Internal Audit Checklist

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

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Internal Audit Standards Board

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Foreword

The Chartered Accountancy profession, since its inception, is regarded as the trustee of public interest. In the last decade or so of financial turbulence, the role of Chartered Accountancy profession has become increasingly relevant and critical for sustenance of businesses. The CA profession has avowed duty to public interest and this can come through with increased impetus on ethics, trust and integrity in discharging professional assignments.

The Companies Act, 2013, has definitely shaped the way forward for internal audit function in India and has provided a strong legal mandate for the crucial role of internal auditors in the corporate governance structure.

Internal auditors should rise to the task and seize the opportunity of establishing high performing internal audit functions as per the new requirements. Internal auditors must be conscious that the current responsibilities come with new risks and new rewards. Continuous learning and timely application of relevant knowledge to create value will help in increasing the internal audit's credibility and confidence in their enhanced roles.

I am happy that the Internal Audit Standards Board is issuing this publication "Internal Audit Checklist" to provide updated guidance for helping internal auditors to stay at the cutting edge of best practices. This publication is quite comprehensive, providing a step by step guidance on every aspect of internal audit.

At this juncture, I wish to compliment CA. Mukesh Singh Kushwah, Chairman, CA. Anil S. Bhandari, Vice Chairman and other members of Internal Audit Standards Board, for their zeal towards bringing out comprehensive literature on internal audit.

I am sure that this publication would prove useful to the members in efficiently discharging their responsibilities as internal auditors.

February 7, 2017 — CA. M. Devaraja Reddy
New Delhi — President, ICAI

Preface

In today's dynamic environment organisations are constantly reinventing the way business is done, to meet the challenges of rapidly changing marketplace and regulatory framework. This makes it imperative for internal audit function to find innovative means to facilitate organizations to succeed and sustain their performance by imbibing/ integrating performance improvement in internal audit approach. The Companies Act, 2013, has also highlighted the important role of internal auditors in corporate governance framework.

The Institute is committed to continue its efforts in helping its members to understand, guide and shape the internal audit profession in the country. The Internal Audit Standards Board of ICAI has immense pleasure in placing before the members this publication on Internal Audit Checklist. It would serve as a simple step-wise guide intended to help internal auditors to effectively conduct the internal audit process. This checklist is illustrative in nature and the internal team should review and update it on the basis of systems and procedures of the organisations. It is divided into four main parts. Part I is Introduction, Part II deals with Internal Audit of Specific Function, Part III deals with Review and Reporting and Part IV covers Other Aspects. While each of the Parts is further divided into relevant sub topics, Part II contains, guidance on aspects such as Sales, Fixed Assets, Owner's Capital, Fixed Assets and Depreciation and Payables and Receivables, etc. This publication has therefore, a wider usage and appeal. This would also help to guide the members in maintaining proper internal audit documentation in accordance with SIA 3, *Documentation*.

At this juncture, I wish to place on record my sincere thanks to all the members of the Study Group formed under my convenorship at Delhi, *viz*., CA. Rakesh Garg (co-convener), CA. Anil Aggarwal, CA. Manoj Tayal, CA. Vidhya Jayaraman, CA. Vinod Gupta, CA. Prashant Chand, CA. Umesh Pandey, CA. Rajeev VD Gupta, CA. Vikas Agarwal, CA. Abhishek Jain, CA. Manoj Arora, CA. Rajiv Walia, CA. Manu Jindal, CA. Sandeep Goel, CA. Naveen Sharma for taking time out of their pressing preoccupations and contributing in preparation of this publication.

I would also like to thank CA. M. Devaraja Reddy, President, ICAI and CA. Nilesh Shivji Vikamsey, Vice President, ICAI for their continuous support and encouragement to the initiatives of the Board. I must also thank my colleagues from the Council at the Internal Audit Standards Board, *viz.,* CA. Anil Satyanarayan Bhandari, Vice-Chairman, IASB, CA. Tarun Jamnadas Ghia, CA. Mangesh Pandurang Kinare, CA. Dhinal Ashvinbhai Shah, CA. Babu Abraham Kallivayalil, CA. K. Sripriya, CA. M. P. Vijay Kumar, CA. Ranjeet Kumar Agarwal, CA. Sushil Kumar Goyal, CA. Debashis Mitra, CA. Shyam Lal Agarwal, CA. Kemisha Soni, CA. Sanjiv Kumar Chaudhary, CA. Sanjay Vasudeva, Shri Vithayathil Kurian and Shri Vijay Kumar Jhalani for their vision and support. I also wish to place on record my gratitude for the co-opted members on the Board *viz.*, CA. Anil Kumar Jain, CA. Kartik Bharatkumar Radia, CA. Krishna Kumar T., CA. Vipin Gupta, CA. Vishwanath K., CA. Yashwant Jaywant Kasar and special invitee *viz*., CA. Shobhit Dwivedi for their invaluable guidance as also their dedication and support to the various initiatives of the Board.

I am sure that the publication would be warmly received by the members and they would find it immensely useful in improving quality of their internal audit assignment.

New Delhi — CA. Mukesh Singh Kushwah
February 8, 2017 — Chairman, Internal Audit Standards Board

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Part I
INTRODUCTION

Chapter 1
Introduction

1.1 Internal audit, as we understand it today, began around the time of the Second World War. It is a mechanism to ensure that business and entities use resources efficiently and apply the processes consistently. The business landscape has changed dramatically and the need to create greater transparency, establish sound corporate governance and understand risk exposure has increased enormously. Internal auditors should be proactive to the challenging environment and should strive to engage with the change, with a heightened focus on effective governance, risk management and control.

1.2 "*Preface to the Standards on* Internal *Audit*" issued by The Institute of Chartered Accountants of India defines "*Internal Audit*" as follows:

> "*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. Internal audit, therefore, provides assurance that there is transparency in reporting, as a part of good governance.*"

1.3 Earlier, internal audit was largely voluntary and management used to appoint internal auditors as and when they felt the need. However, now with increased complexities in business, frauds and scams internal audit has become essential for most organisations. Internal audit has now gained so much importance that conducting internal audit has been made mandatory by the regulators for listed and other specified companies.

Requirements for Internal Audit under Companies Act, 2013 and Rules Framed Thereunder

1.4 The Companies Act, 2013 provides for a major overhaul in the corporate governance norms for all companies. Section 138 of The Companies Act, 2013 provides that such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company. The Central Government may by Rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.

1.5 Further as per Rule 13 of Companies (Accounts) Rules, 2014, the following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, namely:

- every listed company,
- every unlisted public company having:
    - (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or
    - (ii) turnover of two hundred crore rupees or more during the preceding financial year; or
    - (iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
    - (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
- every private company having:
    - (i) turnover of two hundred crore rupees or more during the preceding financial year; or
    - (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

For the purpose of above Rule 13, the internal auditor may or may not be an employee of the company and the term 'Chartered Accountant' shall mean a Chartered Accountant whether engaged in practise or not. As per this rule, the Audit Committee of the company or the Board shall, in consultation with Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.

1.6 The above Rule 13 can be explained, in brief as under:

Appointment of Internal Auditors by Companies [Pursuant to Section 138 of Companies Act, 2013 read with Rule 13 of Companies Accounts Rules, 2014]

Types of Companies	Criteria based upon preceding financial year			
	Turnover (in ₹)	Outstanding loans/ advances from banks & other Public Financial Institutions (in ₹)	Paid up Share Capital (in ₹)	Outstanding Deposits (in ₹)
Listed Companies	*	*	*	*
Unlisted Public Companies	200 Crores or more	Exceeding 100 Crores at any point of time	50 Crores or more	25 Crores or more
Private Limited Companies	200 Crores or more	Exceeding 100 Crores at any point of time	Not Applicable	Not Applicable

* Every Listed Company is required to appoint Internal Auditor irrespective of any criteria.

Clause 49 of the Listing Agreement of Securities Exchange Board of India

1.7 Clause 49 of the Listing Agreement of Securities Exchange Board of India requires the audit committee to review with the management, the performance of internal auditors, and the adequacy of the internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage, frequency of internal audit.

The audit Committee is also required to review the internal audit reports relating to internal control weaknesses and discuss the significant findings of the audit with the internal auditors and follow up thereon. The present norms also specify that the appointment, removal and terms of remuneration of the chief internal auditor are subject to review by the audit committee.

In order to ensure that such internal control systems are truly independent and carry out their function without any influence from the management, it was proposed by SEBI to the SEBI Committee on Disclosures and Accounting Standards (SCODA) that in the case of listed companies, the function of internal audit may be mandatorily carried out by an external audit firm.

Standards on Internal Audit

1.8 The Institute of Chartered Accountants of India (ICAI) has always been extending a helping hand to the members to demonstrate competence as internal auditors and meet the expectations of all the relevant stakeholders. The Institute had constituted a non-standing Committee, Committee on Internal Audit on February 5, 2004. The Committee was renamed as Internal Audit Standards Board in November 2008. The primary mission of the Board, as approved by the Council in its terms of reference, is to reinforce the primacy of the Institute of Chartered Accountants of India as a promoter, source and purveyor of knowledge of internal audit in the country. The Board is working relentlessly to bring out high quality technical literature in the form of Standards on Internal Audit and Technical Guides/ Studies/ Manuals, which constitute important tools in helping the internal auditors to provide effective and efficient internal audit services to the clients and/ or employers.

1.9 Standards on Internal Audit (SIAs) issued by the Internal Audit Standards Board of the Institute focus on the principles to be followed, the objectives to be achieved and the essential considerations for the internal auditor in planning, conducting, documenting and reporting on internal audit. The Board has, till date, issued eighteen Standards on Internal Audit (SIAs). List of Standards on Internal Audit (SIAs) issued by the Board is given in Appendix I.

1.10 These Standards aim to codify the best practices in the area of internal audit and also serve to provide a benchmark of the performance of the internal audit services. While formulating SIAs, the Board takes into consideration the applicable laws, customs, usages and business environment and generally accepted auditing practices in India. The Board may also, where it considers appropriate, take into consideration the international practices in the area of internal audit, to the extent they are relevant to the conditions existing in India.

Other Technical Literature

1.11 A list of other Technical Literature on internal audit as issued by the Board, both generic as well as industry specific is given as **Appendix II.** It includes explanatory material on the Standards or it details the application of Standards in specific industries or situations in the form of Technical Guides. These Technical Guides provide guidance to internal auditors in resolving professional issues arising during the course of an internal audit while discharging their duties as internal auditors. List of Accounting Standards and Auditing, Review and Other Standards as issued by Institute of Chartered Accountants of India (ICAI) are also given as **Appendix III and IV**, respectively.

Objective and Scope of Publication

1.12 This publication would help the members to understand what is expected to them in their professional assignments as internal auditors and how best they can fulfil those expectations and provide value addition. Further, this publication contains checklists which are illustrative in nature and which must be adapted and customised to a given situation using one's skill and professional judgement.

Scope and Coverage of Publication

1.13 This publication includes illustrative checklist for internal audit of an entity. The contents are as follows:

Part I: Introduction

Introduction

Know Your Client (KYC)

Legal and Statutory Compliances

Part II: Internal Audit of Specific Functions

Sales, Services and Revenue

Purchase and Procurement

Inventory and Stores Management

Human Resources and Payroll Processing

Internal Audit Checklist

Chapter 2

Know Your Client (KYC)

KYC Norms issued by the ICAI

2.1 Globally, the financial services industry is required to obtain certain information of their client and comply with Know Your Client (KYC) norms. Keeping in view the highest standards of Chartered Accountancy profession in India, the Council of the Institute of Chartered Accountants of India (ICAI) thought it necessary to issue such norms to be observed by the members of the profession who are in practice. In light of this background, the Council of ICAI approved the following KYC norms, which are made mandatory in nature and shall apply in all assignments pertaining to attest functions. These KYC norms shall be mandatorily applicable for engagements accepted on or after 1st January, 2017.

Where Client is an Individual / Proprietor

(a) *General Information*

- o Name of the Individual...
- o PAN or Aadhar Card No. of the individual…………………………........
- o Business Description………………………………………......................
- o Copy of last Audited Financial Statement……………………………....

(b) *Engagement Information*

- o Type of Engagement…………………………………………………............

Where Client is a Corporate Entity

(a) *General Information*

- o Name and Address of the Entity ………………………………..……….
- o Business Description………………………………………......................
- o Name of Parent Company in case of Subsidiary ……………………
- o Copy of last Audited Financial Statement …………………………....

(b) *Engagement Information*

- o Type of Engagement…………………………………………………............

(c) *Regulatory Information*

- Company Permanent Account Number (PAN)……………………........
- Company Identification Number (CIN)…………………………………...
- Director's Name & Addresses ……………………………………....….
- Director's Identification Number (DIN)……………………….............

Where Client is a Non-Corporate Entity

(a) General Information

- Name and Address of the Entity …………………………………….…...
- Copy of PAN No. ………………………………..……………………….
- Business Description……………………………………………………..
- Partner's Name & Address..
  (With their PAN/ Aadhar Card / DIN No.)
- Copy of last Audited Financial Statement ………………….............

(b) Engagement Information

- Type of Engagement……..……………………………….................

2.2 Besides, the above KYC norms which are made mandatory by the ICAI, the following norms may also be observed in KYC to achieve overall objectives of audit:

(i) What is the nature of assignment, whether it is:

- Assurance based (e.g., Statutory audit, Tax audit, Internal audit)……...
- Compliance based (e. g., filing of return, etc.) …………..................
- Others (e.g. Representative service, Advisory service, Accounting service)……………………………………………………......................

(ii) Whether copy of engagement letter is taken:

- What is the period of audit …………………….................................
- What Departments/ Divisions/ Units are to be audited……..……......
- Other business process, if any………..………………………………….

(iii) Whether entity is regulated by any other Act, namely:

- o SEBI/ RBI/ IRDA/ TRAI/ Electricity Act, etc....................................

(iv) Whether objectives of assignment are well defined and without any ambiguity:

- o Main objectives of internal audit of entity are.................................

  ....

(v) Whether important statistical data/ ratios of industry are obtained:

- o List out the statistical data/ ratios obtained with comparatives

  ....

(vi) Whether list of competitors obtained:

- o Main competitors of Entity are……………...

(vii) Whether best practices are adopted in internal audit:

- o Such practices are……………………...

(viii) Whether organization structure and decision hierarchy obtained:

- o Main features of decision hierarchy are ………………….............

(ix) Whether list of related parties with nature of transaction obtained:

- o Main related parties with nature of transactions are………….........

(x) Whether previous year audit report obtained:

- o What are the adverse comments in previous audit report……....…
- o What are the explanations of the management on such adverse comments...

Chapter 3

Legal and Statutory Compliances

3.1 The external environment is becoming much more demanding due to ever increasing importance of corporate governance and good controls. Internal audit has key role to play in providing independent assurance on the adequacy, appropriateness and effectiveness of internal controls and calibrates the chances of possible deviations; demonstrate transparency, accountability. This chapter provides a brief of major current legislations applicable to various entities. Internal auditor needs to check the compliance of various enactments as given below.

Compliance under Direct Tax Laws

Income Tax Act, 1961

3.2 Following are major points regarding compliance with respect to Income Tax Act, 1961:

(i) Whether the unit has incurred any expenditure to a person specified in Clause (b) of Section 40 A (2) of Income Tax Act, 1961. Verify whether they are reasonable and not excessive having regard to fair market value of such goods/ services/ facilities.

(ii) Whether the unit has made any cash payments against expenses above ₹ 20,000 which is proposed to be reduced to ₹ 10000 by Finance Bill 2017 (or ₹ 35,000 for goods carriages) in contravention of Section 40A (3)/ 3A of Income Tax Act, 1961, i.e., payment otherwise than through account payee cheque or account payee bank draft.

(iii) Whether the unit have certain payables in the form of tax, duty, cess or fees, employer contribution to provident fund and other funds, bonus, interest or loan and borrowings from banks and public financial institutions, etc. Verify whether such payments have actually been made on or before the due date of filing of Income Tax Return otherwise the same will be disallowed under Section 43B of Income Tax Act, 1961.

(iv) Whether the unit has repaid loans/ advances/ deposits in cash of ₹ 20,000 and above in contravention of Section 269T of Income Tax Act, 1961.

(v) Whether the unit has received loans/ advances/ deposits in cash of ₹ 20,000 and above in contravention of Section 269SS of Income Tax Act, 1961.

(vi) Verify whether the compliance of Section 206AA of Income Tax Act, 1961 has been made with regards to furnishing of PAN.

(vii) Verify the compliance of issues relating to TDS on salary, rent, commission, interest, payment to contractor, payment of fees to professional/ technical person, etc. and observe the following:

- Deduction of TDS at correct rate.
- Deduction and Deposit of TDS within time.
- Filing of TDS return in time and as per procedure prescribed.
- Issue of TDS certificate.
- Receipt of Form 15G/ 15H and entry in system.
- Filing of Form 15G/ 15H with Income Tax Department as per Rule 29C of Income Tax Rules, 1962.

(viii) Verify whether Tax Collected at Source (TCS) at the rate of 1% of sale consideration is to be collected as per sub-section 1D of Section 206C of the Income Tax Act, 1961 when it exceeds ₹ 2 lakhs, in case of bullion, or any other goods/ provision of any service if consideration (or any part of it) is received in cash, however, provisions of sub-section 1D are not applicable where TDS is deducted by the payer under Chapter XVII-B of Income Tax Act, 1961.

(ix) Verify whether every person being a seller who received any amount as consideration for sale of motor vehicles of the value exceeding ₹ 10 lakhs, shall also collect TCS at the rate of 1% of sales consideration, irrespective of the fact whether payment is made in cash or by cheque or draft otherwise from buyer (other than Central Government, State Government, Local Authority, etc.) (subsection 1F of Section 206C).

Compliance under Indirect Tax Laws

Central Excise Act, 1944

3.3 Major Compliances under Central Excise Act, 1944, are as follow:

(i) Whether the excise registration certificate covers all chapters/ tariff/ sub-headings/ products.

(ii) Whether the storage ground plan is approved by the Excise Range Superintendent.

(iii) Whether notice of the last change in the unit head has been given to excise authorities.

(iv) Whether the excise authorities are informed about the pre-authenticated serial nos. of invoices.

(v) Whether the invoices are serially numbered and contain the registration number, description, classification, time and date of removal, rate of duty, quantity and value of goods and duty payable.

(vi) Whether the daily stock account contains particulars regarding description of goods, opening balance, quantity manufactured, quantity removed, assessable value, amount of duty payable, and amount of duty actually paid and the closing stock.

(vii) Whether CENVAT is claimed and credit is taken in excise records immediately after the receipt of the material.

(viii) Whether the statutory records, i.e., PLA, RG-1, RG-2, RG-23 part I and II Rule 57F register, etc., are properly maintained.

(ix) Whether RT-12 returns have regularly been filed with excise authorities by 10th of the following month.

(x) Whether application in form AR-4 and original invoices have been submitted to excise authorities for exports sales.

(xi) Whether credit on capital goods is taken immediately in the same financial year upto 50% of the duty paid and balance credit in subsequent financial year.

(xii) Whether RG-1 Register opening and closing balance tallies with balance sheet figures.

(xiii) Whether duplicate for transporter copies of excise invoices are available for all consignments entered into RG23D register and is maintained properly (consignment-wise).

(xiv) Whether physical stocks reconcile with stock register.

