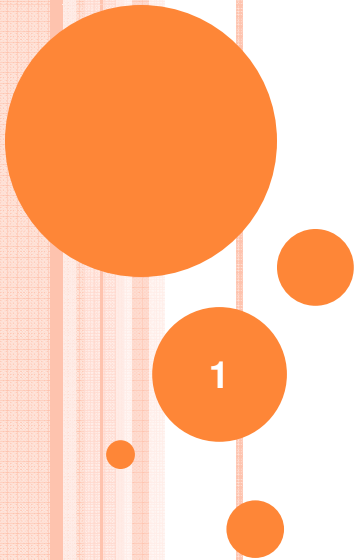




INTERNAL AUDIT CEMENT INDUSTRY



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INTERNAL AUDIT – IN - CEMENT INDUSTRY

- Internal audit function has vast scope in Cement industry being in manufacturing sector and plays key role in keeping the wheels, always on. The very reason for saying this on continuous basis is the constant review of built in 'internal controls' in the Organization needs a patrol, just like manufacturing wheel, otherwise endanger of risk (fraud) haunts, due to diversified activities in the process.

INTERNAL AUDIT – IN - CEMENT INDUSTRY (Contd...)

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- Internal audit in overall Cement Industry may be a topic to discuss in one or below two hours, but its conducting may take few weeks as the scope and depth is such to give a true value added Report to a Company.

INTERNAL AUDIT – IN - CEMENT INDUSTRY (Contd...)

- However before taking up the audit assignment let us have the fundamentals and basic knowledge about Cement manufacturing, its process, elements of Costs etc..

FEW FACTS ABOUT CEMENT

1. TYPES OF CEMENT-

- ❖ OPC-ORDINARY PORTLAND CEMENT
- ❖ PPC-PORTLAND POZZLANA CEMENT
- ❖ SLAG CEMENT etc WITH DIFFERENT GRADES LIKE 33, 43,53

INTERNAL AUDIT – IN - CEMENT INDUSTRY (Contd...)

- 2) First Cement produced by Romans and Greeks with ash mix and lime
- 3) Portland cement developed by England in early 18 century
- 4) Cement Industry plays a vital role in Indian Economy's and GDP growth, directly and indirectly through infrastructure, manufacturing and every other connected industry.
- 5) Try to name an industry/service where presence/role of CEMENT is NIL?

INTERNAL AUDIT – IN - CEMENT INDUSTRY (Contd...)

- Just by name or Caption “INTERNAL AUDIT-IN-CEMENT INDUSTRY”, let us not jump to a conclusion that it is a routine Internal audit of few pages Report, which may find its destination in to a colored flat or other file or to a Bin.
- The very reason is Internal Audit Reports are IN MANY by name like(illustrative but not exhaust)

INTERNAL AUDIT-IN-CEMENT INDUSTRY (Contd...)

- ✓ Internal Audit report-General coverage
- ✓ Production Operations-Control audit
- ✓ Compliance Audit
- ✓ Process efficiency audit
- ✓ Marketing audit
- ✓ Commercial audit
- ✓ Compliance/ task based audit
- ✓ Energy audit
- ✓ Proprietary audit
- ✓ Balance sheet audit
- ✓ System Audit
- ✓ Social audit etc

INTERNAL AUDIT-IN-CEMENT INDUSTRY (Contd...)

- Whatever may be the name of Internal audit each audit task have its own scope, coverage, limits and ultimately object in its Delivery.
- NO need to mention that every Internal audit (Report) is a VALUE ADDITION NOT ONLY to the management but also to the ALL OTHER RELEVANT STAKE HOLDERS INCLUDING GOVERNMENT, in one way or other, so that..a separate Section 138 in Companies Act 2013, has been inserted.

INTERNAL AUDIT-IN-CEMENT INDUSTRY (Contd...)

Few areas of Internal audit in Cement industry by any name cited above are:

