

Cross Border Transactions

I. Legal and Regulatory Measures

- Detailed schedule of all ongoing, pending and threatened action, arbitration, audit, examination, investigation, hearing, litigation, claim, suit, administrative proceeding, governmental investigation, or governmental inquiry affecting the Entity, its assets or operations.
- Copies of all correspondence, reports to and filings with all regulators, including but not limited to the SEC, state securities authorities, foreign securities authorities, Environmental Protection and the ministry of Commerce.
- Copies of all notices of legal or regulatory violations and infringements including correspondence, reports, notices and filings related to any dispute, alleged violation or infringement by the Entity, its agents or employees of any local, state, federal or foreign laws, regulation, order or permit relating to employment violations, unfair labor practices, equal opportunity, bribery, corruption, occupational safety and health, antitrust matters, intellectual property and environmental matters.
- All local, state, federal and foreign approvals, authorizations, certifications, clearances, licenses, permits, registrations and waivers related to the Entity, its operations or assets.
- A detailed schedule of all breaches or defaults that have occurred under agreements to which the Entity is a party, including all agreements which would be affected by the contemplated transaction.
- A list of expenses by the entity under the schemes of corporate Social responsibilities during last 3 years along with description of ongoing social programs by the entity.

Cross Border Transactions

II. Securities & Investments

- A detailed schedule of companies in which the Entity holds an interest of 2% or more.
- Copies of all offering circulars, private placement memoranda, syndication documents, or other securities placement documents, prepared or used by the Entity over the last 3 years.
- Copies of contracts, agreements or engagement letters with investment bankers, finders, business brokers or other financial advisers pursuant to any contemplated financial transaction over the last 3 years.

III. Contracts

- A detailed schedule of all subsidiaries, partnerships, joint ventures and strategic alliances along with copies of all related agreements.
- Copies of all contracts between the Entity and its officers, directors, shareholders and affiliates.
- Copies of all loan agreements, bank financing agreements, lines of credit, promissory notes, guarantees, security agreements, mortgages, indentures, collateral pledges or other contracts with creditors.
- Copies of all contracts related to sales, agency, franchise, dealer, marketing or distribution agreements or arrangements, supplier or vendor agreements.
- Copies of all performance assurance agreements, non-compete agreements by/ for the entity.
- Copies of all licensing agreements, franchise agreements and conditional sales agreements.
- Copies of the Entity's standard quote, purchase order and invoice forms, including standard terms and conditions.
- Copies of any understanding, letters of intent, contracts, agreements, or closing documents related to any acquisition or disposition of corporate shares, companies, divisions, businesses, or other significant assets by the Entity

IV. Financials

- All annual and quarterly financial statements for the last 3 years for the Entity and all its subsidiaries, if any, along with latest available interim financial information.
- A detailed description of all accounting policies, including depreciation methods. A schedule of any changes in accounting policies, principles or procedures in the last 3 years, including justifications for such changes.
- Details and descriptions of any extraordinary or non-recurring items appearing in the financial statements along with detailed schedule of all deferred income items during last 3 years.
- A detailed schedule of all off-balance sheet transactions including lease liabilities and credit derivatives.
- A detailed description of the Entity's internal controls. All available entity-wide departmental budgets for the last 3 years.
- Details of all transactions between the entity and its subsidiaries, parents, or other related parties.
- A detailed schedule of long term investments, including shareholding, bonds and debt instruments along with statements of terms and condition related to Investments.
- A detailed schedule of all property, plant and equipment, including acquisition cost, accumulated depreciation and depreciable life.
- A detailed schedule of all contingent liabilities, litigations and suits.
- The latest financial projections and estimates for the Entity and its subsidiaries, including a discussion of assumptions made.
- The latest available capital budget, including a discussion of essential, non-essential and strategic investments.

Cross Border Transactions

A detailed schedule of all property, plant and equipment, including acquisition cost, accumulated depreciation and depreciable life.

- A detailed schedule of all contingent liabilities, litigations and suits.
- The latest financial projections and estimates for the Entity and its subsidiaries, including a discussion of assumptions made.
- The latest available capital budget, including a discussion of essential, non-essential and strategic investments.
- A detailed schedule of all cash holdings and short-term investments.
- A detailed aged schedule of accounts receivable by customer and geography along with confirmatory letters from debtors acknowledging their debts as far as possible.
- An analysis of the entity's monthly breakeven cash flow, broken down by fixed and variable cash inflows and outflows.
- A detailed schedule of revenues and cost of sales broken down by customer, geography, and product for the last 3 years.
- A detailed schedule of selling, general and administrative expenses by division, subsidiary and geography for the last 3 years.
- A detailed schedule of all capital expenditures for the last 3 years, including a description of each major expenditure and abandoned projects, if any.
- A detailed schedule of all accounts payable by vendor. A detailed schedule of all outstanding notes payable, bonds, mortgages and other long term debts along with terms and conditions thereof.