Service Tax

3.4 Major compliances with regard to service tax are as follows:

(i) Verify the registration of the assessee, i.e., ST 2 with the Service Tax Commissioner.

(ii) Whether the tax invoice is proper and mentions the registration number of the service provider and separately mentions the rate of tax and amount of tax.

(iii) If the rates applied are different, take a copy of the authority/ notification under which such change is approved. For exampled, composition scheme, service tax notification, etc.

(iv) Whether month–wise statement of service tax receivable/ payable account tallies with the monthly payments of service tax.

(v) Whether the service tax has been deposited within due dates, i.e., on or before 5th of the following month or before 31st March for the payment of March month.

(vi) Whether half yearly returns have been filed timely. Tally these with monthly payments as well as with ledger entries of the relevant dates.

(vii) Review the return and check whether the return is accurate as to, input credit, output tax payable, valuation of services, carry forward of credit, etc.

(viii) Whether the input service tax carried in books is only based on proper invoice from the vendor with service tax number and all other relevant details mentioned on the invoice.

(ix) Verify CENVAT balance as per books of accounts and service tax returns.

(x) Check the correspondence, if any, with the department and its compliance and impact.

Value Added Tax/ Central Sales Tax Act, 1956

3.5 Following are major points to be verified with regard to Value Added Tax/ Central Sales Tax Act, 1956:

(i) Whether the establishment has registration certificates for Local Sales tax (LST) and Central Sales Tax (CST).

(ii) Whether the details of business are correctly and completely mentioned/ declared in the Taxpayer Identification Number (TIN) Registration Certificate.

(iii) Whether the principal place of business has been correctly declared in the TIN Certificate and all places of business in other states in the Central Registration Certificate.

(iv) Whether the dealer has included additional godown/ seasonal godown as additional places of business in the TIN Registration Certificate/ Central Sales Tax Registration.

(v) Whether all the products, traded/ manufactured have been declared in the TIN Registration Certificate/ Central Sales Tax Registration.

(vi) Whether all Monthly Returns/ Quarterly Returns as well as Annual Return alongwith Tax Audit Report is uploaded/ filed with all Annexures within the prescribed time or within the extended period.

(vii) Review the return and check whether the return is accurate as to input credit, output tax payable, valuation of goods and carry forward of credit, etc.

(viii) Whether VAT has been charged on sale of goods traded/ manufactured at correct rates.

(ix) Whether VAT has been charged on sale of waste product/ discarded product/ assets at correct rates.

(x) Whether VAT has been charged on sale of assets at correct rates.

(xi) If the rates applied are different, take a copy of the authority/ notification under which such change is approved, like, composition scheme, service tax notification, etc.

(xii) Whether all the records and books of accounts, required to be maintained, are available at the location.

(xiii) Whether the unit has purchased goods only from the registered dealer. VAT registration number should be there on invoices and Tax Invoices must be in prescribed format.

(xiv) Whether the unit has reconciled the variance between VAT payable as shown in books of accounts and the amount actually paid.

(xv) Whether all the C Forms or Form F or any other Form are collected till date. Prepare age–wise list of C Form and Form F or any other Form with particulars, such as, name of customer and value.

(xvi) Whether the unit maintains acknowledged Tax challan, and deposit of VAT or Central Sales Tax or Additional Tax or Purchase tax or Cess has been made under the correct head of account.

(xvii) Whether the unit deposits VAT dues within due dates under properly filled challan/ bank transfer with proper acknowledgement from Commercial Tax Department.

(xviii) Whether VAT credit is correctly carried forward from previous month to next month in every Monthly Return as well as Annual Return.

(xix) Whether Input Tax Credit (ITC) is correctly claimed on input and capital purchases eligible for claiming input credit, i.e., whether the input tax carried in books is only based on proper Tax Invoice from the vendor with TIN Number and all other relevant details mentioned on the invoice.

(xx) Whether all branch transfers are shown in VAT return and proper documents proving the movement of goods by way of stock transfers against Form F are also available.

(xxi) Review penalty has been imposed by the VAT department for lack of Form C and Form F, etc. Ensure that same is recovered from the customers.

(xxii) Whether any surveys of business took place during the year and review the effect of such survey on the compliance of VAT Law.

(xxiii) Whether any goods were checked or detained or seized and penalty imposed by the Mobile Squad of the Commercial Tax Department.

Goods and Service Tax (GST) LAW

3.6 Goods and Service Tax (GST) Law is likely to be implemented in the country from 1st July, 2017 or at the most by 16th September, 2017. The compliance requirement of many Indirect Tax Laws including Central Excise, Service Tax, Local Value Added Tax (VAT), Central Sales Tax, etc. are to be subsumed in GST. An overview of GST law has been included in **Part IV** of this publication.

Compliance Under Other Relevant Enactments

Employees' State Insurance (ESI) Act, 1948

3.7 Major compliances under Employer's State Insurance (ESI) Act, 1948 are as follows:

(i) Whether the unit is registered under ESIC:

  (a) Employees drawing wages (excluding overtime) less than or equal to ₹ 15,000 p.m. are covered under the Act (w.e.f. 22.11.2016, this limit has been increased to ₹ 21,000 p.m.).

  (b) Unit is to be registered with ESI Corporation within 15 days from the date of applicability of this Act to the unit, and obtain the employers code number.

(ii) If security contractors have been registered separately, whether the copies are obtained from them and kept in safe custody.

(iii) Whether declaration Forms (Form 1) and return of declaration Form (Form 3) for new employees have been submitted immediately on their day of joining.

(iv) Whether the unit has preserved all ESIC payment challan and return. Employer has to furnish a return of contribution along with challan of monthly payments, within 30 days of end of each contribution period.

(v) Whether the unit has maintained an Accident Register (Form 15). The employer has to report within 24 hours in case of serious/ fatal accidents immediately.

(vi) Whether the unit has 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).

(vii) Whether the unit has 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).

(viii) Whether the unit has maintained ESIC Records for previous years as inspection can be carried out by authorities any time.

(ix) Whether the unit has deposited ESIC monthly contributions (both employer and employee) before 21st of the following month.

(x) Whether the unit has 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.

Minimum Wages Act, 1948

3.8 Following are major compliances with respect to Minimum Wages Act, 1948:

(i) Whether the unit has displayed a copy of the abstract of the Minimum Wages Act, 1948.

(ii) Whether the unit has displayed the notice containing the minimum rates of wages applicable.

(iii) Whether minimum wages has been paid to contract labour/ security personnel, in the presence of company employees.

(iv) Whether the unit has filed the annual returns under Minimum Wages Act.

(v) Whether the unit has considered latest notification for calculation of minimum wages (according to area) for unskilled, semi–skilled, skilled, highly skilled and clerical labour.

Payment of Wages Act, 1936

3.9 Major compliances to be verified with respect to Payment or Wages Act, 1936 are as follows:

(i) Whether the unit appropriately maintains records specifying names of employees and wages paid to them.

(ii) Whether the unit prominently displays the abstract of Payment of Wages Act and Rules.

(iii) Whether the unit has filed annual returns under Payment of Wages Act, 1936.

(iv) Whether the unit has complied with new Section 6 which is made effective from 08.12.2016 which provides that wages shall be paid in current coin/ currency notes or by cheque or by crediting the wages in the bank of employee.

(v) Provided further that appropriate government may by notification in the Official Gazette specify the industrial or other establishments, employer of which shall pay to every person employed in such type of units, wages only by cheques or by crediting in his bank account. So far state government of Uttrakhand, Punjab, Haryana, Andhra Pradesh and Kerala has made such provisions in the said Act.

Shops and Establishments Act, 1953

3.10 Following are main requirements of Shop and Establishment Act, 1953:

(i) Whether the Shop and Establishment Registration certificate is valid as on date.

(ii) Whether the Shop and Establishment registration certificate is prominently displayed.

(iii) Whether notice of the last change in the unit head has been given to Shop and Establishment authorities.

(iv) Whether the unit has submitted notice of weekly holidays and notice of daily working hours to the Inspector under Shop and Establishment Act.

(v) Whether the unit has displayed a copy of the notice of daily working hours submitted to the Inspector under Shops and Establishment Act, 1953.

(vi) Whether the name and address of the local labour inspector is displayed as per Shop and Establishment Act, 1953.

(vii) Whether the unit maintains an inspection book for visit remarks of the Inspector.

(viii) Whether the unit maintains a muster register as per Shop and Establishment Act for all regular and contracted employees.

(ix) Whether the employee leave cards are maintained and updated as on date.

Payment of Bonus Act, 1965

3.11 Following are main requirements of Payment of Bonus Act, 1965:

(i) Whether the unit maintains a register showing the computation of allocable surplus referred to in Clause 4 in Section 2 in Form A.

(ii) Whether the unit maintains a register showing the Set on and Set Off of the allocable surplus in Form B.

(iii) Whether the unit maintains a register showing the details of amount of bonus due to each of the employees, the deductions u/s 17 and 18 and the amount actually disbursed in Form C.

(iv) Wage eligibility limit is increased from ₹ 10,000 p.m. to ₹ 21,000 p.m.

(v) *Calculation of bonus with respect to certain employees*- where salary or wage exceeds ₹ 7,000 (increased from existing ₹ 3,500) the bonus payable to such employees shall be calculated as if salary or wage were ₹ 7000 per month or the minimum wage for the scheduled employment, as fixed by the appropriate government, whichever is higher.

(vi) The above amendments as mentioned Point (iv) and (v) above have been brought by the Payment of Bonus Amendment Act, 2015 effective from 01.04.2014.

Payment of Gratuity Act, 1972

3.12 Following are main requirements of Payment of Gratuity Act, 1972:

(i) Whether the unit has submitted notice of opening of establishment (Form A) to the Controlling Authority within 30 days of starting of the unit (This is applicable only for new units).

(ii) Whether the unit has prominently displayed the abstract of Payment of Gratuity Act.

(iii) Whether the unit has intimated any change in the unit head or address of unit to the Controlling Authority in Form B.

(iv) Whether the unit has displayed the name of Company's officer authorized to receive notices under the Act.

Contract Labour (Regulation and Abolition) Act, 1970

3.13 Major compliances to be verified with respect to Contract Labour (Regular and Abolition) Act, 1970 are as follows:

(i) Whether this Act is applicable to the unit.

(ii) Whether the unit has obtained Registration Certificate under the Act for engaging contract labour.

(iii) Whether the unit maintains 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.

(iv) Whether the wages to contract labour are paid in presence of management's representative.

(v) Whether the unit has displayed the abstract of the Contract Labour Act/ Rules.

(vi) Whether the company has entered into legal agreement with the contractors.

(vii) Whether the unit (principal employer) has filed annual returns under the Act.

(viii) Whether the contractors have obtained License under the Act.

(ix) Whether the contractors renew their license every year.

(x) Whether the contractors have taken a separate code number for PF and ESI coverage and contributions are remitted accordingly.

(xi) Whether the contractors maintain the records, namely Muster Roll, Register of Wages, Register of Deductions, Register of Overtime, Register of Fines and Register of Advance, etc.

(xii) Whether the contractors are keeping the registers/ records relevant to the employment within 3 kms nearer to the work place.

(xiii) Whether the unit have 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.

(xiv) Whether the contractors have issued employment card/ wage slips to their workers.

(xv) Whether the contractors have filed half yearly returns under the Act.

(xvi) Whether the contractors issue service certificate to their workers on termination.

Companies Act, 2013

3.14 Major compliances with regard to Companies Act, 2013 are as follows:

(i) Whether any share capital has been raised otherwise than through cheques/ demand drafts or banking channels.

(ii) Whether compliance of Section 73 of Companies Act, 2013 read with Companies (Acceptance of Deposits) Rules, 2014 has been observed which relates to prohibition/ restrictions for acceptance of deposits from public.

(iii) Whether the provisions of Section 185 and 186 of Companies Act, 2013 have been complied with which relates to 'loans to directors' and 'loans and investments by companies'.

(iv) Whether the requirements of Companies (Auditors' Report) Order, 2016 (CARO) has been complied with.

(v) Whether all mandatory Accounting Standards (AS), i.e., AS 1 to 7 and AS 9 to 29 have been complied with. Under Section 133 of Companies Act, 2013, the Central Government has prescribed these Accounting Standards as recommended by the Institute of Chartered Accountants of India in consultation with National Financial Reporting Authority.

(vi) Whether the particular of every charge is registered with the registrar of companies within 30 days of its creation, and comply with provisions of Section 77 to 87. It is to be noted that application can be moved to 'ROC' for delay in such registration within a period of 300 days and in case of continued default, an extension of time has been sought in accordance with Section 87.

(vii) Whether provisions of Section 188 of The Companies Act, 2013, relating to related party transactions has been complied. No company shall enter into any contract or arrangement with a related party with respect to sales, purchase, supply of goods and material, etc. except, with the consent of the board of directors given by a resolution at the meeting subject to conditions as may be prescribed.

(viii) Whether company has adequate internal financial control system in place and check operating effectiveness of such controls to comply with Section 143(3)(i) of Companies Act, 2013. Check whether the following policies and procedures have been adopted by the company for 'Internal financial control' as defined u/s 134(5)(e) of the Companies Act, 2013 (applicable from 01.04.2015):

Internal Audit Checklist

Orderly and efficient conduct of the business including adherence of company's policies.

- o The safeguarding of its assets.
- o The prevention and detection of fraud and errors.
- o The accuracy and completeness of accounting records.
- o The timely preparation of reliable financial information.

Part II

INTERNAL AUDIT OF SPECIFIC FUNCTIONS

Chapter 4

Checklist for Sales, Services and Revenue

4.1 The overall objective of the internal audit of sales/ services/ revenue is to determine, if they are fairly presented in financial statements as a whole. The sales/ services/ revenue account is closely related with accounts receivable and therefore, value of all receivable should be equal to sales/ services/ revenue value of the organization. Having determined that an account receivable is valid; the auditor has thereby supported the validity of the sales/ services/ revenue.

Documentation

4.2 The auditor should prepare, on a timely basis an audit documentation that provides:

(a) A sufficient and appropriate record of the basis for the audit report.

(b) Evidence that the audit was performed in accordance with Standards on Auditing (SAs) and Standards on Internal Audit (SIAs) and other applicable legal and regulatory requirements, if any.

Ensure availability of the following documents:

(i) Sales policy latest approved of the organisation

(ii) Discount policy latest approved of the organisation

(iii) Credit policy latest approved of the organisation

(iv) Pro-forma Invoice, purchase order of customer, sales order

(v) VAT / CST records

(vi) Copy of Invoice

(vii) Duly verified quality report

(viii) Gate Record

(ix) Proof of delivery to customer, e.g., delivery challan of transporter,

(x) Export documents, like export invoice, packing list, bill of lading, insurance, export license,

(xi) Insurance documents.

Legal compliance

4.3 Ensure documentary proofs for compliance of following:

(i) Payment of VAT/ trade/ sales tax/ service tax on the goods/ services purchased from un-registered and registered dealers.

(ii) Payment of custom duty and custom clearance of export material.

(iii) In case sales from related party, the provisions of Sec 188 of Companies Act 2013.

(iv) Sales register maintained by Micro, Small and Medium Enterprise (MSME).

(v) Timely filing of Sales/ Service tax Returns.

(vi) Compliance with The Micro small and Medium Enterprise Development Act, 2006 and Rules, if applicable.

Authorisation Matrix

4.4 The entire operations of MSMEs due to its nature are concentrated in the hands of one or two top officials and formally laid down procedures are unlikely to be in place. Audit must guard against any possible collusion. A documented authorization matrix is desirable and should be recommended.

Authorization matrix should be documented and should cover the following:

(i) Opening of new customer master in ERP.

(ii) Credit limits and terms, and overrides to the credit rule.

(iii) Sales orders created based on the customer purchase order.

(iv) Cancelling the sales order.

(v) Modifying the sales order.

(vi) Samples (free/ paid).

(vii) Discounts.

(viii) Quality parameter changes.

(ix) Dispatch documents.

(x) Bad debt provision and write-off.

(xi) Credit note issues.

Compliance with authorization matrix should be checked at the time of vouching. There should be deviation matrix to take care of the deviations from the approved authorization matrix.

Compliance with Accounting Standards and Standards on Auditing

4.5 Ensure compliance with following Accounting Standards (AS):

(i) AS 1 Disclosure of Accounting Policies

(ii) AS 2 Valuation of Inventories

(iii) AS 11 The Effects of Changes in Foreign Exchange Rates

(iv) AS 9 Revenue Recognition

(v) AS 12 Accounting for Government Grants

(vi) AS 18 Related Party Disclosures

Ensure Compliance of following Standards on Auditing:

(i) SA 230 Audit Documentation

(ii) SA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

(iii) SA 330 The Auditor's Responses to Assessed Risks

(iv) SA 550 Related Parties

(v) SA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

Ensure Compliance of following Standards on Internal Audit (SIAs):

(i) SIA 18 Related Partes

Procedures/ Controls

Credit Assessment

4.6 The internal auditor may perform the following steps in checking the credit assessment:

(i) Check for availability of credit policy and adherence of Credit Policy and report deviations, if any.

(ii) Whether credit worthiness of all new credit customers has been evaluated and documented for approval (in the credit assessment forms).

(iii) Whether customer credit terms and limits has been granted based on the credit ratings. Credit limits of customers must be approved in accordance with the authorisation matrix. The credit assessments should include the following:

- Analysis of customers' latest available financial statements.
- Understanding customers' management and business.
- Personal guarantee.
- Site visit.

(iv) Whether overrides to the credit rules has been approved in accordance with the authority levels.

(v) Whether credit assessments for all major customers has been updated at least annually.

(vi) Check that no delivery order has been generated by the system if the customers had trade debts exceeding their credit terms/ limits. Overrides should require pre-approval as per authorisation matrix before the orders are processed.

Sales and Dispatch

4.7 The internal auditor may perform following steps in checking sales and dispatch:

(i) Check availability of sales policy and adherence to sales policy and report deviations, if any. Policies and procedures for credit and collections management should be clearly documented and communicated.

(ii) Check whether there are any instances of advance invoicing/ late invoicing as compared to dispatch.

(iii) Whether pre-shipment inspection has been carried and material has been dispatched as per invoice and contract.

(iv) Whether there is appropriate authorisation for free samples. Alternatively, samples are sold based on price approved as per authorisation matrix.

(v) Status of pending overdue sales order, reason and financial implication, if any.

(vi) Whether cancellation of sale order are properly approved by competent authority.

(vii) *Sales Return System*: Approval for taking sale return, receipt and inspection of returned goods and issue of credit note, etc. Sales return reason, analysis and comment on sales return material lying in stock and the gain/ loss on resale of returned material.

(viii) On time performance trend and any loss caused due to delay in delivery.

(ix) Check following with regard to customer quality complaints and claims/ discount (due to delayed shipment) management:

  (a) process for recording customer complaints and claims/ discount due to late shipment, classification, ERP usage for complaint recording and processing.

  (b) response time, escalation mechanism, follow up mechanism pending customer complaints, claims, and discount due to late shipment.

  (c) adequacy of authority level for approving claim/ discount.

  (d) complaint settlement whether claim settled through ''Free of charge'' replacement/ price reduction in subsequent dispatch, if any.

  (e) whether there is any loss of customer due to quality complaint.

  (f) loss/ expenses incurred on account of delayed, rejected and short shipment and confirm that amount recoverable from third party for above has been debited and recovered.