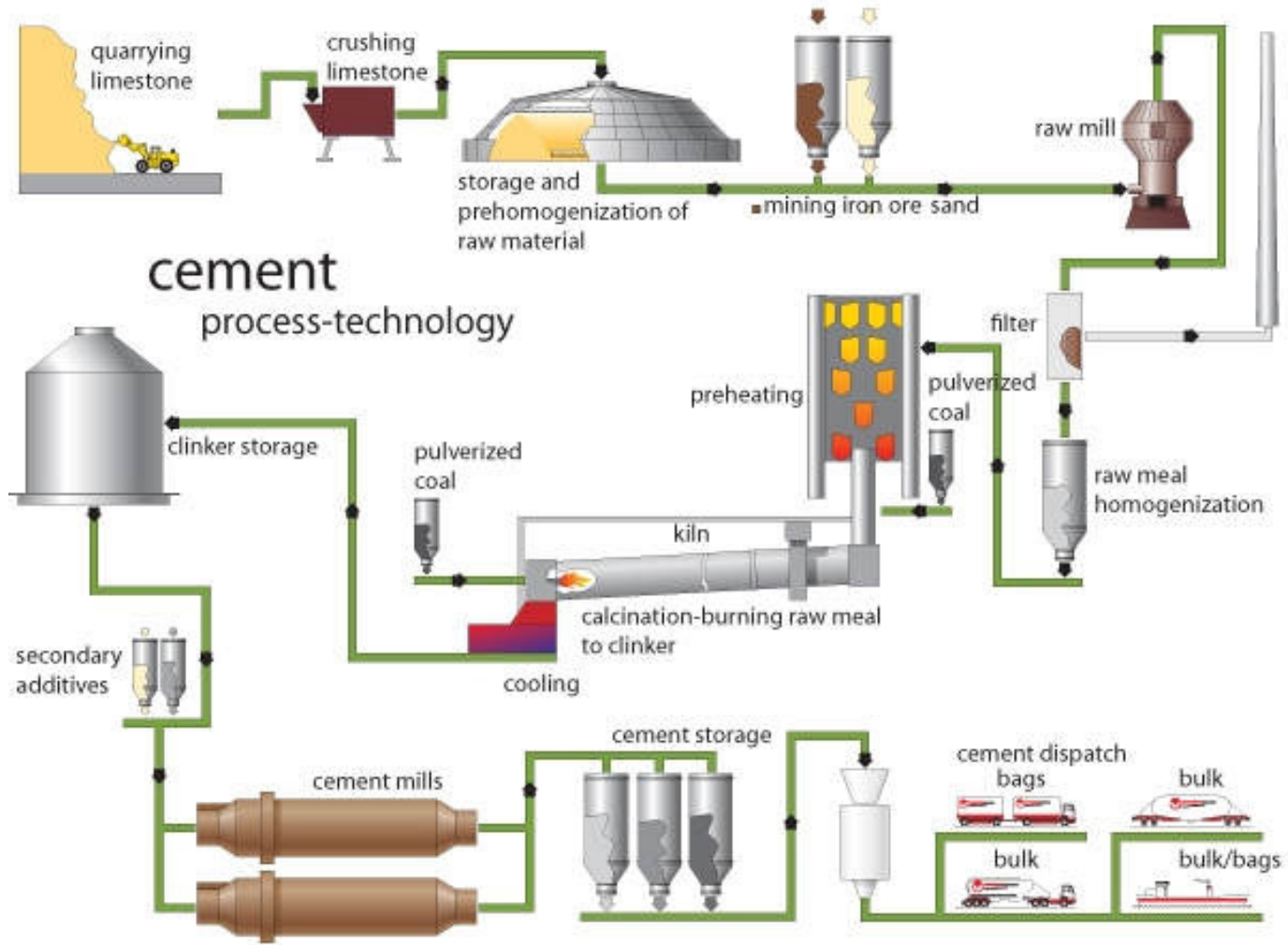
- ❖ Inventory management-(Procurement-Stores-Purchase) Operations
- ❖ Finance & Accounts
- ❖ Production Operations-Control audit
- ❖ Marketing & distribution
- ❖ Raw materials Procurement-Liaisoning
- ❖ Limestone/Shale Management-Inventory
- ❖ Transportation
- ❖ Allied activities-Environment, Pollution Control, CSR activities etc

INTERNAL AUDIT-CEMENT BASIC POINTS-FROM AUDITORS POINT OF VIEW.

Before start up an auditor has to verify and collect the information on

- Internal Controls exists in the Organization in different areas
- Accounting and other policies in place
- Financials of the past two years(of course routine one need not have any specific mention)
- Plant Capacity(Clinker Production)
- Process Flow Chart-any specific technology improvement, introduced, Wet Process, Dry Process, Kiln Type etc

PROCESS FLOW CHART





LIME STONE



CRUSHING



RAW MILL



KILIN



CONVEYOR BELT



CLINKER STORAGE



CEMENT MILL



BULK CEMENT DISPATCH

BASIC POINTS-FROM AUDITORS POINT (Contd...)