Cross Border Transactions

V. Credit Facilities

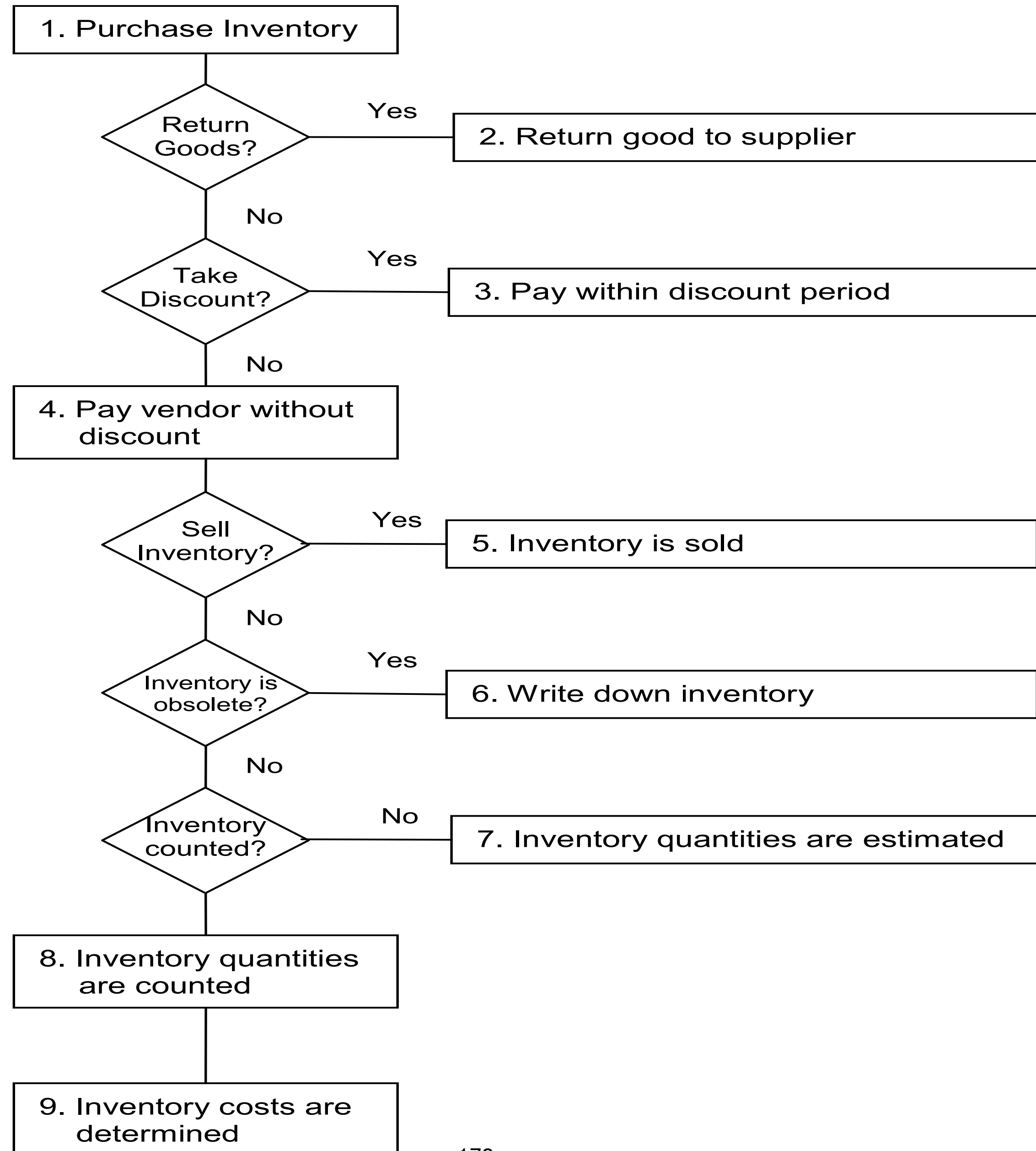
- A detailed schedule of all long-term debt facilities, including capitalized leases, guarantees and other contingent obligations, along with copies of all related documents.
- A detailed schedule of all short-term debt facilities, including capitalized leases, guarantees and other contingent obligations, along with copies of all related documents.
- Copies of all correspondence with lenders including consents, notices, waivers of default, and compliance certificates.