(x) Comment on avoidable/ controllable expenses, such as, air freight, demurrage, discount etc.,

(xi) Process of appointment of agents/ sub-agents/ broker, renewal of agreement and payment of commission to agents as per agreement and as defined in sales policy.

(xii) In case of non-payment by customer, whether the same has been recovered from agent's commission. Whether commission payable has been reconciled with respective agents.

(xiii) Whether commission has been paid net of sales return and on receipt of due payment and requisite forms from customer.

(xiv) System of creating and maintaining customer master file and list of documents obtained to check KYC norms.

(xv) Whether multiple codes have been opened for single customer and reason therefor.

(xvi) There should be sequential control over all Invoices, Credit Notes, Delivery Orders and Goods Returned Note.

(xvii) Recorded sales, gross margins, and miscellaneous receipts are compared to budget regularly. Management reviews the same and approves significant variances.

(xviii) Shipments of goods to customers has been logged.

(xix) Sales at, before, or after the end of an accounting period has been scrutinized and reconciled to ensure complete and consistent recording during the accounting period, including the recording of the related cash receipt.

(xx) Goods returned by customers at, before, or after the end of an accounting period are scrutinized and/ or reconciled to ensure complete and consistent recording during the accounting period. Are the returned goods taken into inventory immediately. Procedure for sale of scrap and wastage should be same as of finished goods.

Reconciliation

4.8 The internal auditor may perform following steps in checking reconciliation:

(i) Debtors ageing report should be reconciled with general ledger.

(ii) Taking independent confirmations for customer’s account balance.

(iii) Overall reconciliation of major raw materials/ finished goods / billing/ debtors/ realisations/ write-offs.

Segregation of Duties

4.9 There should be segregation of duties between the following functions:

Sales; Dispatch; Credit control; Credit notes; Collections; Adjustments

In the absence of segregation of duties, special attention should be given to any deviation from the authorisation matrix w.r.t sales/ sales returns/ collection/ bad debt provision/ write off/ credit note/ credit terms over ride.

IT Controls

4.10 The internal auditor may perform following steps in this regard.

(a) The information system restricts authorized personnel to create, change, or delete sales orders, contracts and delivery schedules.

(b) The information system restricts authorized personnel to create, change, or delete sales order return and credit note requests and subsequent credit note transactions.

(c) The information system does not allow processing of sales orders that exceed customer credit limits.

(d) The information system restricts authorized personnel to create, change, or delete customer master file.

(e) Audit logs are available and monitored for a defined period as agreed by the management.

Recording of Transactions

4.11 The internal auditor has to perform the following procedures in the regard:

(i) Ensure that proper accounting entry has been recorded in books of accounts.

(ii) Recording Transactions as per AS 9 "Revenue Recognition'' and AS 1 "Disclosure of Accounting Policies''.

(iii) Sale of raw material has been booked separately.

(iv) Value of sales has been recorded net of CENVAT and VAT credit, if claimed.

(v) All the related expenditure, such as, toll tax, cess, freight, etc. are recorded as part of purchase, if borne by entity.

(vi) Check Exchange fluctuation has been accounted for as per AS 11. "The Effects of Changes Foreign Exchange Rates."

(vii) Check about any entitlement of Government subsidy/ grant, etc. The Government/ third party subsidy/ grant either on capital account or on revenue account should be recognised based on the terms of the relevant agreement.

Reporting

4.12 Reports on the following areas will throw up useful information for further analysis:

(i) Planned to actual sale with variance analysis.

(ii) Customer Purchase order for which sales order has not been made.

(iii) Pending sales orders.

(iv) Goods sold without sales order and/ or emergency sales.

(v) Debtor ageing report.

(vi) Long outstanding/ unadjusted advance received from customers.

(vii) Pending "C"/ "F," Forms.

(viii) Dispatches made but not invoiced.

(ix) Invoices issued but not recorded.

(x) Matching of sales order return and credit request transactions with invoices.

(xi) Trend of increase/ decrease in freight, discount with reasons for increase.

(xii) Gaps in document numbering.

Good Governance

4.13 The internal auditor should check the following:

(i) Sales plan is available (annual, monthly).

(ii) There have been monthly review meetings where variance between planed to actual have been discussed and documented. Action plan to close the gap have been drawn and monitoring mechanism have been put in place.

(iii) Quarterly audit has been undertaken with a view to improve systems.

Suggestions, if any

4.14 Suggestions may be given for improvement in the system or steps to be taken/ avoided to make the sales/ revenue and receivable more easy, systematic as well as transparent.

Chapter 5

Checklist for Purchase and Procurement

5.1 Material is an important cost in any manufacturing organisation as it involves major portion of the total production cost. The objective of checking of material procurement is to ensure that right material is procured at the right price, at the right time and in the right quantity.

Documentation

5.2 Ensure availability of all the requisite documents such as:

(i) Purchase/ service policy of the organisation.

(ii) Purchase order/ service contracts.

(iii) Original invoice (excise invoice, if claiming CENVAT).

(iv) State and/ or city entry form.

(v) Lorry documents for freight payment and for TDS, if applicable.

(vi) Gate-entry record.

(vii) Material receipt note showing actual quantity.

(viii) Duly verified quality report / satisfaction report.

(ix) Purchase register

(x) Custom clearance and receipt for payment of custom duty, in case of import.

Legal Compliance

5.2 Ensure documentary proof for compliance of following:

(i) Payment of state/ city entrance cess or availability of proper document showing exemption for such payment.

(ii) Payment of custom duty and custom clearance of imported material.

(iii) Deduction and payment of TDS on freight on purchases and services.

(iv) Payment of VAT on the goods purchased from unregistered dealer.

(v) In case of purchase from related party, compliance with relevant provisions of Section 188 of Companies Act, 2013.

(vi) The procurement price is reasonable according to Section 40 A(2) of Income Tax Act, 1961, if purchase is made from sister concern.

(vii) Government notifications and guidelines regarding compulsory purchases from Micro, Small and Medium Enterprises.

Authorisation Matrix

5.3 Ensure that the following documents have been authorised properly:

(i) Requisition for purchase of store material/ service contracts as well as direct debit items (including its amendments/ modifications).

(ii) Opening of tender/ quotations.

(iii) Comparative chart of technical and financial biddings.

(iv) Purchase order/ service contracts (including amendments/ modifications).

(v) Inward entry at company gate.

(vi) Quality check and its approval / satisfactory report from user.

(vii) Material receipt note.

(viii) Approval of rates, in case purchase order is not raised.

(ix) Issue of debit/ credit note for return/ rejection of material/ rate difference.

Compliance with Accounting Standards and Standards on Auditing

5.4 Ensure compliance with following Accounting Standards;

(i) AS 1 Disclosure of Accounting Policies.

(ii) AS 2 Valuation of Inventories

(iii) AS 11 The Effects of Changes in Foreign Exchange Rates

(iv) AS 18 Related Party Disclosures

Ensure compliance with following Standard on Auditing:

(i) SA 550 Related Parties

Ensure compliance with following Standard on Internal Audit:

(i) SIA 18 Related Parties

Procedures/ Controls

5.5 Ensure and confirm that:

(i) The organisation has clear and comprehensive (up to date) procurement policy/ service contract whether purchases/ services are centralised in purchase/ service department or purchases/ services are made from approved authorities.

(ii) Internal purchase requisition is properly vetted/ validated and authorised.

(iii) The internal requisition clearly mentions the specification and quantity of material/ service to be procured and also the supply date.

(iv) Purchases and procurement of services are based on competitive quotations as received from two or more suppliers.

(v) Whether comparative quotation analysis sheet drawn before purchases/ service are authorised .

(vi) If lowest quotation is not accepted, whether the purchases/ services has been approved by senior official.

(vii) Whether purchase/ service orders are pre-numbered and strict control exists over unused forms.

(viii) Whether list of pending purchase/ service order is complied by purchase/ service department, at least once in every quarter.

(ix) Whether quotations are called as per company's policy from the registered vendors.

(x) Whether quotations are opened and registered and a comparative chart is prepared and authorised.

(xi) Purchase/ service order is given to lowest bidder subject to satisfaction of all other conditions/ specifications.

(xii) Purchase/ service order is issued as per the requirement of internal requisition and also mention the supply date. It should also contain penalty clause, if supply/ service is not made as per terms and specification of purchase order.

(xiii) One copy of each purchase order/ service order should be made available to store and accounts department.

(xiv) Material is supplied as per purchase order and material receipt note (MRN) is prepared after quantity and quality checks and authorisation. Similarly, service is executed as per service order.

(xv) Bill is passed by accounts department for the quantity as accepted by stores after making deduction for any quality discrepancy and breach of any other term/ condition including delay/ non-supply of material/ service in time.

Recording of Transactions

5.6 Ensure that proper accounting entry has been recorded in books of accounts:

(i) Raw material has been booked as raw material and stores and spares has been booked as consumables (The direct debit items may be booked either as expenditure or as part of project, if the company policy permits) and service has been booked to direct expenses.

(ii) Procurement for project or capital expenditure is not booked as revenue expenditure.

(iii) The value of purchase/ service is recorded net of CENVAT/ Service Tax and VAT credit, if claimed.

(iv) All the related expenditure, such as toll tax, cess, freight, etc., are recorded as part of purchase/ service.

(v) TDS, if applicable, should not be charged to purchase/ service.

Quality/ Good Governance

5.7 For good governance and better control, following may be available:

(i) Purchase budget and its comparison with the actual and authorisation of variation, if any.

(ii) In case of capital buying, reason and cost benefit analysis of such buying.

(iii) In case of make or buy decision, the calculation of actual cost.

(iv) In case of related party transaction, actual arms length price.

(v) Control over vendor developments.

(vi) Cost reduction in unit price due to technology up gradation and/ or development of new source of supply.

(vii) List of employees by designation with limits of authority.

(viii) List of unpaid trade payables prepared and reconciled periodically with the General Ledger Control Accounts for supply of goods and services.

Reporting

5.8 Though reports are generated as per requirement of a particular organisation, the following exceptional reports may be useful from the internal audit/ management point of view:

(i) Pending requisitions for which Purchase Order is not raised.

(ii) Pending Purchase Order for which supply is not made.

(iii) On Time Supply (OTP) of material report.

(iv) List of registered vendors for various type of material.

(v) Material purchased without Purchase Order and/ or emergency purchases.

(vi) Long outstanding advance made to suppliers.

(vii) Long pending sale tax “C” forms issued, but not used.

Suggestions, if any

5.9 Suggestions may be given for improvement in the system or steps to be taken/ avoided to make the purchases easier, systematic as well as transparent.

Chapter 6

Checklist for Inventory and Stores Management

6.1 Inventory and stores management is an important function. The objective of checking of stores and inventory management is to ensure optimum investment; and that material is stored properly, safely and there is no damage/ wastage/ pilferage of these items; and also to ensure that FIFO method is followed at the time of issue of material.

Documentation

6.2 Ensure availability of all the requisite documents such as:

(i) Policy of the organisation for inventory and stores management.

(ii) Storage plan and insurance.

(iii) Location wise inventory records.

(iv) List of ABC category items, Original Equipment Manufacturer (OEM) etc.

(v) Standard for minimum, maximum, reorder level of store stock.

(vi) List of floor inventory.

(vii) Coding system document.

(viii) Entry register maintained by guard.

(ix) Goods inward note and register.

(x) Quality clearance certificate.

Legal Compliance

6.3 Ensure documentary proof for compliance with following Acts/ Rules/ Notifications:

(i) Factories Act, 1948 regarding storage.

(ii) Central Excise and Custom Act in case of bonded warehouse.

(iii) Fire Safety Act.

(iv) Manufacture, Storage and Import of Hazardous Chemical Rules, 1989, if applicable

(v) Related government notification/ rules issued from time to time.

Authorisation Matrix

6.4 Ensure that the following documents are authorised properly (as per store and inventory policy):

(i) Requisition for stores/ direct debit items.

(ii) All material receipt notes (MRNs) and rejection/ return of material.

(iii) Addition/ deletion of any item as store stock.

(iv) Change in stock/ re-order levels.

(v) Change in measurement specification, e.g., from mm to inches.

(vi) Write-off/ discarding of an item due to difference in physical verification, technology up gradation, expiry due to life cycle or for any other reason.

(vii) Material sent on returnable basis on account of repair, loan, etc.

Compliance with Accounting Standards

6.5 Ensure compliance with following Accounting Standards:

(i) AS 1 Disclosure of Accounting Policies

(ii) AS 2 Valuation of Inventories

(iii) AS 10 Accounting for Fixed Assets

(iv) AS 28 Impairment of Assets.

Procedures/ Controls

6.6 Ensure and confirm that:

(i) The organisation has clear and comprehensive policy for store and inventory.

(ii) Material requisition is properly vetted/ validated and authorised.

(iii) The internal requisition clearly mentions the specification and quantity of material to be procured and also the supply date, especially, in case of direct debit items.

(iv) All materials in store are received against purchase order only unless otherwise authorised.

(v) All materials received in stores are kept separately till the inspection.

(vi) All rejected materials are kept separately from accepted stock.

(vii) No material is issued till the time of acceptance of material.

(viii) Material should be stored only after updating the stock records.

(ix) Material should be stored as per storage plan only.

(x) Necessary controls are implemented at the gate to check whether all materials entering in the premise are recorded.

(xi) The material into warehouse has been accepted only after checking the gate seal.

(xii) Goods has been unloaded only after checking of supporting invoice and delivery challan, weight slip, etc.

(xiii) The quality clearance has been obtained for the material unloaded.

(xiv) Compliance with excise laws and completeness of statutory records.

(xv) The adequacy of insurance cover for the premises and the material.

(xvi) Updating of bin cards maintained with all receipts and issues accurately.

(xvii) Issues have been made from the stock register and check if the issues have been tracked to request from various departments.

(xviii) Issues have been updated accurately in the bin card and in stock register.

(xix) In case of material transfers from one job to another job, material transfer note should be prepared.

(xx) The following are checked to ensure the adequacy of the stock reconciliation

  (a) Frequency.

  (b) Cut-off procedure.

  (c) Documentation for store and verification.

  (d) Authorisation of write off, if any.

(xxi) Check that non–moving stock and damaged stock is kept separately and is reported to management from time to time.

(xxii) Check if re-order levels are fixed adequately to ensure that ordering of store is accurate.

(xxiii) Control measures, i.e. stock taking and supervision of the material received should be done on periodic basis (monthly, weekly, fortnightly).

(xxiv) There should be proper control over scrap/ wastage/ damages/ defectives.

(xxv) Analysis of material/ inventory should be done according to their movement quality, i.e.:

High medium and low value) (ABC)

Fast, Slow and Non-moving) (FSN).

Recording of Transactions

6.7 Ensure that proper entry has been recorded in books for:

(i) Receipt and issue of material.

(ii) Rejection of goods.

(iii) Material sent on returnable basis.

(iv) Material written off/ discarded.

Quality/ Good Governance

6.8 For good governance and better control, it is recommended that following are available:

(i) Review of items that is out of stock and excess.

(ii) Review of items which are non-movable/ dead stock with age and plan for its disposal.

(iii) Review of pending requisitions, specially, which are going to expire.

(iv) It is good, if perpetual system of store inventory is followed, otherwise stock verification at regular interval should be done.

(v) In case of make or buy decision, the calculation of actual cost.

(vi) Cost reduction due to inventory optimisation.

Reporting

6.9 Though reports are generated as per requirement of a particular organisation, the following exceptional reports may be useful from the internal audit/ management point of view:

(i) Pending requisitions for which materials are received and which are expired/ to be expired.

(ii) Excess/ stock out material with age.

(iii) Non movable/ dead stock with age.

(iv) On Time Supply (OTP) of material report.

(v) Written-off/ discarded items.

(vi) Physical verification report(s).

Suggestions, if any

6.10 Suggestions may be given for improvement in the system or steps to be taken/ avoided to make the inventory and stores management easier, systematic as well as transparent.

Chapter 7

Checklist for Human Resources and Payroll Processing

7.1 Payroll is process by which employers pay to employees for the work that they have done. Every business should have an established payroll system. Although, payroll seems like a mundane task, it involves many aspects including statutory obligations like, payment ESI, PF, deduction of Income tax and professional tax from the salary and to make sure that accurate amount of such statutory deductions has been paid to the concerned government agency on time.

Documentation

7.2 Ensure availability of following documents:

(i) Whether HR Policy has been framed then collect a copy of the same otherwise check process of employment, training and safety of manpower. Also check any ISO requirements for forming human resource policy.

(ii) Whether incentive/ bonus and other benefits to employees has been documented and disclosed to them.

(iii) Whether master data of the employees including name, address, cost to the company (CTC), breakup of salary, attendance, etc., has been maintained and scrutinized, accordingly.

(iv) Whether hiring is through agency. Check copy of agreement.

(v) Whether list of newly joined employees is updated in the file or system with proper authorisation and as per procedure laid down.

(vi) Whether all necessary documents related to employees existing and new are there in the file, like, copy of PAN, qualification certificates, ID proofs, etc.

(vii) Whether joining letter, service agreement, terms of employment letter have been issued properly and maintained in the file.

(viii) Whether time, attendance and payment records are maintained either manually or in computer.

Legal Compliances

7.3 Ensure documentary proof for compliance of following:

(i) Whether all documents for compliance with Income-tax like, house rent receipts, medical bills, proof of Chapter VIA deductions, like, LIC, NSC, PPF, tax saver FDs, etc., proof of medical reimbursement, etc. and other documents/ declarations have been submitted by employees.

(ii) Whether payment of salary for more than a specified amount has been made only through account payee cheques/ drafts and other banking channels including direct transfer to the account of the payee.

(iii) Whether computation of income tax liability of each employee done correctly and deduction of tax has been made accordingly.

(iv) Whether filing of PF and ESIC returns is within stipulated time and data in returns is accurate as per books of accounts and provisions of relevant Act, and correct information in relation to employees is reported to authorities as and when required.

(v) Whether insurance policies have been reviewed.

(vi) Whether medical polices and medical claims have been reviewed.

(vii) Whether TDS computation of the employee is being done and TDS has been deposited and accounted for.

(viii) Whether safety measures have been installed in premises in case of any event, like, fire, flood, earthquake, machinery breakdown, etc.

Authorization Matrix

7.4 Ensure that following documents have been authorised properly:

(i) Whether proper authorization in relation to appointment, resignation, termination and retrenchment of employees is there.

(ii) Whether verification and authorization of salary and proper review of payment is there.

(iii) Whether managerial remuneration complies with the provisions of the Income Tax Act, 1961 and Companies Act, 2013.

(iv) Whether advance payments to employees are properly authorized.

(v) Whether loan to employees and deductions are as per approval.

(vi) Whether imprest/ advance payments to employees are made by the authorized persons and adjusted within reasonable time as per company policy.

(vii) Whether re-imbursement to employees for the expenses paid by them are authorized by the relevant authority with the supporting documents.

Compliance with Accounting Standards

7.5 Ensure compliance with Accounting Standard (AS) 15 “Employee Benefits”.

Procedure Controls

Leave Policy

7.6 Verify that:

(i) Whether number of leaves available to the employees has been distinguished as earned leave, casual leave, medical leave and compensatory leave or any other leaves as per provisions and has been granted accordingly.

(ii) Whether leave cards have been updated on time.