- Budgetary Control and Other Performance Evaluation techniques being used(say) Standard Costing and Variance analysis
- Management information System Reports being submitted to the Unit head like Production, Input-Output Report of RM & processes etc
- Other KYC Norms like Marketing , Share of the Company, Production, Demand of the Product etc

INTERNAL AUDIT PLANNING- SCHEDULE

- Based on the audit scope and task being given an auditor has to start Planning of the audit operation, with the man hours and resources available.
- Duration of the audit is based on the Scope and areas to be covered and the availability of getting information, which is always a challenge for any auditor.
- Inputs and Raw materials coverage to be audited is based on the Scope and type of audit being undertaken.

I A PLANNING-SCHEDULE (Contd...)

Audit on Inventory management-(Procurement-Stores-Purchase) Operations:-

To cite few examples:-

- Purchase orders (more than Rs.20,000/-) have to be reviewed
- Adherence to the policy on Whether material receipts, inspection and stock charging has been checked
- Scrutiny of stores/priced stores ledger (PSL) has been done
- Scrutiny of adjustments carried out in respect of shortages/excesses found in physical verification and its treatment in the books of accounts has been checked
- compilation of non – moving & slow moving store items, age wise classification and present status have been checked (Mech. Spares, Elect. Spares, refractory's, Oils & Lubs etc)



I A PLANNING-SCHEDULE (Contd...)

- Whether Vendor Registration, evaluation and rating system of purchase items, its level of accuracy have been checked
- Whether there is adequate insurance coverage of Inventory and Stores is adequately covered and also the applicable Transit Insurance of Goods.
- Whether ensured that the purchases are made by E-procurement as per the policy of the corporation
- Whether method of ascertaining monthly scrap generation, record of scrap inventory level of monthly inventory carrying, Idle assets position along with their condition has been reported.(of Course Scrap Stores is part of the Inventory Management head)
- To check on random basis say 25% of values of stores, issue notes and G.R.Sheets have been checked
- The levels of Stocks of major raw materials maintenance, emergency purchases made
- ABC analysis and XYZ reports of the Company
- Other Periodical Reports being submitted to Management and its review.

AUDIT ON FINANCE AND ACCOUNTS- OPERATIONS:-

This covers familiar transactions to the auditor in general and particular concentration is required for transactions having finance impact and risk prone areas. The following are few examples for such

- Cash Book ,Bank Book and Bank Reconciliation have been checked
- Cash, Bank and Journal Vouchers have been checked
- Whether 25% of receipts/sale bills have been checked.
- General and all Subsidiary ledgers have been scrutinized with detailed schedules and old outstanding (more than 2 years) have been reported with reasons

AUDIT ON F & A-OPERATIONS (Contd...)

- Whether schedules particularly relating to claims- old and doubtful, have been reviewed, with reasons thereof
- Whether pay bills of one month, 25% leave account, TA bills and other personal claims, advances and recoveries have been checked.
- Whether advertisements and publicity bills have been reviewed
- Whether actual expenditure vis-à-vis sanctioned budget along with variance analysis has been reported
- Whether there is adequate insurance coverage of the unit.
- Whether input tax credit claimed against Sales Tax / VAT payable and maintenance of proper record has been verified

AUDIT ON F & A-OPERATIONS (Contd...)

- Whether Advance position and its recovery action has been reviewed.
- Whether analysis of Arbitration and legal cases and comments thereon to reduce the expenditure in these areas has been done
- Reversal of Excise Duty on Burst Bags: As per Rule 3 (5) of cenvat credit Rules 2004, company has to reverse the cenvat credit which is utilized as input credit on Burst bags.
- Whether Major and Transport contracts and payments thereof have been checked
- Some valid audit observations (exemplary) which are in line with recent tax law changes and Rules in Companies act may also be taken care while doing Internal audit, they are:

AUDIT ON F & A-OPERATIONS (Contd...)

➤ **Non Deduction of TDS on Transport:**

With effect from 1st June, 2015 the company has to deduct TDS on transport contractors owning more than 10 lorries. If he owns less than 10 vehicles a declaration from the contractor has to be taken regarding the same. The company has neither taken declarations nor deducted TDS. 30% of expenses are shall be disallowed in case TDS is not deducted.

➤ **Non collection of C-Forms**

The company has made interstate sales @2% CST and has not collected C-Forms. During the previous year company has shown the same amount as contingent liability and has not created a provision for the same even after the amount being ascertainable.

If the C-Forms have not been collected by the company, the company shall be liable to pay additional Sales tax @14.5% on the value of sales.

