterprise. It is a systematic evaluation of risk management, control and governance processes particularly with reference to:

- Safeguarding of assets
- Compliance with laws, regulations and contracts as well as policies laid down by the management
- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations
- Accomplishment of objectives and goals of the organization through ethical and effective governance

The Institute of Chartered Accountants of India constituted the “Committee on Internal Audit” on 5th February 2004. The Council, at its 282nd meeting held in November 2008, had renamed the Committee on Internal Audit as “Internal Audit Standards Board”. The primary mission of the Board is to enable its members to provide more effective and efficient value added services relating to internal audit to the industry and others by issuing Standards on Internal Audit, Guidance Notes and Industry Specific Technical Guides.

The following definition of internal audit, as contained in the Preface to the Standards on Internal Audit, issued by the Institute of Chartered Accountants of India, amply reflects the current thinking as to what is an internal audit:

“3. Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system.”

It is, however, pertinent to note that variations in propositions do not change the basic philosophy of collecting and evaluating evidence and formulating an opinion; what undergoes a change is the approach, the tools and the techniques used. Internal audit is, therefore, an important tool in the hands of the management to help improve its decision making process. The growing importance of internal audit to good governance can be appreciated from the spate of legal and regulatory requirements world over, directly or indirectly necessitating the need for internal help management to rope in the services of internal audit to help in improving the former’s efficiency in running an enterprise. However, before discussing how internal audit can help management in that respect and the drivers of an efficient and effective internal audit, it is essential to understand the various stages of evolution of internal audit over time.

5.4.1 Preface to Standards on Internal Audit

The Preface to Standards on Internal Audit is an important document, which gives an insight into Committee on Internal Audit (presently known as Internal Audit Standards Board). It deals

with aspects like scope and functions of the Committee on Internal Audit, scope of Standards on Internal Audit and Guidance Notes on Internal Audit and their status being mandatory or recommendatory in nature, as also the implications in case of departures from the Standards on Internal Audit, the basic procedures for issuing the Standards and Guidance Note on Internal Audit and the date of coming into force of the particular Standard on Internal Audit.

Preface to Standards on Internal Audit issued by the Institute of Chartered Accountants of India.

5.4.2 Framework for Standards on Internal Audit

Internal Audit Standards Board has issued the Framework for Standards on Internal Audit which provides a frame of reference for the internal audit standards being issued by the Institute. The objective of the Framework is to promote the professionalism in the internal audit activity. The Framework comprises of four components viz the Code of Conduct, the Competence Framework, the Body of Standards and the Technical Guidance.

Framework for Standards on Internal Audit issued by the Institute of Chartered Accountants of India.

5.4.3 Basic Principles Governing an Internal Audit

Like any other profession, the profession of internal audit also is based on a certain fundamental principles, which constitute the life and blood of this profession. Standard on Internal Audit (SIA) 2, *Basic Principles Governing Internal Audit*, had also been issued by the Institute of Chartered Accountants of India. The purpose of this Standard on Internal Audit (SIA) is to establish standards and provide guidance on the general principles governing internal audit. This Standard explains the principles, namely, integrity, objectivity and independence, confidentiality, due professional care, skills and competence, work performed by others, documentation, planning, Evidence and reporting which governs the internal auditor's professional responsibilities. These principles have been discussed in the following paragraphs:

Integrity, Objectivity and Independence

The internal auditor should be straight forward, honest and sincere in his approaching to the assignment, keeping free of any bias that may override/compromise his integrity and objectivity. The internal auditor should also be impartial and free of any interest that may be regarded as incompatible to integrity and objectivity and inform his supervisors of any personal or external factors that actually do or are likely to impede his independence and objectivity so that necessary remedial action may be taken.

Confidentiality

The internal auditor, in the course of his work, invariably comes across information that is confidential and/ or critical to the working of the entity. The internal auditor should respect the confidentiality of such information and should not disclose the same to a third party without the specific authority or unless there is a legal or professional duty to do so. The internal auditor should, therefore, ensure that there are adequate policies and mechanisms to protect the confidentiality of the information.