(iii) Whether leaves and compensatory have been properly authorized and adequate controls are maintained.

(iv) Whether unauthorized leaves have been marked as absent.

(v) Whether process of adjustment of advance leaves has been in place.

(vi) Whether leave encashment procedure and proper calculation has been checked.

(vii) Whether medical certificate, in case of sick leave beyond a specified period is obtained.

(viii) Whether policies have been followed in case of accident of employees.

(ix) Whether outstation duties have not been marked as leave.

Payroll and Payment Processing

7.7 Ensure and confirm that:

(i) Whether the process of conversion of time data into payroll data has been scrutinized to find any discrepancies.

(ii) Whether payroll data has been modified after processing but before sending to Head Office or bank for payment. Check whether payment file generated is not in editable form before sending to Bank for payment.

(iii) Whether a sample of data processed by payroll software and the time punching machine has been verified.

(iv) Whether payroll master has been properly updated to remove the name of persons who have left the organization.

(v) Whether increments have been updated and paid on time.

(vi) Whether all the deductions has been made from the salary before the payment.

(vii) Whether cheque has been taken by the correct person in case of payment of salary by cheque.

(viii) Whether proper register has been maintained and signed by the employees after receiving their cheque or cash.

(ix) Whether advances and loans have been properly authorized while making payment.

Full and Final Settlement

7.8 Verify that:

(i) Whether letter of resignation has been duly accepted by the respective departmental head.

(ii) Whether the resignation letter has been forwarded to HR manager for inclusion in employee's file.

(iii) Whether details as mentioned in clearance form were according to contractual service notice period/ minimum bond period.

(iv) Whether "No Dues Certificate'' from all the departments has been obtained.

(v) Whether the exit clearance form has been updated with the pending allowances.

(vi) Whether terminated employee is aware of company's policy on confidential information and trade secrets and any previously signed agreement to protect the integrity and confidential nature of information after employment.

(vii) Whether full and final settlement has been made only after receiving all the assets of the company and after discharging all the liabilities due to the company.

(viii) Whether full and final statement of outgoing employees including Gratuity, Leave encashment and Bonus as per policy has been submitted to finance department.

(ix) Whether employee has updated contact details.

(x) Whether user ID of the outgoing employee has been deleted from devices.

(xi) Whether any legal suit is pending in any civil court or labour court with any employee if yes, then obtain brief note on this.

Bonus and Pension

7.9 Verify the following aspects:

(i) Bonus policy has been framed as per legal frame work and was formally documented. It should have approval of proper authority and should have been communicated to all employees.

(ii) Bonus has been accurately calculated, reported and paid.

(iii) Recalculate bonus percentage. Determine eligible employees for selected payout quarters, and check calculation and payment made.

(iv) Pension plan has been properly documented and communicated to all employees at date of hiring, date of eligibility and at other periods as appropriate or required.

(v) Pension plan information has been constantly updated and made available to employees.

(vi) Annual census and payroll information has been accurately reported to the pension plan actuary.

(vii) Benefits payments are calculated accurately and paid timely for pension plan.

Recording of Transactions

7.10 Ensure that proper accounting entry has been recorded in books of accounts:

(i) Whether payment of salary, incentives, bonus and all other payments processed have been recorded in the books of accounts.

(ii) Whether proper recording of in-time and out-time punching in machine software or in case of manual recording, register is maintained.

(iii) Whether controls to protect unauthorized changes in the in-time and out-time of the employees have been maintained.

(iv) Whether check for guest employees and deputed employees has been maintained. Whether movement of temporary employees from one department to another has been recorded.

Quality/ Good Governance

7.11 For good governance and better controls, it is recommended that following processes are in place in the entity:

(i) Whether MIS reports related to payroll regarding their adequacy, accuracy and timeliness has been reviewed.

(ii) Whether the reports help in decision making for the management.

Reporting

7.12 Though reports are generated as per the requirement of organization, these are helpful in making decisions by the management.

Suggestions, If any

7.13 Suggestions may be given for improvement in the payroll processing system to make it more systematic and useful.

Chapter 8

Checklist for Operational and Administrative Expenses

8.1 An operating expense is an expense which a business incurs on its normal business operations. It is, often abbreviated as OPEX, an ongoing cost for running a product, business, or system. These are expenditures that a business incurs to conduct in any activity not directly associated with production of goods and services.

Operating expenses includes office expenses and sales and marketing expenses. Office expenses includes accounting expenditures, insurance cost, legal fees, property tax, rent and repairs of non productive facilities, depreciation of fixed assets assigned to non-productive areas. Sales and marketing expenses includes advertising cost, direct mailing cost, entertainment cost, sales brochures/ pamphlets, travel cost, etc.

Administrative expenses are non-technical charges necessary for the basic operation of an entity. These expenses are vital for a company's success as they occur to increase the efficiency of an organization. Administrative expenses are, typically, fixed in nature as they are incurred to be the foundation of business operations. These expenses would exist regardless of the level of sales that occur. They are often hard to reduce.

Administrative expenses, normally, include security service, housekeeping service, telephone lines, fax/ photocopy machines, courier service, travelling expenses, stationery expenses, hotel reservations, guest house, canteen expenses, subscription and professional expenses, etc.

Documentation

8.2 Ensure availability of all the requisite following documents:

(i) Expense policy of the organisation.

(ii) Purchase order/ contract/ agreement/ employment letter for expenses.

(iii) Original invoice (excise/ service tax invoice, if claiming CENVAT).

(iv) Gate entry record if some material is purchased for repair and maintenance.

(v) Material receipt note showing actual quantity received by the store.

(vi) Duly verified Quality Report of service provided, if applicable.

(vii) Purchase register/ attendance records, etc.

(viii) Challan of service tax, in case of import of services.

(ix) Challan of ESI/ PF as a proof of payment on salary, etc.

Legal Compliance

8.3 Ensure documentary proof for compliance with following:

(i) Payment of service tax under reverse charge/ ESI/ PF or availability of proper document showing exemption from such payment.

(ii) Deduction and payment of TDS on expenses, if applicable.

(iii) In case of procurement of service from related party, the provisions of Section 188 of Companies Act, 2013.

(iv) The service charges/ expenses is reasonable according to Section 40A(2) of Income Tax Act, 1961.

(v) The payment in cash shall not be more than ₹ 20,000 according to Section 40A(3) of Income Tax Act, 1961.

(vi) Some specified expenses shall be actually paid on or before the date of filing of Return of Income for allowance of expense according to Section 43B of Income Tax Act, 1961.

(vii) Government Notification and guidelines regarding payment of minimum wages, bonus, gratuity. etc.

Authorisation Matrix

8. 4 Ensure that following documents are authorised properly (as per expense policy):

(i) Agreements, attendance records, requisition for procurement of service and purchase of material including its amendments/ modifications.

(ii) Opening of tender/ quotations.

(iii) Comparative chart of technical and financial biddings.

(iv) Service order and purchase order including amendments/ modifications.

(v) Approval of rates, in case purchase order is not raised.

(vi) Issue of debit/ credit note for defect in service or rate difference.

Compliance with Accounting Standards and Standards on Auditing

8.5 Ensure compliance with following Accounting Standard:

- AS1, Disclosure of Accounting Policies.
- AS11, The Effects of Changes in Foreign Exchange Rates.
- AS18, Related Party Disclosures

Ensure Compliance of following Auditing Standard (SAs):

- SA550, Related Parties

Ensure Compliance of following Standard on Internal Audit:

- SIA18, Related Parties

The relevant aspects of audit of expenses are follows:

- Internal control evaluation.
- Verification, i.e., examination of records and analytical procedures.
- Examination and presentation of disclosure.
- Management representation.
- Documentation.
- Special consideration, if any.

Procedures/ Controls

8.6 Ensure and confirm that:

(i) The organisation has clear and comprehensive updated service procurement policy.

(ii) Internal service requisition/ hiring of employees has been properly vetted/ validated and authorised.

(iii) The internal requisition clearly mentions the specification of service and manpower to be hired and also the supply of service by date.

(iv) The quotations has been called as per company policy from the registered vendors.

(v) Quotations are opened and registered and a comparative chart has been prepared and authorised.

(vi) Service order/ employment has been given to lowest bidder subject to satisfaction of all other conditions/ specifications/ qualification, etc.

(vii) Purchase order (PO) has been issued as per the requirement of internal requisition and also mention the supply of service by date. It should also contain penalty clause, if supply has not been made as per terms and specification of PO.

(viii) One copy of each PO should be made available to accounts department.

(ix) Invoice shall be in the name of organisation,

(x) Bill has been passed by accounts department for the services hired and after making deduction for any quality discrepancy and breach of any other term/ condition including delay/ non-supply of service in time.

(xi) Timely settlement of Imprest account of employees.

Recording of Transactions

8.7 Ensure that proper accounting entry has been recorded in books of accounts:

(i) Expenses has been booked properly mentioning the nature of expense either operational or administrative.

(ii) Procurement for service for capital expenditure has not been booked as revenue expenditure, such as, repair and maintenance, technical inspection, erection, commissioning and installation and so on.

(iii) Value of service has been recorded net of CENVAT credit, if claimed.

(iv) TDS, if applicable, should not be charged to expenses and shall be booked as liability.

(v) Service tax liability shall be booked in separate heads, i.e., service tax, education cess and krishi kalyan cess.

(vi) Imprest given to employee shall not be booked as salary. There shall be a pre-drafted format for filing of details of expenses incurred out of Imprest and it shall be booked as expenses in proper head.

Quality/ Good Governance

8.8 For good governance and better control, it is recommended that following are available:

(i) Expense budget and its comparison with the actual and authorisation of variations, if any.

(ii) In case of service acquired for creation of an asset in capital nature, for e.g., software, reason and cost benefit analysis of such acquisition of service.

(iii) In case of related party transaction, actual arms length price.

(iv) Control over vendor developments and market rates for lower price with better quality.

(v) Cost reduction in expense due to technology upgradation and/ or development of new source of supply.

Reporting

8.9 Though reports are generated as per requirement of a particular organisation, the following exceptional reports may be useful from the internal/ management point of view:

(i) Pending requisitions for which purchase order is not raised.

(ii) Pending purchase order for which supply is not made.

(iii) List of registered vendors for various types of services.

(iv) Services hired without purchase order and/ or emergency acquisition of service.

(v) Long outstanding advance to vendors/ employees.

Suggestions, if any

8.10 Suggestions may be given for improvement in the system or steps to be taken/ avoided to hire the services/ employees easier, systematic as well as transparent.

Chapter 9

Checklist on Owner's Capital

Capital of Partnership Entities

9.1 Internal auditor may perform following procedures:

(i) Examine partnership deed to check the capital contributed by the partners and their respective share in profit and loss.

(ii) Ensure that in case where partnership deed is silent regarding profit sharing ratio, it has been shared equally among the partners.

(iii) In case of minor, ensure that he has been admitted to the benefits of partnership, and no loss should be apportioned to the share of minor.

(iv) Examine the cases of debit balances in Partner's Capital Account carefully which may be due to excess withdrawal.

(v) Checked Profit & Loss Appropriation Account relating to items like, interest on capital, interest on partners loan, salaries and commission to partners, interest on drawings, share of profit. However, rent paid to partners is to be debited to Profit & Loss A/c.

(vi) Examine whether the capital contributed by each of the partners is in accordance with the Partnership Deed and the capital is maintained at the level mentioned in the Partnership Deed throughout the period of audit.

(vii) Check Partnership Deed to ensure about any restrictions on the drawings of the partners and ensure that the drawings have been within the permissible limit.

(viii) Verify the correctness of the interest, if any, credited or debited to the partners' capital or drawings account.

(ix) Check payment of remuneration made to working partners or of interest to any partner and check whether it has been authorised as per terms of partnership deed. As per provision of Income Tax, ensure that rate of interest on partner's capital account does not exceed 12% p.a. and remuneration to partners does not exceed the limits prescribed under this Act. On the first ₹ 3 lakhs of book profits or in case of loss, salary to partners is allowed @ 90% of book profit or

₹ 1.5 lakh whichever is more. On balance of book profit, it is allowable at 60%.

(x) Check whether the remuneration, interest on capital, interest on drawings, profits or losses are adjusted in the capital accounts or the drawing accounts of the partners, and Reserve accounts are not maintained in case of partnership accounts.

(xi) Is government grants and subsidies accounted for as per AS 12?

(xii) Have you ensured that in case of death and retirement of partners, the partnership entity has prepared accounts up to the date of such death/ retirement to ascertain the claim of heirs/ retiring partner? In such event, the auditor has to verify the apportionment of the profit/ loss for both the periods.

Capital of Proprietorship Entity

9.2 Internal auditor may perform procedures as follows:

(i) Whether any loan amount is wrongly debited/ credited in Capital Account.

(ii) Check drawings carefully, usually they are made for various personal/ household expenses and sometimes also for investments in LIC, NSC, PPF, etc.

(iii) Government grants and subsidies have been accounted for as per AS 12.

(iv) Ensure that all the transactions in the capital have been recorded at correct value.

Share Capital of Private Limited Companies

Authorised Share Capital

9.3 Internal auditor may perform procedures as follows:

(i) Check the authorised capital shown in the balance sheet with the Memorandum of Association, Articles of Association, master data from MCA and minutes of the general/ board meeting and by comparing previous year audited balance sheet.

(ii) Check whether there is any increase in share capital. Examine copy of documents filed with Registrar of Companies.

(iii) Check accounting entries in books of account and proper significant disclosures.

(iv) As per provisions of Income Tax Act, check whether fees for increase in authorised share capital has been treated as Capital expenditure as the same would not be allowed as Revenue expenditure. (Supreme court ruling in : 225 ITR 792 [1997])

Issue of Shares at a Premium

9.4 Internal auditor may perform following procedures:

(i) Whether shares are allotted at a premium, if yes, then whether they are allotted at fair market value calculated in manner prescribed in Section 56(2)(vii b) of Income Tax Act, 1961 read with Rule 11UA of Income tax Rules, 1962.

(ii) Whether the amount received has been transferred to securities premium account and the manner in which the amount can be applied has been stated.

(iii) Verify that securities premium amount is utilised only for following purposes: (a) Issue of fully paid bonus shares (b) Write off commission paid on issue of shares/ debentures (c) Buy back of own shares.

Private Placement

(Section 42 of the Companies Act, 2013 read with Rule 14)

9.5 Internal auditor may perform following procedures:

(i) Examine Private Placement Offer letter (PAS-4) carefully.

(ii) Ensure that the value of such offer or invitation per person is not less than an investment size of ₹ 20,000 of face value of shares.

(iii) Ensure that shares have been subscribed through cheque or demand draft or other banking channel but not by cash.

(iv) Has the proposal offer been approved by the shareholders by way of a Special Resolution.

(v) Has special resolution been annexed with explanatory statement describing therein the basis of justification of price (including premium)

(vi) Ensure that no fresh offer or invitation is made unless the allotments with respect to any offer or invitation made earlier have been completed or withdrawn or abandoned by the company.

(vii) Ensure that the company allotted its shares within sixty days from the date of receipt of the application money and if the company is not able to allot the securities within that period, it shall repay the application money to the subscribers within fifteen days from the date of completion of sixty days.

(viii) If the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest at the rate of twelve per cent per annum from the expiry of the sixtieth day.

(ix) Check whether complete record have been maintained in PAS-5 (Record of a Private Placement) and PAS-4 (Private Placement Offer Letter) has been filed with ROC within a period of thirty days of circulation of the private placement offer letter.

(x) Check whether return of allotment of securities under Section 42 is filed with the ROC within thirty days of allotment in Form PAS¬3 (Return of Allotment).

(xi) Has payment been made for subscription of shares from the bank account of the person subscribing to such shares and observe whether the company has kept the records of such bank.

(xii) Verify that the application money so received has been kept in a separate bank account in a scheduled bank and has not been utilised until the allotment of shares.

Issue of Shares on Preferential Basis

9.6 Internal auditor may perform the following procedures:

(i) Ensure that such preferential issue has been authorised by articles of association.

(ii) Ensure that issue has been authorised by a special resolution of the members.

(iii) Check shares allotted by way of preferential offer has been made fully paid up at the time of allotment.

(iv) Check that all conditions laid down in Section 42 of the Companies Act, 2013 relating to private placement have also been complied with.

(v) Check whether the explanatory statement has disclosed all the facts as enumerated in Sub-clause (d) of Clause 2 of Rule 13 of the Companies (Share Capital and Debentures) Rules, 2014.

(vi) Whether preferential allotment have been completed within 12 months of special resolution, if not completed, fresh special resolution is required to be passed to complete such allotment.

(vii) Check whether the price of shares to be issued on preferential basis has been determined on the basis of valuation report of a registered valuer.

Further Issue of Share Capital

(Section 62 of the Companies Act, 2013 read with Rule 12)

9.7 Internal auditor may verify the following:

(i) Ensure that notice in writing has been given to every Director at least seven days before convening the Board meeting.

(ii) Check whether board resolution has been passed for approving "Letter of Offer".

(iii) Ensure that where a company is proposing to increase subscribed capital by issue of further shares, check that, such shares are offered to person, who at the date of offer are holders of equity shares of the company in proportion of the share capital of those shares by sending a letter of offer.

(iv) Check that offer has been made by notice which specifies the number of shares offered and time limit of its acceptance. Check whether it includes right of renunciation.

(v) Check whether acceptance has been received. In case of non–acceptance, it shall be deemed to have been declined unless otherwise renounced in favour of other person.

(vi) Check that if such offer letter has neither been accepted nor renounced, the Board has disposed off such issue in a manner which is not disadvantageous to the shareholders of the company.

(vii) Check whether return of allotment has been filed within 30 days of allotment of shares in e-Form PAS-3.

(viii) Ensure that e-form MGT 14 has been filed within 30 days of issue of such shares.

Issue of Bonus Shares

9.8 Internal auditor may perform following procedures:

(i) Ensure that authorized capital of the company is sufficient for issue of Bonus Shares.

(ii) Check in case authorized capital is not enough, then first alter the capital of company by alteration in MOA. Also see whether AOA contains the provision of issue of Bonus Share.

(iii) Check availability of resources for issue of Bonus shares, i.e., its free reserves, security premium account or capital redemption reserve account but not a reserve created by revaluation of assets.

(iv) Ensure that no default in payment of interest or principal in respect of fixed deposit or debt securities issued by it has been made before allotment of bonus shares.

(v) Check that no default in payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus has been made.

Share Capital Of Public Limited Companies

Authorised Share Capital

9.9 Checklist is the same as enumerated in share capital of Private Limited Companies.

Further Issue of Share Capital by Public Offer

9.10 Internal auditor may perform following procedures:

(i) Ensure that only a public company can make an offer of securities to members of public. Such an issue requires the publication of a prospectus. Public Offer includes an Initial Public Offer, or further public offer, and even an offer for sale of existing securities.

(ii) Check whether the details of all utilised and unutilised monies out of the monies collected in the previous issue made by way of public offer has been disclosed and continued to be disclosed in the balance sheet till the time any part of the proceeds of such previous issue remains unutilised indicating the purpose for which such monies have been utilised.

(iii) Check the names, addresses, telephone numbers, fax numbers and e-mail addresses of the underwriters and the amount underwritten by them.

(iv) Check that the Board has given a statement in prospectus that all monies received out of the issue has been transferred to a separate bank account maintained with a Scheduled Bank.