ADVANCES FROM CUSTOMERS- DEPOSITS

(Companies Act Public Deposit Rules(including amendment rules-2014)

- The company had taken advances from customers of Rs.xxxxxxxx Crores) apply of goods/scrap which has been pending for period of more than two years. As per Companies Deposit Rules any revenue advances pending for more than one year will be treated as deposits.
- As per Sec 74 of The Companies Act, 2013, Where in respect of any deposit accepted by a company before the commencement of this Act, the amount of such deposit remains unpaid on such commencement, the company shall repay within one year from such commencement or file, within a period of three months from such commencement with the Registrar a statement of all the deposits accepted by the company and sums remaining unpaid on such amount with the interest payable thereon along with the arrangements made for such repayment, notwithstanding anything contained in any other law for the time being in force.

CUSTOMERS-DEPOSITS – (Contd...)

- If a company fails to repay the deposit or part thereof or any interest thereon within the time the company shall, in addition to the payment of the amount of deposit or part thereof and the interest due, be punishable with fine which shall not be less than one crore rupees but which may extend to ten crore rupees and every officer in default shall be punishable with imprisonment which may extend to seven years or with fine which shall not be less than twenty-five lakh rupees but which may extend to two crore rupees, or with both. As per sec 164(2) All the directors holding office in the relevant period shall be disqualified for a period of five years.

CUSTOMERS-DEPOSITS – (Contd...)

Non Utilization of Cenvat credit of Education and Secondary Education cess:

As per the notification No. 12/2015-Central Excise (N.T.) dated on 30.04.2015, it is advised to utilize the Education cess and secondary education cess which is carry forwarding in Excise returns

PRODUCTION OPERATIONS-CONTROL AUDIT

As we all knew that Cement Company Capacity is based on Clinker Production Capacity.

The basic knowledge one should have before taking up the above audit is the Production Flow Chart,

PROD. OPERATIONS-CONTROL AUDIT (Contd...)

Process Flow (Wet Process, Dry Process, Pre heater/pre-Calcliner Process) of Various Plants like,

- ❖ Crusher Capacity
- ❖ Raw mill Capacity
- ❖ Kiln Capacity
- ❖ Cement Mill Capacity,
- ❖ Utilities availability-Capacity like Generators KV), Boiler, Coal mill etc
- ❖ Packing Plant Capacity
- ❖ Transportation facility Rail/Trucks) etc
- ❖ Expansion Planned and reasons for such including demand validation

PROD. OPERATIONS-CONTROL AUDIT (Contd...)

To conduct the above audit the primary knowledge an auditor should have on Clinker Production and Cement production including its standard INPUT NORMS, which are as below

To Produce One Metric Tonne (MT) of Clinker, it requires(in normal Course as Lime stone quality may change the combination)

INPUT MATERIAL	QTY(MT)
LIMESTONE	1.50
SHALE	0.04
IRON ORE	0.04
<u>LATERITE</u>	<u>0.02</u>
CLINKER	1.00

PROD. OPERATIONS-CONTROL AUDIT (Contd...)

TO GET CEMENT OF 1.00 MT

CLINKER 0.96 MT

Add GYPSUM 0.04 MT (PRIMARILY A
BONDING AGENT)

IN CASE OF SLAG CEMENT

CLINKER 0.56 MT

FLY ASH 0.40 MT

GYPSUM 0.04 MT

PROD. OPERATIONS-CONTROL AUDIT (Contd...)

On knowing the above primary information an auditor to start detailed audit on PRODUCTION OPERATION & CONTROL AUDIT Should study the following records and documentation

- Production Reports and log sheets of each Plant/Machinery (normally maintains on Daily, monthly basis) detailed above
- Reasons for variation OR under Utilization/Production of each plant
- Bottle necks for Under Utilization/Operation of each Plant-Observations-Suggestions, if any

PROD. OPERATIONS-CONTROL AUDIT (Contd...)

- Reasons for Under Capacity Utilization in to Controllable/Non Controllable factors(may be quality issues like LS quality, Coal(poor calorific value) or other Raw materials, which are controllable)
- Quantification of Production loss in Various Process Plants on the above point

AUDITING STYLE-TEST CHECKS-SYSTEM STUDY

Internal auditing approach has undergone vast change from traditional, checking, ticking to random sampling, system checks , controls validation.

Audit tools developed with information technology shall enhance the audit quality.

Ex: Open-



ERROR: undefined
OFFENDING COMMAND: get

STACK:

```
/head  
-dictionary-  
/head  
false  
(C:\Program Files\GPLGS/n0190231.pfb)  
/NimbusSanL-ReguItal  
/Helvetica-Oblique  
-mark-  
/Helvetica-Oblique  
1411194  
/Helvetica-Oblique  
/Font  
/Helvetica-Oblique
```