Due Professional Care, Skills and Competence

Performance of the audit and preparation of the report require due professional care by persons who have adequate training, experience and competence in auditing. Development of audit skills may be achieved through training courses. Much of staff development results from on the job training where experienced auditors assist in the training of new, less experienced internal staff. Each internal auditor is responsible for continuing his education in order to maintain his proficiency.

Internal auditors should also take reasonable professional care in specifying evidence required, in gathering and evaluating that evidence and in reporting the findings. They need to remain alert to the instances that could indicate errors, fraud, etc.

Planning

Adequate planning for every audit should cover all material areas. The audit working papers should incorporate documentary evidence of audit planning in the form of an audit plan, setting out the objectives and scope of an audit and the techniques and resources to be used by an internal auditor. Plans may be revised as required in the course of the audit.

Delegation and Supervision

Internal auditor would invariably require delegating work to assistants. At times, services of an expert might also be sought. The internal auditor would, however, continue to be responsible for his opinion on the activities being subject to internal audit or his findings. The internal auditor should carefully direct, supervise and review the work delegated to assistants. The amount of supervision required depends on the skill and experience of the assistant on the job. The supervisory role of the internal auditor includes:

- Providing suitable instructions for the audit.
- Approving or recommending the approval of the audit plan.
- Ensuring that the audit program is completed.
- Ensuring that working papers adequately support the audit findings, conclusions and reports.
- Ensuring that the reports are unambiguous, accurate and concise.
- Ensuring that the audit objectives have been met.

Evaluation of Internal Control

Internal auditors should systematically evaluate the nature of operations and system of internal controls in the departments being audited to determine the nature, extent and timing of audit procedures. Internal controls of an organization comprise the plan of organization and methods adopted to safeguard assets, comply with laws, ensure the completeness and correctness of data, promote efficiency and encourage adherence to management policies. It is important that a review of an internal control system be directed primarily towards those controls that have an important bearing on the reliability of the system (i.e., key controls).

Evidence

The internal auditor should obtain all the evidence considered necessary for the expression of an informed opinion. Professional judgment is needed to determine the nature and amount of evidence required. In this regard, the internal auditor should consider:

- The item under consideration;
- Materiality of possible errors;
- Degree of risk of error; and
- Probability of the error occurring.

Work Papers

The internal auditor should document matters that are important in providing evidence to his opinion or the findings. Advantages of having sufficient and properly maintained work papers include the following:

- Assistance in the performance of the audit.
- Providing record of work done.
- Forming basis of the auditor's observations/ findings in his report.
- Providing information for the report.
- Aiding the review and evaluation of the work done.
- Aiding cross referencing between audit evidence and decision taken by the internal auditor.
- Providing evidence that the internal audit was carried out in accordance with the requirements of the relevant pronouncements of the Institute of Chartered Accountants of India.

Standard on Internal Audit (SIA) 2, *Basic Principles Governing Internal Audit* issued by the Institute of Chartered Accountants of India.

5.4.4 Planning an Internal Audit

Planning is one of the basic principles governing internal audit. Adequate planning ensures that appropriate attention is devoted to significant areas of audit, potential problems are identified, and that the skills and time of the staff are appropriately utilised. Planning also ensures that the work is carried out in accordance with the applicable pronouncements of the Institute of Chartered Accountants of India. Planning should also be based on the knowledge of the entity's business. Standard on Internal Audit (SIA) 1, *Planning an Internal Audit* was also issued by the Institute of Chartered Accountants of India. The basic objective of the SIA is to establish standards and provide guidance in respect of planning an Internal and helping in achieving the objectives of an Internal Audit function. This SIA gives an insight into the objectives of the planning. It provides knowledge about the factors affecting the planning process. It deals with the scope of the planning and planning process.

5.4.5 Documentation

Adequate documents act as basis for the planning and performing the internal audit. Documents provide the evidence of the work of the internal auditor. The Institute of Chartered Accountants of India had also issued the Standard on Internal Audit (SIA) 3, *Documentation*. The purpose of this Standard on Internal Audit is to establish Standards and provide guidance on the documentation requirements in an internal audit. This Standard provides guidance regarding the form and content of the internal audit documentation, retention and retention of the same and identification of the preparer and reviewer.