(v) Check whether the date of opening and closing of issue has been given in prospectus.

(vi) Whether consent of trustees, solicitors or advocates, merchant bankers to the issue, registrar to the issue, lenders and experts has been taken.

(vii) Check the details of the existing share capital of the issuer company in a tabular form, indicating therein with regard to each allotment, the date of allotment, the number of shares allotted, the face value of the shares allotted, the price and the form of consideration.

(viii) Check that in case of an initial public offer of an existing company, the details regarding individual allotment shall be given from the date of incorporation of the issuer and in the case of a listed issuer company; the details shall be given for five years immediately preceding the date of filing of the prospectus.

(ix) As per CARO 2016, whether monies raised by way of initial public offer or further public offer (including debt instruments) were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.

Application

9.11 Internal auditor may perform following procedures:

(i) check whether the amount received on the original application for the shares matches the entries in Application and Allotment Book.

(ii) Whether the amount payable on the application on every security is not less than 5% of the nominal amount of security or such other percentage or amount as may be prescribed by SEBI.

(iii) Verify whether the amount have been refunded to the unsuccessful applicants with the copies of Letter of Regret.

(iv) Whether the amount stated in the prospectus as the minimum amount has been subscribed and the sum payable on such application has been received.

(v) Whether the stated minimum amount has not been subscribed and the sum payable on application is not received within a period of 30 days from the date of issue of prospectus or such period as may be specified by the SEBI, and the amount received is returned within a period of 15 days from the closure of issue. In case the amount has not been repaid within such period the director of the company in default has to repay the amount with interest at the rate of 15% p.a.

Allotment

9.12 Ensure and confirm that:

(i) Whether the allotments are approved and amount collected on allotment are entered in Application and Allotment Book and reflected in Share Register.

(ii) Examine minutes of Board's meeting and ensure that board resolution has been filed in MGT-14.

(iii) Ensure that meeting of members (with proper notice and explanatory Statement disclosures) has been convened to pass Special Resolution?

(iv) Whether a report of a registered valuer has been obtained in respect of valuation of the consideration. Besides, certificate of its statutory auditor, confirming that the provisions of the Companies Act, 2013, has been followed may be obtained.

(v) Ensure that no person has been allotted shares who have sold any equity shares of the issuer in preceding 6 months.

(vi) Ensure that tenure of the convertible securities of the issuer shall not exceed 18 months from the date of their allotment.

(vii) Check that PAS-3 has been submitted within 30 days of allotment of shares with list of allottees and resolution attached to it.

(viii) Verify PAN and e-mail address of each member to whom share has been allotted in the list of allottees.

(ix) Check that share has been allotted within 60 days of receipt of allotment money.

Calls

9.13 Ensure and confirm that:

(i) Have any calls been made for further issue of capital. Ensure that it is made on a uniform basis on all shares falling under that clause.

(ii) Check that board resolution making the calls has been made. All calls in arrears are noted.

(iii) Ensure that minimum 14 days notice has been sent for payment of calls except in case where time is fixed as per condition of allotment.

(iv) As per 'Schedule I of Table F', no call shall exceed 25% of nominal value of shares and there is at least one month gap between two calls.

(v) Verify that in case calls is not received on due date, whether any interest has been charged which can be 10% or lower rate as may be determined by board of directors.

(vi) Ensure that company has forfeited (if authorised by Articles of Association) the shares, in case call money is not paid after giving 14 days notice.

Issue at a Premium

9.14 Checklist is the same as enumerated in share capital of Private Limited Companies.

Private Placement

(Section 42 of the Companies Act, 2013 read with Rule 14)

9.15 Checklist is the same as enumerated in share capital of Private Limited Companies.

Rights Issue of Shares

9.16 Checklist is the same as enumerated in share capital of Private Limited Companies.

Bonus Shares

9.17 Checklist is the same as enumerated in share capital of Private Limited Companies.

Chapter 10

Checklist on Fixed Assets, Depreciation and Amortisation

10.1 Depreciation is the systematic allocation of depreciable amount of an asset over its useful life. The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value. The useful life of an asset is the period over which an asset is expected to be available for the use by an entity. Depreciation includes amortisation. Tangible assets are depreciated over the useful life of asset whereas intangible assets are amortised.

Documentation

10.2 Ensure availability of all requisite documents such as:

(i) Fixed Assets Register

(ii) Depreciation Rates Table as per Income Tax Rules ,1962

(iii) Capital Budget

(iv) Original Invoice (Excise invoice if CENVAT was claimed)

(v) Documentary proof of subsidy received, if any

(vi) Proof of installation and commissioning of assets

(vii) Capitalisation Work sheet having full details

(viii) Certificate/ Undertaking of put to use, if any

(ix) Work sheet of calculation of depreciation (on the basis of useful life of asset)

(x) Copy of permission/ approval of the concerned department, if required.

Legal Compliance

10.3 Ensure documentary proof for compliances of following:

(i) Whether Schedule II of Companies Act, 2013, which relates to useful life of assets to compute depreciation has been adhered to.

(ii) As per Schedule III of Companies Act, 2013, fixed assets are broadly divided into four categories, i.e. tangible assets, intangible assets, capital work in progress, and intangible assets under progress.

(iii) Whether the unit has complied with the provisions of the Factories Act, 1948 with regard to hazardons machine, machine in motion and transmission machines, etc.

(iv) Whether hoists and lifts are properly maintained as per Factories Act 1948 and is thoroughly examined by a competent person at least once in every period of six months and a register is being kept for this purpose.

(v) Payment of Customs duty and custom clearance of imported machinery as per Customs Act, 1962

(vi) Deduction and payment of TDS for installation, fabrications and commissioning of plant and machinery, if applicable.

(vii) Whether the unit has obtained appropriate certificate from Central Pollution Control Board (CPCB), if applicable.

(viii) Depreciation is not claimable on the amount equal to ITC/ Cenvat Credit if claimed against purchase of any machinery.

Authorization Matrix

10.4 Ensure that the following documents have been authorized properly:

(i) Requisition for purchase of machinery, if any.

(ii) Opening of tender/ quotations of purchase of machineries.

(iii) Purchase order for purchase of fixed assets.

(iv) Comparative chart of technical and financial biddings.

(v) Quality check and its approval.

(vi) Issue of Debit note for return/ rejection of machine or for rate difference.

(vii) Authorisation of date of erection and commissioning of plant and machinery.

Compliance with Accounting Standards

10.5 Ensure compliance of following Accounting Standards:

(i) AS 6 Depreciation Accounting

(ii) AS 10 Accounting of Fixed Assets

(iii) AS 11 The Effects of Changes in Foreign Exchange Rates

(iv) AS 16 Borrowing Cost

(v) AS 18 Related Party Disclosures

(vi) AS 26 Intangible Assets

(vii) AS 28 Impairment of Assets.

Procedure / Control

Fixed Assets

10.6 Ensure and confirm that:

(i) The reported fixed assets balance agrees with the related account records in the general ledger.

(ii) Periodic review of fixed assets register (FAR) and ensure its timely updation.

(iii) Fixed assets identification number is put on all the assets and cross verified with FAR.

(iv) Recorded fixed assets transactions tallies with the supporting documents, such as, vendor's invoice.

(v) Recorded fixed assets have been physically examined at periodical interval and compare it with fixed assets register and discrepancies, if any, should be reported.

(vi) Obsolete/ non performing fixed assets are periodically identified and documented. Action plan for its disposal/ alternate use should be initiated.

(vii) Recorded fixed assets are correctly classified as capital assets and certain expenses, that are attributable for bringing that assets to its working condition and use, are to be included in the cost.

(viii) Further the borrowed cost, if any, is also to be capitalized up to the first date of acquisition/ construction.

(ix) Subsequent expenditure relating to an item of fixed assets should be added to its book value only if they increase the future benefits.

(x) Material items retiring from active use and held for disposal are to be stated at lower of net book value and net realizable value. Ensure that cost of spare parts of obsolete machinery is taken at nil value.

(xi) Fixed assets are disclosed – gross and net value at the beginning and end of the accounting period showing addition, disposal, acquisition, etc.

(xii) Check whether all the fixed assets are properly insured and proper safety measures have been taken.

(xiii) Proper records have been maintained for sending machineries for outwards repairs/ fabrication.

(xiv) Whether borrowing cost of fixed assets and foreign exchange fluctuation have been capitalized as per AS 16 and AS 11, respectively.

Depreciation

Requirement under Companies Act, 2013

10.7 Ensure and confirm that:

(i) Useful life of tangible assets should not be ordinarily different from the useful life specified in Part C of the Schedule II of the Companies Act, 2013.

(ii) Similarly, residual value should not be more than 5% of the original cost of the tangible asset.

(iii) Where a company adopts a different useful life or uses a different residual value as above, the company is required to disclose such difference and provide justification, that it is supported by a technical advice.

(iv) Depreciation methods applied are followed consistently. Changes can be made to comply with the requirement of statute, change in accounting standard and as needed for better presentation.

(v) AS 6 also provider guidance on determination of residual value and provides that the possible effects of inflation should not be considered in estimating residual value.

(vi) Electricity Company has to continue to charge depreciation in accordance with Electricity Act.

(vii) Depreciation on asset which is used in double/ triple shift is to be increased by 50% and by 100%, respectively.

Requirements under Income Tax Act

10.8 Ensure and confirm that:

(i) Depreciation is provided, based on block of assets. Check whether depreciation is provided on the percentage on the written down value (W.D.V.) as prescribed in the Rule 5(1) read with table of depreciation prescribed in Income Tax Rules, 1962.

(ii) Depreciation for a period of less than 180 days is restricted to 50% of the amount calculated as above.

(iii) On any new machinery and plant which are used in the business of manufacture for production of any article or thing, additional depreciation equal to 20% be allowed (subject to restrictions mentioned in proviso to clause (iia) of Section 32 of Income Tax Act, 1961, like, office, appliance, road transport vehicle; machinery/plant installed in office premises/ residential accommodation/ guest house; P& M whose whole cost is allowed by way of depreciation or other wise; old plant & machinery used within/ outside India). This additional depreciation is also restricted to 50% if such assets are used for less than 180 days.

(iv) If any asset is sold discarded, demolished in the previous year then its written down value at the beginning of previous year be increased by actual cost of assets acquired in the same block during the previous year and be reduced by the sales consideration with scrap value, if any, and depreciation be provided on balance of such block.

(v) Surplus arising on sale of capital asset is chargeable to tax as short term capital gain by virtue of Section 50, these cases are:

   (a) When the written down value of a block of asset is reduced to nil though all the assets falling in block are not transferred.

   (b) When a block of asset ceases to exist.

(C) Intangible Assets

Requirements under the Companies Act, 2013

10.9 Schedule II of Companies Act, 2013 states that for the Intangible assets, the provisions of accounting standards applicable for the time being in force would apply (except in the case of intangible asset created under build, operate and transfer (BOT) or build, own, operate and transfer (BOOT), etc.).

Requirements under Income Tax Act, 1961

10.10 Depreciation @ 25% is allowable on intangible assets, namely, know–how, patents, copy rights, trade marks, licenses, franchises, or any other business or commercial rights of similar nature.

Quality/ Good Governance

10.11 For good governance and better control, it is recommended that the following are available:

(i) Reasons and cost benefit analysis of such buying.

(ii) In case of make/ buy decision, the calculation of actual cost.

(iii) In case of related party transaction, actual arms length price.

(iv) If replacement of any machinery is to be done, reason for the same whether due to technological change or obsolescence of assets.

(v) Technical know-how also should be obtained for sophisticated machineries.

(vi) When any machine is scrapped, whether way of its disposal is ascertained and documented.

(vii) Whether break down analysis of assets is done.

(viii) Whether date-wise obligation for insurance and maintenance is observed.

Reporting

10.12 Though reports are, generally, as per requirement of a particular organization, even though the following exceptional reports may be useful from the internal audit point of view:

(i) Pending requisitions for which Purchase Order (PO) is not raised.

(ii) Pending PO for which supply is not made.

(iii) Long outstanding advance made to suppliers but fixed assets not supplied with capital commitments.

Suggestions, if any

10.13 Suggestion may be given for improvement in the system or steps to be taken/ avoided to make the purchases easier, systematic as well as transparent.

Chapter 11

Checklist for Payables

11.1 The overall objective of the audit of accounts payable and purchases of goods/ services is to determine, if they are fairly presented in the context of the financial statements as a whole. The purchase account is closely related with accounts payable, therefore, value of all payable should be equal to all purchases of goods/ services value of the organization. Having determined that an account payable is valid, internal auditor has to obtain supporting for validity of the purchase.

Documentation

11.2 Internal auditor should prepare, on a timely basis an audit documentation that provides:

(i) A sufficient and appropriate record of the basis of internal audit report.

(ii) Evidence that the internal audit was performed in accordance with ASs and SAs and other applicable legal and regulatory framework, if any.

Internal auditor should prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand the basis of finalization of internal audit report.

Legal Compliance

11.3 Internal auditors must ensure that organisation has complied with the legal requirement of the Central and State laws related to VAT Act, Service Tax, Excise Act, Micro, Small And Medium Enterprises Development Act, 2006 (MSMED Act, 2006), Limitation Act, 1963 and other laws.

Procedures/ Controls

11.4 Following steps may be taken for internal audits of payables:

- *Trace payable report*: Internal auditors will ask for a period-end accounts payable trial report, from which they trace the grand total to the amount in the accounts payable account in the general ledger.
- *Investigate reconciling items*: If there are journal entries in the accounts payable account in general ledger, the auditors should

review the justification for the larger amounts. This means that these journal entries should be fully documented.

- *Test verification of invoices*: Internal auditor will select some related vouchers from the accounts payable and compare them to supporting documentation to see if these were accounted for in the book with correct date/ amounts credited to the creditors.
- *Match invoices to goods in-ward register*: The auditors should match invoice dates to the shipment dates for those items in the goods in ward register, to see if purchases of goods are being recorded with correct amount and correct accounting period.
- *Ascertainment of number of accounts for verification:* The auditor must decide how may confirmations are to be sent and to which customer. The auditor may determine the extent of confirmations to be sent by using statistical analysis or by judgementally determining the sample size.
- *Confirm accounts payable*: A major activity is to contact customers directly and ask them to confirm the amounts of unpaid accounts payable as of the end of the reporting period they are auditing. This is primarily for larger account balances, but may include a few random customers having smaller outstanding value also.
- *Review payment receipts*: If the auditors are unable to confirm accounts payable, their auditing technique is to verify that customers have paid such payable through cash or any other banking mode.
- *Assess doubtful accounts*: Check all the doubtful accounts, where payment has not been made since considerable period, are to be reviewed in depth. The auditors will compare the proportion of doubtful payables to purchase/ services for this year in comparison to prior years, to see if there is any trend whether current trend appears reasonable.
- *Review credit/ debit note*: The auditors will review a selection of the credit-note/ debit-note/ memos issued during the audit period to see if they were properly authorized, whether they were issued during the correct period, and whether the circumstances of their issuance may indicate other problems. They may also review credit memos issued after the period being audited, to see if they relate to transactions from within the audit period.

- *Bill and hold purchase*: If there are situations, where there are bill for purchase but goods have not been received (known as "bill and hold"), the auditors will examine supporting document to determine the client liability towards such purchases of goods/ services, credit should be given to customer or not.
- *Purchase return:* The auditors will review the purchase return and check whether there is any large amount of purchase returns after the audit period. This may lead that the company may have shown more goods near the end of the audit period to inflate purchase than returned.
- *Related party payables*: If there are any related party payables, the auditors may review them, as well as, whether they should instead be recorded as expenses, and whether they were properly confirmed by related party.
- *Trend analysis*: The auditors may review a trend analysis of purchase and accounts payable, or a comparison of the two over time, to see, if there are any unusual trends. Another possible comparison is of payables to current assets. They may also measure the average payment period. If so, make inquiries about the reasons for changes in the trends.

Authorization Matrix

11.5 Internal auditor must ensure that all documents entered in accounts with respect to recording of purchases of goods/ services and payables must be authentic and authorised by respective officers of the organisation.

Compliance with Accounting Standards And Standards on Auditing

11.6 Ensure compliance with of following Accounting Standards and Standards on Auditing:

(i) AS 2 Valuation of Inventories

(ii) SA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.

Recording of Transactions

11.7 Internal auditor must ensure that all purchases of goods/ services of goods/ services transactions must be recorded in books of account and it should be cross reconciled with goods inward memo with invoices received from the customers.

Reporting

Preliminary Audit Report

11.8 The preliminary audit report consists of the draft audit report after all comments have been resolved. It should be sent to proprietor/ designated partner/ MD/ COO as a confidential document. They will have to provide a formal response to the recommendations in the report within a specified time.

Final Audit Report

11.9 Upon approval of the proprietor/ designated partner/ MD/ COO's response to the preliminary audit report, the final report is prepared. This document is simply combination of the preliminary audit report and response into one document. The final audit reports to be sent to proprietor/ designated Partner/ MD/ Chairman of Audit Committee and should be discussed at their next regularly scheduled meeting.

Audit recommendations remain open until they are followed up and determined to have actions plans implemented.

Suggestions, if any

11.10 Internal auditor may make suitable suggestions in the report for improvement in present accounting process to remove shortcomings.

Chapter 12

Checklist for Receivables

12.1 The overall objective of the audit of accounts receivable and sales/ services/ revenue is to determine, if they are fairly presented in the context of the financial statements as a whole. The sales/ services/ revenue account is closely related with accounts receivable, therefore, value of all receivable should be equal to sales/ services/ revenue value of the organisation. Having determined that an account receivable is valid; the internal auditor has to thereby support the validity of the sales/ services/ revenue.

Documentation

12.2 The auditor should prepare, on a timely basis, an audit documentation that provides:

(i) A sufficient and appropriate record of the basis for the audit report.

(ii) Evidence that the audit was performed in accordance with Accounting Standards and Standards on Auditing and other applicable legal and regulatory requirements, if any.

Internal auditor should prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand the basis of finalization of internal audit report. However, few documentation required are credit policy of organisation, performa invoice, purchase order of customer, sales order, copy of invoice and documents evidencing the delivery to customer.

Legal Compliance

12.3 Internal auditor must ensure that all organisations must comply with the legal requirement of the centre and state laws related to VAT Act, Service Tax, Excise Act and MSMED Acts and Rules and other laws.

Authorization Matrix

12.4 A documented authorization matrix is desirable and should be recommended. Compliance to the authorization matrix should be checked at the time of vouching. It covers the following:

(i) Credit limits and terms

(ii) Bad debts provision and write-off

(iii) Credit note issue.

Compliance with Accounting Standards and Standards on Auditing

12.5 Internal auditor has to refer the following:

(i) AS 9 Revenue Recognition.

(ii) AS 18 Related Party Disclosure

(iii) AS 1 Disclosure of Accounting Policies

(iv) SA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.

Procedures/ Controls

12.6 The following procedures may be followed for internal audit of receivables:

- **Trace receivable report:** Internal auditor should ask for a period-end accounts receivable trial report, from which they should trace the grand total to the amount in the accounts receivable account in the general ledger.
- **Investigate reconciling items:** If there are journal entries in the accounts receivable account in the general ledger, the auditors should review the justification for the larger amount. This means that these journal entries should be fully documented.
- **Test verification of invoices:** Internal auditor should select some invoices from the accounts receivable aging report and compare them to supporting documentation to see, if they were billed with the correct amount, to the correct customers, with correct dates.
- **Match invoices to dispatch log:** Internal auditor will match invoice dates to the shipment dates for those items in the challan book/ dispatch/ shipping log, to see if sales/ services/ revenue is being recorded in the correct accounting period. This can include an examination of invoices issued after the period being audited, to see if they should have been included in a prior period.

- **Confirm receivable balance:** A major auditor activity is to contact customers directly and ask them to confirm the amount of unpaid accounts receivable as of the end of the reporting period they are auditing. This is primarily for larger account balances, but may include a few random customers having smaller outstanding invoices.
- **Review payment receipts:** If the auditors are unable to confirm accounts receivable, their auditing technique should be to verify that customers have paid the invoices in cash or any other banking mode.
- **Assess doubtful accounts:** All the doubtful accounts, where payment is not coming from considerable period determine step that have been taken by the management to recover receivables. Why such receivables became doubtful? What steps to be taken by the company in future to avoid such bad debts?

  Internal auditor will compare the proportion of bad debt to sales/ services/ revenue for this year in comparison to prior years, to see if the current year figure appears reasonable.

  All debtors write-off should be approved in accordance with authorization matrix. Besides, adequacy of provision against debtors should be ascertained and approved by the management.
- **Review credit/ debit note:** Internal auditor will review a selection of the credit-note, debit-note/ memos issued during the audit period to see if they were properly authorized, whether they were issued in the correct period, and whether the circumstances of their issuance may indicate other problems. They may also review credit memos issued after the period being audited, to see if they relate to transactions from within the audit period.
- **Invoices and hold sales/ services/ revenue.** If there are situations where billing has been done to customers for sales/ services/ revenue despite still retaining the goods on-site (known as "Invoices and hold"), the auditors will examine supporting documentation to determine whether a transaction has actually taken place.
- **Sales/ services/ revenue return:** Internal auditor will review the sales/ services/ revenue return, and determine if there are any large amount of sales/ services/ revenue returns after the audit period. This may lead to conclusion that the company may have shipped more goods near the end of the audit period to inflate sales/ services/ revenue.

- **Related party receivables:** If there are any related party receivables, internal auditors may review them, as well as whether they should instead be recorded as income, and whether they were confirmed by related party.
- **Trend analysis:** Internal auditor may review a trend analysis of sales/ services/ revenue and accounts receivable, or a comparison of the two years, to see if there are any unusual trends. Another possible comparison is of receivables to current assets. They may also measure the average collection period. If so, make inquiries about the reasons for changes in the trends.
- **Segregation of Duties:** There should be segregation of duties between functions like, sales, dispatch, credit control, credit notes, collections and adjustments. In the absence of segregation of duties, special attention should be given to any deviation from the authorization matrix.

Recording of Transactions

12.7 Internal auditor must ensure that all revenue transactions must be recorded in books of account as per AS 9 "Revenue Recognition" and as per accounting policy and it should be cross reconciled with goods despatched/ challan issued with invoices issued to the customers.

Reporting

Preliminary Audit Report

12.8 The preliminary audit report consists of the draft audit report after all comments have been resolved. It should be send to Proprietor/ Designated Partner/ MD/ CEO as a confidential document. They will have to provide a formal response to the recommendations in the report within a specified time.

Final Audit Report

12.9 Upon approval of the proprietor/ designated partner/ MD/ CEO's response to the preliminary audit report, the final report is prepared. This document is simply written as a combination of the preliminary audit report and responses into one document. The final audit report should be sent to proprietor/ designated partner/ MD/ Chairman of Audit Committee and should be discussed at their next regularly scheduled meeting.

Audit recommendations remain open until they are followed up and it is concluded that actions plans have been implemented.

Suggestions, if any

12.10 Internal auditor should make suitable suggestion in the report for improvement in present accounting process to remove shortcomings.

Chapter 13

Checklist on Cash and Bank Balance

13.1 The cash and bank balance is the most liquid assets in any organisation, being high risk area for malfeasance, therefore it requires stringent and effective control. Accordingly, utmost care is required while auditing the cash and bank transactions.

Documentation

13.2 These are the documents which are required at the time of cash and bank balance audit:

(i) Receipt book and payment vouchers

(ii) Payroll and time sheet of workers

(iii) Handwritten or printed cheques

(iv) Bank statements/ bank reconciliation

(v) Bank balance confirmation certificate

(vi) Deposit slips of cheques or cash

(vii) Petty cash book, if used

(viii) FDR Receipts

(ix) Loan sanction letter.

Legal Compliance

13.3 Ensure documentary proof for compliance of following:

- Has the unit disclosed ‘cash and cash equivalent’ as per Schedule III of Companies Act, 2013 and it has been classified into following groups:

  (a) Balance with banks

  (b) Cheques / drafts on hand

  (c) Cash on hand

  (d) Others specify nature

- Has the unit repaid loans/ advances/ deposits in cash of ₹ 20,000 and above in contravention of Section 269T of Income Tax Act, 1961?
- Has the entity received loans/ advances/ deposits in cash of ₹ 20,000 and above in contravention of Section 26SS of Income Tax Act 1961?
- Has the entity made any cash payments against expenses above ₹ 20,000 (or ₹ 35,000 for goods carriages) in contravention of Section 40A (3)/ 3A of Income Tax Act, 1961?
- Has the entity received an amount of ₹ 3 lakh or more in dealings of cash transaction in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion, in contravention of Section 269ST of the Income Tax Act, 1961?
- Has the unit collected TCS @ 1% on purchase of goods and services exceeding ₹ 2 lakhs?

Compliance with Accounting Standards/ Guidance Notes

13.4 There is no specific accounting standard on cash and bank balance prescribed so far. However, the ICAI has issued "Guidance Note on Audit of Cash and Bank Balances". The following is the gist of the relevant areas of audit covered by this Guidance Note:

- *Internal Control Evaluation*: segregation of incompatible functions, authorization, recording of transactions, safe custody of cash, cheque books etc., reconciliation statements, etc.
- *Verification of Cash Balances*: timing of carrying out verifications, procedure for verification, situations of unduly large cash balances, IOUs, procedures in case of discrepancies, frequency of verification.
- *Verification of Bank Balances*: procedures for verification, examination of bank reconciliation statements and unusually old outstanding therein, post dated cheques, obtaining confirmations from banks, inoperative bank accounts, fixed deposits, remittance in transit, treatment of stale cheques, valuation of foreign exchange transactions.
- *Examination of Valuation and Disclosure*: compliance with recognised accounting policies, practices, statutory requirements.

Procedure/ Controls

Internal Control Evaluation

13.5 Ensure and confirm:

(i) Segregation of duties relating to authorization of transactions, handling of cash/ issuance of cheques and writing of books of account, and rotation of the duties periodically;

(ii) Proper authorization of cash and banking transactions;

(iii) Daily recording of cash transactions;

(iv) Safeguards such as, restrictive crossing of cheques, use of pre-printed, pre-numbered forms;

(v) Periodic reconciliation of bank balances;

(vi) Reconciliation of cash-on-hand with book balance on a daily basis or at other appropriate intervals, including surprise checks by higher authorities;

(vii) Safe custody of cash, cheque books, receipt books, etc.; and security documents;

(viii) Cash/ fidelity insurance.

Verification of Cash Balances

13.6 Ensure and confirm that:

(i) The auditor should carry out physical verification of cash at the date of the balance sheet. However, if this is not feasible, physical verification may be carried out, on a surprise basis, at any time shortly before or after the date of the balance sheet.

In the later case, the auditor should examine whether the cash balance shown in the financial statements reconciles with the results of the physical verification after taking into account the cash receipts and cash payments between the date of the physical verification and the date of the balance sheet.

(ii) Besides physical verification at or around the date of the balance sheet, the auditor should also carry out surprise verification of cash during the year.

(iii) All cash balances in the same location should be verified simultaneously. Where petty cash is maintained by one or more officials, the auditor should advise the entity to require the officials concerned to deposit the entire petty cash on hand on the last day with the cashier.

(iv) The auditor should enquire whether the cashier also handles cash of sister concerns, staff societies, etc. In such a case, cash pertaining to them should also be verified at the same time so as to avoid chances of cash balances of one entity being presented as those of another.

(v) Internal auditor should examine whether torn and mutilated currency notes are exchanged within a reasonable time.

(vi) If it comes to the attention of internal auditor that the entity is consistently maintaining an unduly large balance of cash on hand, he should carry out verification of cash more frequently.

(vii) If cash on hand does not tally with balance as shown in the books, he should seek explanation from senior officials of the entity. In case the material difference is not satisfactorily explained, the internal auditor should bring the facts in the report.

(viii) Where post-dated cheques are on hand on the balance sheet date, the auditor should verify that they have not been accounted for as collections during the period under audit.

Verification of Bank Balances

13.7 Ensure and confirm that:

(i) Whether the entity has issued a letter to all its bankers to confirm the balances directly to the auditor of all bank accounts. The request for confirmation should also cover dormant accounts as well as accounts closed during the year.

(ii) See that responsibilities for preparing and approving bank account reconciliations has been adequately segregated from other cash receipt or disbursement functions.

(iii) Whether the auditor has examined the bank reconciliation statement prepared as on the last day of the year. He may also examine the reconciliation statements as at other dates during the year.

(iv) Whether cheques issued by the entity but not presented for payment, and cheques deposited for collection by the entity but not credited in the bank account, have been duly debited/ credited in the subsequent period. (For this purpose, the bank statements of the relevant period should be examined).

(v) Where the auditor finds that post-dated cheques are issued by the entity, he should verify that any cheques pertaining to the subsequent period have not been accounted for as payments during the period under audit.

(vi) The auditor should pay special attention to those items in the reconciliation statements which are outstanding for an unduly long period. The auditor should ascertain the reasons for such outstanding items from the management. He should also examine whether any such items require an adjustment/ write-off.

(vii) In respect of fixed deposits or any other type of deposits with banks, the relevant receipts/ certificates, duly supported by bank advices, should be examined.

(viii) Remittances shown as being in transit should be examined with reference to their credit in the bank in the subsequent period. Where the auditor finds that such remittances have not been credited in the subsequent period, he should ascertain the reasons for the same. He should also examine whether the entity has reversed the relevant entries in appropriate cases.

(ix) The auditor should examine that suitable adjustments are made in respect of cheques which have become stale as at the close of the year.

(x) Review and approval of all reconciliations and investigation of unusual reconciling items by an official not responsible for receipts and disbursements, including recording evidence of the review and approval, by signing the reconciliation.

Examination of Valuation and Disclosure

13.8 The auditor should satisfy himself that cash and bank balances have been valued and disclosed in the financial statements in accordance with recognized accounting policies and practices and relevant statutory requirements, if any.

Further cash and bank balance is to be disclosed as ‘cash and cash equivalent’ as per Schedule III of Companies Act, 2013. It is to be disclosed under the head: (i) balance with banks, (ii) cheques/ drafts in hand, (iii) cash on hand.

Further as per Companies Act, 2013 the following additional disclosures are also required to be made:

(i) Earmarked balance with banks e.g. unpaid dividend.

(ii) Balance with banks held as margin money/ security against borrowings.

(iii) Bank deposits with more than 12 months maturity.

Reporting

13.9 Though the reports are generated as per the requirement of a particular organization, following exceptional reports may be useful from internal audit point of view:

(i) Temporary advance should not be included in cash and bank balance.

(ii) List of stale or dishonoured cheques.

(iii) List of long outstanding ‘cheques issued but not yet presented’ and cheques sent for collection not yet collected.

Suggestions, if any

13.10 Suggestions may be given for improvement in the system or steps to be taken/ avoided to make the purchases easier, systematic as well as transparent.

Part III
REVIEW AND REPORTING

Chapter 14

Internal Control System

14.1 As the business grows, controlling various activities becomes an integral and important part of top management. A perfect and effective internal control system not only reduces/ minimises wastage and/ or financial losses, it also helps in maintaining financial and working discipline.

There can be two types of losses, i.e., avoidable and unavoidable. Efforts should be made to reduce/ minimise avoidable losses at all levels. However, it is top management who should be and is ultimately responsible for such losses. Therefore, organisation should try to institutionalise such internal control systems which are easy to monitor and effective.

As per Standard on Auditing (SA) 315 "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment", the internal control may be defined as:

"The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regards to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets and compliance with applicable laws and regulations.

Pre-Requisites for Institutionalisation of Internal Control Systems

14.2 Before institutionalisation of proper and effective internal control systems, the organisation should have the following:

(i) *Organisational Objectives:* Based on a very fair assessment of strength and weaknesses, the organisation should formulate its long term and short term objectives. These clearly defined objectives should flow down the line to everyone which should lead to setting up their priorities and should plan accordingly. Absence of this, leads to performance of every activity in very haphazard manner which ultimately lead to loose internal controls.

(ii) *Organisational Structure:* The structure of the organisation should be made in such a fashion where everyone knows where exactly he is placed and whom he is reporting and who all are reporting to him? What he is expected to perform and what are his Key Result Area (KRA)? What are his authorities and for what he is accountable? Most organisations loose control because the above questions are not clearly answered.

(iii) *Operating Policies:* If the operating policies are not made at all or not practical/ feasible or clear then the chances are that their implementation shall be very weak which may lead to misuse of policies. For example, if it is not defined that there will no casual leave after sick leave, this may be misused by the employees.

(iv) *Standard Operating Procedure:* Various operating procedure should be very clearly defined and documented. It should be clearly defined as to how a particular activity/ function shall be performed. For example, the bill passing section should know the exact procedure for passing a bill.

The policies and procedure should be made in such a manner that they are auditable at any time and are objective based. The subjectivity and discretion of the operating person should be next to zero. They should also have adequate checks and balances.

Tools and Techniques of Internal Control System

14.3 Some tools and techniques of installing well defined internal control systems are as follows:

(i) *Planning and Budgeting:* Before starting any activity, one should make a detailed budget and plan of action. On a regular basis, it should be compared with the actual and variance, if any, and it should be thoroughly analysed for its reasons. The budget should be practical and achievable.

(ii) *Management Information System:* Effective Management Information System (MIS) is a time tested technique for controlling various activities. However, it should be objective based and timely. The correctness and reliability of the figures is a pre-condition for its effectiveness.

(iii) *Informal Grapevine:* There may be very informal feedback from various channels. The management should listen to them carefully, should verify the correctness and reliability of the information and then accordingly should take action.

(iv) *Internal Audit:* Of course, internal audit is one of the best techniques to monitor and control various business operations. The internal auditors may be in house or from outside the organisation. Both have their own merits. However, if the auditors are from outside, the following may be the additional benefits:

- independence of auditor
- experience of other industries/ organisations
- cost effectiveness.

Components of Good Internal Control System for Smaller Entities

14.4 Components of good internal control system for smaller entities are as follows:

(i) *Management personnel*: They should have high integrity and ethical values and be committed to diligently perform key internal control procedures. For a smaller entity, management's character shapes the control environment.

(ii) *Boards of governance*: It should have more "hands-on" oversight involvement in the entity's activities. Some board members may even perform monthly entity-level controls such as, inspecting and approving supporting documentation.

(iii) *Key controls:* These controls are performed by management personnel which can overcome the lack of segregation of duties. Reviews of accounting systems reports, inspections of supporting documents for certain selected transactions, overseeing periodic counts of inventories and reviewing bank statement and other reconciliations.

(iv) *IT system*: IT system limits risks of errors or fraud and can produce better and more accurate financial reports. Standardized reporting formats, password and processing controls and other application controls should be included in accounting software.

(v) *Monitoring control activities*: Monitoring is the primarily responsibility of management. Smaller entities' management should be performing daily "walk-around" controls that provide feedback on the effectiveness of accounting, internal control and operational systems.

(vi) *Maximization of effectiveness and efficiency*: It can be done by including activities that are tailored to the nature, size and complexity of the entity. Since policies and procedures are usually informal for smaller entities, management personnel should communicate internal controls through frequent contact with accounting personnel.

Review of Internal Control by the Auditor

14.5 So far as the auditor is concerned, the examination and evaluation of internal control system is an indispensable part of the overall audit program. The review of internal control enables the auditor to know the following:

(i) Whether errors and frauds are likely to be detected in the ordinary course of the operations of the business.

(ii) Whether an adequate internal control system is in use and operating as planned by the management.

(iii) Whether an effective internal audit department is operating.

(iv) Whether the controls adequately safeguard the assets.

(v) How far and how adequately the management is discharging its function so far as correct recording of transaction is concerned.

(vi) How reliable the reports, records and the certificates to the management can be?

(vii) The extent and depth of the examination that he needs to carry out in different areas of accounting.

(viii) What would be appropriate audit techniques and audit procedures in the given circumstances.

(ix) What are the areas where control is weak and where it Is excessive.

(x) Whether some worthwhile suggestions can be given to improve control system.

14.6 To felicitate the accumulation of information necessary for the proper review and evaluation of internal control, the auditor can use one of the following to help him to know and assimilate the system and evaluate the same:

(i) *Narrative record:* It is a complete and exhaustive description of the system as found in operation by the auditors.

(ii) *Checklist:* This is a series of instructions and/ or questions which a member of the auditing staff must follow and or answer. When he completes instruction, he initials the space against the instructions.

(iii) *Questionnaires:* This is a comprehensive series of questions concerning internal control. This is the most widely used method form for collecting information about the existence, operation and efficiency of internal control in an organisation. The questionnaire is usually issued to the client and the client is requested to get it filled by the concerned executives and employees.

(iv) *Flow charts:* It is a graphic presentation of each part internal control system of the company. A flow chart is considered to be the most concise way of recording the auditor's review of the system. It minimizes the amount of narrative explanation.

Chapter 15

Checklist for Management Information System (MIS)

15.1 A Management Information System (MIS) is a computerized database of financial information organized and programmed in such a way that it produces regular reports on operations for every level of management in a company. MIS is a valuable tool that executives use to judge the effectiveness of their business operations. MIS can provide valuable insight into a company's financial control; assist managers in making critical business decisions.

MIS provides managers with the tools to organize evaluate and efficiently manage departments within an organization. In order to provide past, present and prediction information, a management information system can include software that helps in decision making, data resources such as, databases, the hardware resources of a system, decision support systems, people management and project management applications, and computerized processes that enable the department to run efficiently.

Documentation

15.2 Ensure and confirm:

(i) Whether design of organisational structure which is defining the individual's job responsibility towards MIS with their Job title is available.

(ii) Whether minutes of board meeting are maintained properly.

(iii) Whether documentation to separate EDP department is there.

(iv) Whether the senior management appoints a high-level committee to provide appropriate direction to IT and information systems, and the information technology deployment is in tune with the enterprise goals and objective.

(v) Whether documentation of IT strategy planning is there and it is efficient and effective.

(vi) Whether documentation of Risk management Policies is available.

(vii) Whether written job description of all jobs within EDP department and description is communicated to the concerned. Whether proper separation of duties is there for carrying out different functions like, initiating, recording of transactions, safeguarding assets, etc.

Legal Compliances

15.3 Ensure documentary proof for confirming compliance of following:

(i) Whether proper agreements between software, hardware or network service provider is available.

(ii) Whether the company is using cloud computing then check the service agreement between them and check all the risk associated with it.

(iii) Whether all the compliances of Companies Act, 2013, in relation to all the committees formed by the Board with respect to the MIS are there.