5.4.6 Reporting

Reporting is a formal opinion or disclaimer thereof, issued by the internal auditor as a result of evaluations made by him as per the terms of the engagement. The Institute of Chartered Accountants of India has also issued the Standard on Internal Audit (SIA) 4, *Reporting*. The purpose of the Standard on Internal Audit (SIA) 4, *Reporting* is to establish standards on the form and content of the internal auditor's report issued as a result of the internal audit performed by an internal auditor of the systems, processes, controls including the items of financial statements of an entity. This SIA describes the basic elements of an internal audit report such as opening, objectives, scope paragraphs, and executive summary. This SIA also deals with the different stages of communication and discussion of the report and describes the reporting responsibilities of the internal auditor when there is a limitation on the scope. The Standard also lays down the reporting responsibilities of the internal auditor when there is restriction on usage and circulation of the report.

5.4.7 Sampling

Sampling is that part of statistical practice concerned with the selection of individual observations intended to yield some knowledge about the audit population, especially for the purpose of statistical inference. The Institute of Chartered Accountants of India had also issued the Standard on Internal Audit (SIA) 5, *Sampling*. The Standard on Internal Audit (SIA) 5, *Sampling* provides the guidance regarding the design and selection of an audit sample and also on the use of the audit sampling in the internal audit engagements. This SIA also deals with the evaluation of the sample results. This Standard also provide guidance on the use of sampling in risk assessment procedures and tests of controls performed by the internal auditor to obtain an understanding of the entity, business and its environment, including mechanism of its internal control. The areas covered by the SIA include design of sample, tolerable and expected error, selection of sample, evaluation of sample results, analysis of errors in the sample, projection of errors, reassessing sampling risk. This also describes the internal auditor's documentation requirements in the context of the sampling.

5.4.8 Analytical Procedures

Analytical Procedures is the skill which help an auditor understanding the client business and changes in the business, to identify potential risk arrears. The Institute of Chartered Accountants of India had also issued the Standard on Internal Audit (SIA) 6, *Analytical Procedures*. The Standard on Internal Audit (SIA) 6, *Analytical Procedures* provides the guidance regarding the application of analytical procedures during internal audit. The SIA deals with the aspects such as, the nature and purpose of analytical procedures, analytical procedures as risk assessment procedures and in planning the internal audit, analytical procedures as substantive procedures, analytical procedures in the overall review at the end

of the internal audit, extent of reliance on analytical procedures and investigating unusual items or trends.

5.4.9 Quality Assurance in the Internal Audit

Quality assurance is a standard for meeting the client requirements. It documents how an Internal Auditor will meet the requirements of a client or customer in a systematic, reliable fashion. It shows an Internal Auditor commitment to delivering quality products and services to the client. The Institute of Chartered Accountants of India had also issued the Standard on Internal Audit 7, *Quality Assurance in Internal Audit*. The Standard on Internal Audit (SIA) 7, *Quality Assurance in Internal Audit* establishes standards and provide guidance regarding quality assurance in internal audit. A system for assuring the quality in internal audit should provide reasonable assurance that the internal auditors comply with professional standards, regulatory and legal requirements so that the reports issued by them are appropriate in the circumstances. This Standard provide the guidance to the person entrusted with the responsibility for the quality of the internal audit whether in-house internal audit or a firm carrying out internal audit. This Standard also provides the extensive knowledge about the internal quality reviews, external quality reviews and communicating the results thereof.

5.4.10 Terms of Internal Audit Engagement

The Terms of engagement defines the scope, authority, responsibilities, confidentiality, limitation and compensation of the internal auditors. Terms of Internal Audit Engagement lay down clarity between the internal auditors and the users of their services for inculcating professionalism and avoiding misunderstanding as to any aspect of the engagement. This Standard on Internal Audit (SIA) 8, *Terms of Internal Audit Engagement* provides guidance in respect of terms of engagement of the internal audit activity whether carried out in house or by an external agency. This SIA describes the elements of the terms of engagement viz, scope, responsibility, authority, confidential, limitations, reporting, compensation and compliance with Standards.