(iv) Whether proper board meeting are held to appoint above mentioned committees.

Procedure/ Controls

Knowledge of the Business and Technology Used

15.4 Ensure and confirm that:

(i) Collect data of general economic factors and industry conditions affecting the business entity.

(ii) Take a note on nature of the business activity, its product and services.

(iii) Take a list of its clientele, vendors and most importantly, strategic business partners/ associates to whom critical process has been outsourced.

(iv) Whether organisational structure is in place and documented.

(v) Whether business processes and its level of automation and its extent of dependence on information system is ascertained and role of IT department is determined.

(vi) Whether technology architecture like, distributed architecture, centralized architecture or hybrid architecture is there.

(vii) Whether there is network connectivity in the organisation.

(viii) Whether extended enterprise architecture is used by the entity and the entity is able to connect other stakeholders such as, vendors (SCM), customers (CRM), employees (ERM) and government.

(ix) Whether the entity is using cloud computing for their storage of data.

Operating Systems

15.5 Ensure and confirm:

(i) Whether all the following functions are done under separate section in EDP department:

- o Formation of policies and strategies
- o System designing and development
- o Application programming
- o Operating functions
- o Data management
- o Modification in database
- o System maintenance
- o System security.

(ii) Whether EDP personnel in hierarchy are adequately trained.

(iii) Whether processing are properly authorized and as per directions by management or committee.

(iv) Whether system operators are not permitted to make changes to programs.

(v) Whether restrictions on custody of assets outside the EDP department are in place.

(vi) Whether any key personnel is being over-relied.

(vii) Whether absence of any key personnel will affect the EDP system's expertise.

(viii) Whether security control to access the system like, log-in, password, access token, etc., exists?

(ix) Whether maintenance of usage records is there.

(x) Whether MIS corroborates with entity's operations.

Data Management

15.6 Ensure and confirm that:

(i) Whether data security policy is communicated to all the individuals and followed by them.

(ii) Whether access control are designed and implemented to protect from unauthorized viewing, retrieving, destroying the entity's data, like, login password.

(iii) Whether there is a proper mechanism to modify access password by an authorized person.

(iv) Whether data management team is different from the user of the data.

(v) Ensure that proper system for backup of data is there.

(vi) Whether proper backup strategies are there like, dual recording of data, periodic dumping of data in case of any unauthorized access or physical disaster.

Security and Controls

15.7 Ensure and confirm that:

(i) Whether physical security for computer system is there like, fire damage, water damage, and power supply variation.

(ii) Whether software and data security is there like, passwords and PINs, Monitoring after office hours.

(iii) Whether data communication security is there like, audit trails of crucial network activities.

(iv) Whether internet and intranet controls including restriction on access to various sites are there.

(v) Whether personal computers controls including restrictions on USB ports are there like, centralized purchase of hardware and software, uses of anti-malware software, etc.

Input, Processing and Output Controls

15.8 Ensure and confirm that:

(i) Whether control over inputs into the system like, source document control is there.

(ii) Whether pre-numbered source documents or the documents are in sequence.

(iii) Whether data is properly coded into the system i.e. no transaction errors, like addition, subtraction.

(iv) Whether processing controls in the system like, run to run totals, reasonableness verification, edit checks and exception reporting is there.

(v) Whether output controls in the system like, storage of data, report distribution, collection of reports, retention controls are there.

Access Controls

15.9 Ensure and confirm that:

(i) Whether access is restricted to selected employees.

(ii) Whether prior approval is required for all other employees.

(iii) Whether entrance door is controlled by:

- o Screening by a guard
- o Locks/ combinations
- o Electronic badge/ key
- o Other biological identification devices

(iv) Whether keys, locks, or other physical devices are used to restrict access to only authorised user.

(v) Whether invalid password attempts are reported to user department manager.

(vi) Whether procedure is in place to ensure forced change of password after a specific period.

(vii) Whether procedure is in place to ensure the compliance of removal of terminated/ retired employee password.

Backup Procedures

15.10 Ensure and confirm that:

(i) Whether backup procedures and documentation is reviewed periodically.

(ii) Whether periodical preventive maintenance is done.

(iii) Whether duration of computer back-up is sufficient.

(iv) Whether availability of alternative source of supply/ maintenance/ service is ensured.

(v) Whether testing of backup is regularly performed.

(vi) Whether copies of all updating transactions for above are retained.

(vii) Whether audit trail (log file) is regularly dumped and stored off site.

Disaster Recovery Plan (DRP)

15.11 Ensure and confirm that:

(i) Whether comprehensive contingency plan is delivered, documented and periodically tested to ensure continuity in data processing.

(ii) Whether contingency plan for recovery and extended processing of critical application in the event of catastrophic disaster is there.

(iii) Whether recovery plan in case of failure is there to ensure that:

- No loss of data which has been received but not processed.
- No reprocessing of data already processed.

Good Governance and Quality

15.12 Ensure and confirm that:

(i) Whether MIS reports with their adequacy, accuracy and timeliness have been reviewed.

(ii) Whether relevant MIS reports are prepared which may help in decision making for the management.

Reporting

15.13 Though reports are generated as per the requirement of a particular organization, check whether the reports help in making important decisions by the top management.

Suggestions, If any

15.14 Suggestions may be given for improvement in the MIS system of the company to make it more systematic and transparent.

Chapter 16
Reporting

16.1 The purpose of Standard on Internal Audit (SIA) 4, "Reporting" as issued by the ICAI is to establish standards on form and contents of internal audit report issued as a result of an internal audit performed by internal auditors of the systems, processes, controls including item of financial statements of an entity.

This Standard specifies that the internal auditor's report should contain a clear written expression of significant observations, suggestions/ recommendations based on the policies, risks, controls and transaction processing taken as a whole and management responses.

Basic Elements of the Internal Audit Report

16.2 Internal Auditor's Report includes the following basic elements, ordinarily in the following format:

(a) Title;

(b) Addressee;

(c) Report Distribution List;

(d) Period of coverage of the Report;

(e) Opening or introductory paragraph;

  (i) Identification of the processes/ functions and items of financial statements audited; and

  (ii) A statement of the responsibility of the entity's management and the responsibility of the internal auditor;

(f) Objectives paragraph - statement of the objectives and scope of the internal audit engagement;

(g) Scope paragraph (describing the nature of an internal audit):

  (i) A reference to the generally accepted audit procedures in India, as applicable;

(ii) A description of the engagement background and the methodology of the internal audit together with procedures performed by the internal auditor; and

(iii) A description of the population and the sampling technique used.

(h) Executive Summary, highlighting the key material issues, observations, control weaknesses and exceptions;

(i) Observations, findings and recommendations made by the internal auditor;

(j) Comments from the local management;

(k) Action Taken Report – Action taken/ not taken pursuant to the observations made in the previous internal audit reports;

(l) Date of the report;

(m) Place of signature; and

(n) Internal auditor's signature with Membership Number.

Uniformity in the form and contents of internal audit report is desirable because it helps to promote the readers understanding of the internal audit report and to identify unusual circumstances when they occur.

16.2 SIA 4 mentions that the internal auditor should exercise due professional care to ensure that the internal audit report, *inter-alia*, is:

(i) Clear

(ii) Factual – presents all significant matters with disclosure of material facts

(iii) Specific

(iv) Concise

(v) Unambiguous

(vi) Timely

(vii) Complies with generally accepted audit procedures in India, as applicable.

Performa of Internal Audit Report based on SIA 4

Title: - ....

<Appropriate title expressing the nature of report>

Addressee: - ....

<Name and Designation of person addressed to; usually addressed to appointing authority or to person as directed>

Report Distribution List:

(i) ....

(ii) ....

(iii) ....

<Mention the recipient of the report; also mention that report is not intended to anyone other than as stated above>

Period of Coverage of reports...

Introductory Paragraph:

(i) ....

<Give a brief overview about the function/ process/ systems or other items of the entity that have been audited>

(ii) ....

<Give a statement that the operations of the systems/ procedures/ controls are the responsibility of the entity's management>

(iii) ....

<Give a statement of responsibility of the internal auditors to express an opinion on the weaknesses in internal control, risk management and governance framework, highlighting any exception and cases of non compliance with suggestion on improvements>

Objective Paragraph:...

<Give statement of the objectives; objectives may be repeated as given in Engagement letter>

Scope Paragraph:

It includes the following:

(i) Internal audit was conducted in accordance with generally accepted audit procedures, as applicable.

(ii) Internal audit was planned and performed to obtain reasonable assurance whether the process/ system/ control operate effectively and efficiently and financial statements are free from material mis-statements.

(iii) Internal audit includes the examination on a test basis evidence to support the amount and disclosure in "Financial Statement"; assessing the strength, design and operating effectiveness of internal control at process level and identifying areas of control weakness, business risk, etc. in the system.

(iv) Evaluating the overall entity wide risk management and governance frame work.

Executive Summary Paragraph:

It should indicate the highlights of internal audit findings, i.e.,

- Key issues
- Observation of concern
- Significant control lapse
- Failure or weakness in the system/ process.

Observations (Main Report) Paragraph:

It should be clearly divided into:

- Process name
- Significant observation
- Findings
- Analysis and
- Comments of internal auditors including
    - Impact of such observations
    - Suggestions/ recommendations

Notes:

(i) Annexure may be attached for such observation.

(ii) Evidence should be accurate/ relevant/ complete.

Comments from Local Management:

It should contain observation and comments from the local management of the entity with action plan for resolution of the issues and compliance of recommendations/ suggestions given by internal auditors. It includes:

- The timeframe for taking appropriate corrective action
- The person responsible, if any.
- Resources requirements.

Action taken Report Paragraph:

It includes:

- Status of compliance/ corrective actions taken to previous audit observations, by the auditee.
- Status of compliance/ corrective actions not taken to previous audit observations, by the auditee with the reasons of non compliance thereof.
- Revised time limits for compliance of all open items as stated above.

Date: ....

It is the date on which internal auditor signs the report.

Place of Signature: ....

It is ordinarily the city where the audit report is signed.

Final Internal Audit Report Release Checklist

Assignment Name		Assignment No
		Engagement Manager
Company Name		

Sl. 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 negative remarks.		
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,		

Internal Audit Checklist

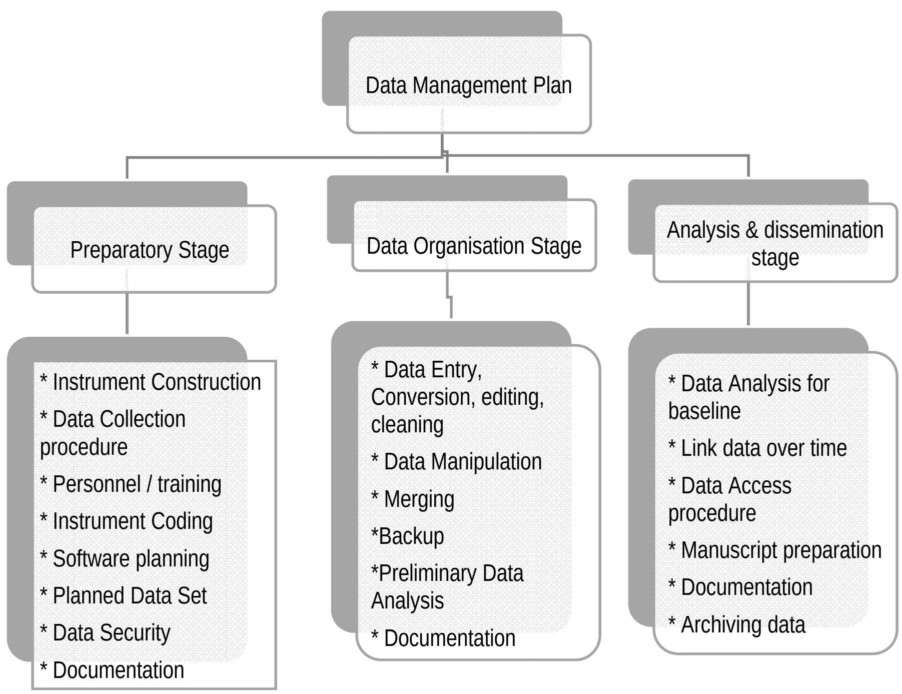
Sl. No	Checklist	Status	Remarks
	performance information which may be represented using graphs.		
9.	Is caution taken in usage of logos of the clients with adequate written permissions.		
10.	Is the formatting of the report done using your standardized formats signed of with the client. Please give extra check on headers, footers, first page, annexure, etc.		
11.	Check whether 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).		

Team Leader   Engagement Manager

Partner

Chapter 17
Data Management

17.1 Data Management involves preparatory stage, data organised stage and data analysis/ dissemination stage. Each stage is equally important to study outcomes. Specific activities are required at each stage to ensure the integrity of data management process. The stages, components and strategies of the plan are represented by the figure given below. The components outlined in each stage can be used as a step-by-step checklist to ensure that all the issues are addressed and properly documented.



Diagrammatical Representation of Data Management Plan

Checklist of Data Management

17.2 Checklist for Data Management is as follows:

(i) Whether entity is using standardised and consistent procedures to:

- to collect data
- to process data
- to check data
- to validate data and
- to verify data.

(ii) Whether entity's structured data is self explanatory in terms of various names, codes and abbreviations used in structured data.

(iii) Whether entity is establishing an organizational structure that consists of different levels of data governance, i.e.:

- Executive
- Judicial
- Legislative
- Administrative.

(iv) Whether entity is specifying roles and responsibilities at various levels such as:

- Data entry operator,
- Decision maker,
- Report generator, etc.

(v) Whether controls clearly define the access rights for data at various levels and ensure that data management software (e.g., SAP) has inbuilt features for the same.

(vi) Whether controls clearly identified frequency of taking back-up of Data as per the volume of data being generated by the organization.

(vii) Whether you have checked that no data or internal data have been changed or lost while converting data access format.

(viii) Whether entities digital or non digital data and any copies thereof, have been kept in a safe and secure location.

(ix) In case, data collected through mobile devices, how will you transfer and store the data.

(x) Whether organisation stores back up at a place other than the place where data is generated. This storing place should have significant distance from the place where data is generated. Are the files backed up sufficiently and regularly and the data backups are stored safely.

(xi) Whether data sharing with the respondent was discussed with from whom data was collected in case, data contains confidential or sensitive information such data should be secured properly.

(xii) Whether written consent from the respondent has been obtained to share beyond assignment/ internal audit.

(xiii) Whether auditor have established who owns the copyright of data.

(xiv) Whether internal auditor know where the master version of data files is kept.

(xv) Whether data security features and software has embedded in all the computer equipment, like firewall, antivirus, blocking access to various social media, etc.

(xvi) Whether pest control is done in the data storage room.

(xvii) Whether data files are organised in an orderly and systematic manner so that any data needed is easily traceable and, thus, ensuring timely availability of the data. Systematic arrangement of files ensures that any loss/ theft are easily noticed.

(xviii) Whether inventory of all computer equipment, software and data files are periodically updated under the supervision of appropriate authority.

(xix) Whether the entry to data storage room is restricted strictly and whether a log book is maintained identifying the person who has accessed the data and who has the hold of file as on date.

(xx) Whether usage of personal e-mail IDs for business mails is avoided.

(xxi) Whether remote access to data is provided only after obtaining proper authorization from the authority concerned.

(xxii) Whether access to all computer equipment are password protected and personnel are guided not to share their password with others or to third party.

(xxiii) Whether the system personnel are made responsible for any activity from their desktop/ laptop.

Part IV
OTHER ASPECTS

Chapter 18
Overview of Corporate Social Responsibility (CSR)

18.1 Section 135 and Schedule VII of the Companies Act, 2013, and Company CSR Policy Rules, 2014 read with General Circular dated 18.06.2014 issued by Ministry of Corporate Affairs, provides the broad contour within which 'Eligible Companies' are required to formulate their CSR policies including activities to be undertaken and implement the same in the right earnest. Now with effect from 1st April, 2014, every company having:

- Net worth of ₹ 500 crores or more, or
- Turnover of ₹ 1000 crores or more, or
- Net profit of ₹ 5 crores or more during any financial year.

shall spend atleast 2% of average net profit of the company made during three immediately preceding financial years on the activities as defined in the CSR policy of the company. For this purpose, every company shall constitute a Corporate Social Responsibility Committee of the Board. The committee would comprise of three or more directors, out of which at least one director shall be an independent director. Schedule VII of Companies Act enumerates the activities which may be included by companies in their CSR Policies.

The mandate of the said CSR Committee shall be:

(i) to formulate and recommend to the Board, a CSR Policy, which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

(ii) to recommend the amount of expenditure to be incurred on the activities referred to above

(iii) to monitor the CSR Policy of the company from time to time.

Notes:

(i) 'Net Profit' for the purpose of Section 135 and Company CSR Policy Rules shall mean net profit before tax (PBT) as per books of accounts and shall not include profits arising from branches outside India.

(ii) "Average net profit" shall be calculated in accordance with the provisions of section 198 of the Companies Act, 2013.

(iii) Reporting is to be done on an annual basis commencing from financial year 2014-15

(iv) No specific tax exemption has been extended to CSR expenditure per se. The Finance Act, 2014, also clarifies that expenditure on CSR does not form part of business expenditure.

(v) Though no specific tax exemption has been extended to expenditure incurred on CSR, spending on several activities like, contribution to Prime Minister's Relief Fund, Scientific Research, Rural Development Project, Skill Development Projects, Agriculture Extension projects, etc., which find place in Schedule VII of The Companies Act, 2013, already enjoy exemptions under different sections of the Income Tax Act, 1961.

CSR Policy

18.2 As mentioned above, every company shall constitute a CSR committee which shall prepare a CSR policy. The CSR policy shall:

(i) include the projects and programs to be undertaken;

(ii) include a list of CSR projects/ programs which a company plans to undertake during the implementation year, specifying modalities of execution in the areas/ sectors chosen and implementation schedules for the same;

(iii) specify that CSR projects/ programs of a company may also focus on integrating business models with social and environmental priorities and processes in order to create shared value;

(iv) specify that surplus arising out of the CSR activity will not be part of business profits of a company;

(v) specify that the corpus would include 2% of the average net profits, any income arising there from, and surplus arising out of CSR activities, the contributing company shall establish a monitoring mechanism to ensure that the allocation is spent for the intended purpose only.

Other Points for Considerations

18.3 Other point for considerations are as follows:

(i) If the company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount. The Board is free to decide whether any unspent amount out of minimum required CSR expenditure is to be carried forward to the next year.

(ii) A company may also implement its CSR programs through not-for-profit organizations that are not set up by the company itself. Such spends may be included as part of its prescribed CSR spend only if such organizations have an established track record of at least three years in carrying out activities in related areas.

(iii) Companies may collaborate or pool resources with other companies to undertake CSR activities. Only such CSR activities will be taken into consideration as are undertaken within India.

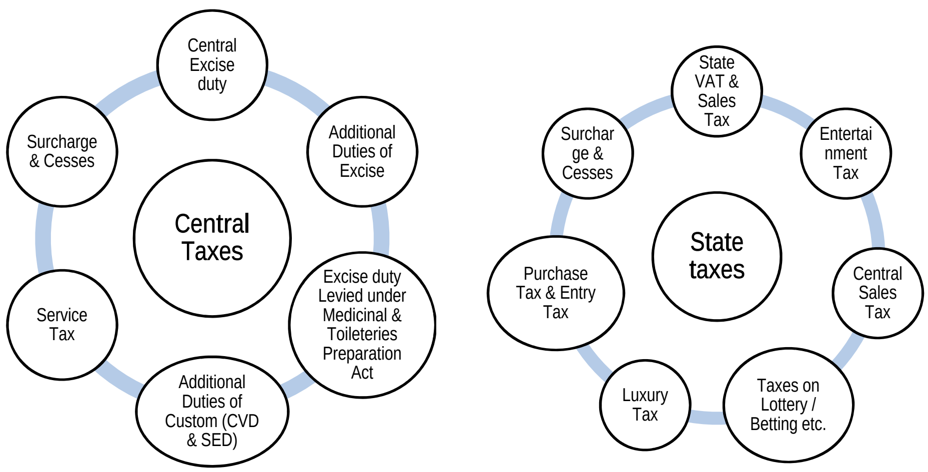
(iv) As per CSR Policy Rules, companies can combine their CSR programs with other similar companies by way of pooling their CSR resources. Further, only activities which are not exclusively for the benefit of employees of the company or their family members shall be considered as CSR activity.

(v) The Board's Report of a company qualifying under section 135(1) shall include an annual report on CSR containing particulars specified in prescribed annexure (Rule 3 of CSR Policy Rules, 2014).

Chapter 19

Overview of Proposed Goods and Service Tax (GST) Law

19.1 Goods and Service Tax (GST) Law is likely to be implemented in the country from 1st July, 2017 or at the most by 16th September, 2017. The compliance requirement of many Indirect Tax Laws including Central Excise, Service Tax, Local Value Added Tax (VAT), Central Sales Tax, Luxury Tax, etc. are to be subsumed in GST. Accordingly, the relevance of the compliance under these Laws will not be of much relevance in the new regime of GST Law. It can be presented in pictorial form as under:



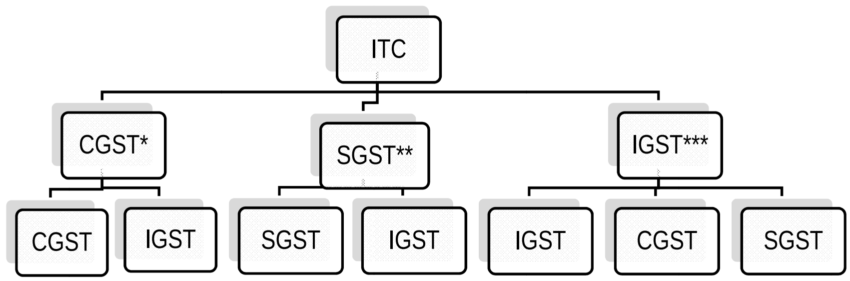
Central and State Taxes to be subsumed in GST

19.2 Salient Features of Proposed GST Law are as follows:

- The Model GST Law is massive legislation which changes the entire dimensions under which business operate in India. The proposed law is an attempt to make the uniform legislations, considering the multiple compliances affecting the free flow of goods and services.

- GST is in final stages of formation, the Central GST (CGST) and Integrated GST (IGST) is to be passed by Parliament while State GST (S-GST) Law has to be passed by the Legislature of each State before it is implemented.
- The Rules for application of GST Law shall also be framed and then the required format of each type of Forms or records, etc., shall be finalized and presented before the Parliament or the State Legislature.
- The process of filling the 'Enrolment Form' at the web-portal of Goods and Services Tax Network (GSTN) has already started in different stages. All care needs to be taken in furnishing the correct and complete information about the business of the dealer for migration of data to GST.
- Goods and Service Tax being a compliance based law needs very close analysis and scrutiny of transaction data so that correct and complete data is digitally uploaded for each requirement. For smooth functioning of business and least interference by GST Authorities, sincere approach for every action in GST is essential.
- GST perceived benefits to trade are reduction in multiplicity of taxes; mitigation of cascading effect/ double taxation, more efficient neutralization of taxes, principle of consumption-based taxation development of common national market and simpler tax regime with fewer rates and exemptions and removing distinction between goods and services.
- GST perceived benefits to the consumer are simpler tax system; reduction in prices of goods and services due to elimination of cascading effects; uniform tax throughout the country; transparency in taxation system and increase in employment opportunities.
- Since, it is expected that more than six slabs of 'rate of tax' would be there in GST, possible rate structure is Example zero rated, 5%, 12%, 18% & 28% so the classification of goods would be a major and important issue. The applicability of scientific Harmonized Commodity description and Coding Systems (HS) as internationally accepted makes the classification issue complicated vis-a-vis the classification of goods under the present system and schedules prescribed under VAT Act.
- The system and procedure for claim of Input Tax Credit under CGST and SGST is expected to be quite difficult due to many riders requiring

fulfilment of various conditions. All such riders, conditions or limitations for ITC or Reversal of ITC need to be understood from the rules which are yet to be formulised. It can be explained in pictorial form as under:



(*CGST stands for Central Goods & Service Tax,**IGST stands for Integrated Goods & Service Tax,***SGST stands for State Goods & Service Tax)

Tentative Internal Audit Checklist for GST

19.3 In the light of the above, a tentative check list of GST is also being provided below and the same is subject to change/ modification once the GST is implemented:

(i) Whether the entity has registration certificates for the principal place and separate registrations for all other places. Ensure that simultaneous registration under CGST/ SGST/ IGST is taken in the same state and places of business in other states. PAN based registration is compulsory except for non residents.

(ii) Whether the details of business are correctly and completely mentioned/ declared in the Registration Certificate.

(iii) Whether the principal place of business has been correctly declared in the Registration Certificate and all places of business in other states in the respective Registration Certificates.

(iv) Ensure that time of supply of goods shall be earlier of invoice/payment i.e., actual date of issue of invoice by the supplier, due date for issue of invoice by the supplier, date on which payment to entered in books of supplier and date on which payment is credited in the bank account of supplier.

(v) Whether all the products, traded/ manufactured have been declared in the Registration certificates.

(vi) Whether all Monthly Returns/ Quarterly/ Annual Return have been filed with all Annexure within the prescribed time or within the extended period as per Form GSTR-1 to Form GSTR-11 as prescribed under Return Rules (Proposed). Tally it with both the monthly payments and as well as the ledger entries of the relevant dates.

(vii) Review the return and check whether the return is accurate as to input credit, output tax payable, valuation of goods and carry forward of credit, etc.

(viii) Whether GST (Goods and Service Tax) has been charged on sale of goods traded/ manufactured at correct rates.

(ix) Whether GST has been charged on sale of waste product/ discarded product/ assets at correct rates.

(x) Whether GST has been charged on sale of assets at correct rates.

(xi) If the rates applied are different, take a copy of the authority/ notification under which such change is approved. For example: Composition Scheme, GST Notifications, etc.

(xii) Whether all the records and Books of Accounts, required to be maintained, are available at the location.

(xiii) Whether the unit has purchased goods only from the registered dealer. GST registration number should be there on invoices and Tax Invoices must be in prescribed format as per the Invoice Rules.

(xiv) Whether the unit has reconciled the variance between GST payable as shown in books of accounts and the amount paid.

(xv) Whether full credit of GST is availed till date, that is input credit of GST for all the purchases is available in the electronic credit ledger.

(xvi) Whether the unit maintains acknowledged Tax challan and deposit of CGST, SGST and IGST is made under the correct head of account.

(xvii) Whether the unit deposits GST (CGST/ SGST/ IGST) dues within due dates under properly filled challan/ Bank Transfer with proper acknowledgement and check that the amount appears on Electronic Credit Ledger.

(xviii) Whether GST credit is correctly carried forward from previous month to next month in every Monthly Return as well as Annual Return.

(xix) Ensure GST payment would become due, earliest of conditions mentioned (i) receipt of advance (ii) issuance of invoice (iii) completion of supply.

(xx) Ensure that CGST/ SGST/ IGST payment is paid by 20th of the succeeding month on monthly basis for tax payers and on quarterly basis for composition tax payer.

(xxi) Whether ITC is correctly claimed on input and capital purchases eligible for claiming input credit, i.e., whether the input tax carried is in books only based on proper Tax Invoice from the vendor with GST Number and all other relevant details mentioned on the invoice.

(xxii) Whether invoice or bill is not issued without supply of goods and/ or services.

(xxiii) Whether amount collected as tax due to the credit of the appropriate Government is beyond a period of three months from the date on which such payment becomes due.

(xxiv) Whether amount collected as tax erroneously in contravention to the provisions of this Act is due to the credit of the appropriate Government beyond a period of three months from the date on which such payment becomes due.

(xxv) Whether Input tax credit taken and/ or utilized is against actual receipt of goods and/ or services.

(xxvi) Whether refund of any CGST/ SGST/ IGST is not obtained wrongly.

(xxvii) Whether Input tax credit taken or distributed is in violation of Section 21 of the GST Law (now proposed).

(xxviii) Whether taxable goods are transported with the cover of documents as may be specified in this behalf.

(xxix) Whether books of account and other documents are kept, maintained and retained in accordance with the provisions of this Act.

Appendices

Appendix I

List of Standards on Internal Audit

List of Standards on Internal Audit as issued by the Internal Audit Standards Board of ICAI is as follows:

SIA 1, Planning an Internal Audit

SIA 2, Basic Principles Governing Internal Audit

SIA 3, Documentation

SIA 4, Reporting

SIA 5, Sampling

SIA 6, Analytical Procedures

SIA 7, Quality Assurance in Internal Audit

SIA 8, Terms of Internal Audit Engagement

SIA 9, Communication with Management

SIA 10, Internal Audit Evidence

SIA 11, Consideration of Fraud in an Internal Audit

SIA 12, Internal Control Evaluation

SIA 13, Enterprise Risk Management

SIA 14, Internal Audit in an Information Technology Environment

SIA 15, Knowledge of the Entity and its Environment

SIA 16, Using the Work of an Expert

SIA 17, Consideration of Laws and Regulations in an Internal Audit

SIA 18, Related Parties

Appendix II

Other Technical Literature issued by the Internal Audit Standards Board of ICAI

Other Technical Literature as issued by the Internal Audit Standards Board of ICAI is as follows:

I. Industry Specific Technical Guides on Internal Audit

(i) Technical Guide on Risk-based Internal Audit in Banks

(i) Technical Guide on Internal Audit in Aluminium Industry

(iii) Technical Guide on Internal Audit in Upstream Oil & Gas Companies

(iv) Technical Guide on Internal Audit in Telecommunications Industry

(v) Technical Guide on Internal Audit of Stock Brokers

(vi) Technical Guide on Internal Audit of Treasury Function in Banks

(vii) Technical Guide on Internal Audit of Educational Institutions

(viii) Technical Guide on Internal Audit of Sugar Industry

(ix) Technical Guide on Internal Audit of BPO Industry

(x) Technical Guide on Internal Audit of Retail Industry

(xi) Technical Guide on Internal Audit of Life Insurance Business

(xii) Technical Guide on Internal Audit of Mutual Fund

(xiii) Technical Guide on Stock and Receivables Audit

(xiv) Technical Guide on Internal Audit of Not-for-Profit Organisations (NPOs)

(xv) Technical Guide on Internal Audit of Mining and Extractive Industry

(xvi) Technical Guide on Internal Audit of Infrastructure Industry

(xvii) Technical Guide on Business Control, Monitoring and Internal Audit of Construction Sector

(xviii) Technical Guide on Internal Audit of Textile Industry

(xix) Technical Guide on Internal Audit in Oil & Gas Refining & Marketing (Downstream) Enterprises

(xx) Technical Guide on Auditing Waste Management

(xxi) Technical Guide on Internal Audit of Pharmaceutical Industry

(xxii) Technical Guide on Internal Audit of Petrochemical Industry

(xxiii) Technical Guide on Internal Audit of Beverages Industry

(xxiv) Technical Guide on Internal Audit of IT Software Industry

(xxv) Technical Guide on Internal Audit of Hotel Industry

(xxvi) Technical Guide on Internal Audit of Automobile Industry

II. Generic Internal Audit Guides

(i) General Guidelines on Internal Audit

(ii) Guide on Risk-Based Internal Audit

(iii) Background Material on Due Diligence

(iv) Manual on Concurrent Audit of Banks (2016 Edition)

(v) Training Material on Internal Audit

(vi) Manual on Internal Audit

(vii) Study on Co-ordination of Internal Auditor with Functional Heads

(viii) Technical Guide on Social Audit

(ix) Study on Investigative Audits

(x) Handbook on Professional Opportunities in Internal Audit

(xi) Guide on Environmental Audit

(xii) Data Analytics and Continuous Control Monitoring (including Practical Case Studies)

(xiii) Technical Guide on Internal Audit of Tendering Process

(xiv) Technical Guide on Internal Audit of Intangible Assets

(xv) Guide on Risk Based Internal Audit Plan

Appendix III

List of Accounting Standards as issued by the ICAI

- Amendment to AS 2, 4, 6, 10, 13, 14, 21 and 29 issued by the Institute of Chartered Accountants of India, pursuant to issuance of amendments to Accounting Standards by the MCA (September 2016)
- AS 1 Disclosure of Accounting Policies
- AS 2 Valuation of Inventories
- AS 3 Cash Flow Statements
- AS 4 Contingencies and Events Occurring after the Balance Sheet Date
- AS 5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies
- AS 6 Depreciation Accounting
- AS 7 Construction Contracts (revised 2002)
- AS 9 Revenue Recognition
- AS 10 Accounting for Fixed Assets
- AS 11 The Effects of Changes in Foreign Exchange Rates (revised 2003),
- AS 12 Accounting for Government Grants
- AS 13 Accounting for Investments
- AS 14 Accounting for Amalgamations
- AS 15 Employee Benefits (revised 2005)
- AS 16 Borrowing Costs
- AS 17 Segment Reporting
- AS 18 Related Party Disclosures
- AS 19 Leases

- AS 20 Earnings Per Share
- AS 21 Consolidated Financial Statements
- AS 22 Accounting for Taxes on Income.
- AS 23 Accounting for Investments in Associates in Consolidated Financial Statements
- AS 24 Discontinuing Operations
- AS 25 Interim Financial Reporting
- AS 26 Intangible Assets
- AS 27 Financial Reporting of Interests in Joint Ventures
- AS 28 Impairment of Assets
- AS 29 Provisions, Contingent` Liabilities and Contingent Assets

Appendix IV

Auditing, Review and Other Standards as issued by the ICAI

Standards on Quality Control (SQCs)

- SQC 1, “Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements”
- Announcement on Amendment to SQC 1 - Retention Period for Engagement Documentation (Working Papers)

Audits and Reviews of Historical Financial Information New/ Revised Standards (Auditing, Review and Others) issued under the Clarity Project

- 100-199 Introductory Matters
- 200-299 General Principles and Responsibilities
    - SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
    - SA 210, Agreeing the Terms of Audit Engagements
    - SA 220 (Revised)issued under the Clarity Project , “Quality Control for an Audit of Financial Statements”
    - SA 230 (Revised) under the Clarity Project, “Audit Documentation”
    - SA 240 (Revised) under the Clarity Project, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”
    - SA 250 (Revised) under the Clarity Project, “Consideration of Laws and Regulations in an Audit of Financial Statements”
    - SA 260 (Revised) under the Clarity Project, “Communication with Those Charged with Governance”
    - Revised SA 260, “Communication with Those Charged with Governance”

    - SA 265 issued under the Clarity Project, “Communicating Deficiencies in Internal Control to Those Charged With Governance and Management”
    - SA 299 (AAS 12), “Responsibility of Joint Auditors”
- 300-499 Risk Assessment and Response to Assessed Risks
    - SA 300 (Revised) under the Clarity Project, “Planning an Audit of Financial Statements” •
    - SA 315 under the Clarity Project, “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment”
    - SA 320 (Revised) issued under the Clarity Project, “Materiality in Planning and Performing an Audit”
    - SA 330 under the Clarity Project, “The Auditor’s Responses to Assessed Risks”
    - SA 402 (Revised) issued under the Clarity Project, “Audit Considerations Relating to an Entity Using a Service Organisation”
    - SA 450 issued under the Clarity Project, “Evaluation of Misstatements Identified During the Audit”
- 500-599 Audit Evidence
    - SA 500 (Revised) under the Clarity Project, “Audit Evidence”
    - SA 501 (Revised)issued under the Clarity Project, “Audit Evidence—Specific Considerations for Selected Items”
    - SA 505 (Revised) issued under the Clarity Project, “External Confirmations”
    - SA 510 (Revised) under the Clarity Project, “Initial Audit Engagements – Opening Balances”
    - SA 520 (Revised) issued under the Clarity Project, “Analytical Procedures”
    - SA 530 (Revised) under the Clarity Project, “Audit Sampling”
    - SA 540 (Revised) under the Clarity Project, “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures”

- SA 550 (Revised) under the Clarity Project, “Related Parties”
- SA 560 (Revised) under the Clarity Project, “Subsequent Events”
- SA 570 (Revised) under the Clarity Project, “Going Concern”
- Revised SA 570, “Going Concern”
- SA 580 (Revised) under the Clarity Project, ”Written Representations”

- 600-699 Using Work of Others
    - SA 600 (AAS 10), “Using the Work of Another Auditor”
    - SA 610 (Revised) issued under the Clarity Project, “Using The Work of Internal Auditors”
    - SA 610(Revised), Using the Work of Internal Auditors
    - SA 620 (Revised) issued under the Clarity Project, “Using the Work of an Auditor’s Expert”
- 700-799 Audit Conclusions and Reporting
    - SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
    - SA 700, “Forming an Opinion and Reporting on Financial Statements”
    - SA 701, “Communicating Key Audit Matters in the Independent Auditor’s Report”
    - SA 705, Modifications to the Opinion in the Independent Auditor’s Report
    - Revised SA 705, “Modifications to the Opinion in the Independent Auditor’s Report”
    - SA 706 issued under the Clarity Project, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report"
    - Revised SA 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”
    - SA 710 (Revised) issued under the Clarity Project, “Comparative Information—Corresponding Figures and Comparative Financial Statements”

    - SA 720 under the Clarity Project, "The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements"
- 800-899 Specialized Areas Revised
    - SA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
    - SA 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
    - SA 810 issued under the Clarity Project, "Engagements to Report on Summary Financial Statements"
- 2000-2699 Standards on Review Engagements (SREs)
    - SRE 2400 (Revised), "Engagements to Review Financial Statements
    - SRE 2400 (Revised), Engagements to Review Historical Financial Statements
    - SRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"

Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

- 3000-3699 Standards on Assurance Engagements (SAEs)
- 3000-3399 Applicable to All Assurance Engagements
- 3400-3699 Subject Specific Standards
    - SAE 3400 (AAS 35), "The Examination of Prospective Financial Information"
    - SAE 3402, "Assurance Reports on Controls At a Service Organisation"
    - SAE 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

Related Services

- 4000-4699 Standards on Related Services (SRSs)
    - SRS 4400 (AAS 32), “Engagements to Perform Agreed-upon Procedures Regarding Financial Information”
    - SRS 4410 (AAS 31), “Engagements to Compile Financial Information”
    - SRS 4410(Revised), Compilation Engagements

General Clarifications issued

- General Clarification (GC)-AASB/2/2004 on SA 210
- General Clarification (GC)-AASB/1/2002 on SA 620