VI. Taxes

- All local, state, federal and foreign tax returns and filings along with all documents related to compliance with tax laws and regulations for the last 3 years.
- All correspondence with local, state, federal and foreign tax authorities including audits, notices of proposed or final adjustments to the Entity's tax liabilities for the last 3 years.
- Assessment orders from the tax authority received in the past 3 years.
- All agreements, consents, elections, requests, rulings, settlements and waivers made with any local, state, federal or foreign tax authority in the last 3 years.
- All tax opinions received from attorneys, accountants or other specialists for the last 3 years.
- A detailed schedule of all tax liabilities, tax basis of all assets, its accumulated depren. and the depren. method
- Detailed schedules of all tax carry forwards and carry backs, including their source, their expiration dates and any limitations on their use.
- A detailed schedule of all tax free transactions not listed on the Entity's tax returns.
- A description of transfer pricing methodologies and description of advance ruling, if any.
- A detailed schedule of all tax liens against the Entity's assets

Inventory and Cost of Goods Sold Fraud

Inventory and Cost Of Goods Sold Fraud



Inventory and Cost Of Goods Sold Fraud

Matrix for Identifying Inventory Fraud

| Transaction | Accounts Involved | Fraud Schemes |
|---|--|--|
| Purchase inventory | Inventory, accounts payable | <ul style="list-style-type: none"> Under-record purchases Record purchases too late (cutoff problem) Not record purchases |
| Return merchandise to supplier | Accounts payable, Inventory | <ul style="list-style-type: none"> Overstate returns Record returns in an earlier period (cutoff problem) |
| Pay vendor within discount period | Accounts payable, Inventory, Cash | <ul style="list-style-type: none"> Overstate discounts Not reduce inventory cost |
| Pay vendor without discount | Accounts payable, Cash | Considered in another segment |
| Inventory is sold; cost of goods sold is recognized | Cost of goods sold, Inventory | <ul style="list-style-type: none"> Record at too low an amount Not record cost of goods sold nor reduce inventory |
| Inventory becomes obsolete and is written down | Loss on write-down of inventory, Inventory | Not write off or write down obsolete inventory |
| Inventory quantities are estimated | Inventory shrinkage, Inventory | Over-estimate inventory (use incorrect ratios, etc.) |
| Inventory quantities are counted | Inventory shrinkage, Inventory | Over-count inventory (double counting, etc.) |
| Inventory cost is determined | Inventory, Cost of goods sold | <ul style="list-style-type: none"> Incorrect costs are used Incorrect extensions are made Record fictitious inventory |

Inventory and Cost Of Goods Sold Fraud

Identifying Inventory and Cost of Goods Sold Analytical Fraud Symptoms

- With inventory and cost of goods sold, some of the most common analytical financial statement fraud symptoms are
 - Reported “Inventory” balances or ratios that appear too high
 - Reported “Cost of Goods Sold” balances or ratios that appear too low
 - Reported “Purchase Returns” that appear too high
 - Reported “Purchase Discounts” that appear too high
 - Reported “Purchases” that appear too low for inventory levels

Inventory and Cost Of Goods Sold Fraud

- Decreasing inventory turnover.
- Decreasing shipping costs as a percentage of inventory.
- Increased shipping costs at or near end of period.
- Significant inventory returns after the end of the period.
- Cost of Goods Sold on books not agreeing with tax returns.
- Decreasing cost of sales as a percentage of sales.

Inventory and Cost Of Goods Sold Fraud

Identifying Inventory and Cost of Goods Sold Accounting or Documentary Symptoms

- With inventory and cost of goods sold, some of the most common accounting or documentary symptoms are:
 - Inventory and cost of goods sold transactions not recorded in a complete or timely manner or improperly recorded as to amount, accounting period, classification, or entity policy
 - Unsupported or unauthorized inventory and cost-of-goods-sold-related transactions
 - Last minute inventory and cost of goods sold adjustments by the entity that significantly improve financial results
 - Missing documents related to inventory and cost of goods sold

Inventory and Cost Of Goods Sold Fraud

- Unavailability of other than photocopied documents to support inventory and/or cost of goods sold transactions when documents in original form are supposed to exist.
- Unusual or suspicious-looking purchase orders, invoices, shipping documents, and/or receiving documents.
- Cost of goods sold related accounting records (purchases, sales, cash payments, etc.) that do not balance.
- Unusual discrepancies between the entity's inventory and/or cost of goods sold records and corroborating evidence (such as inventory counts).
- Differences between inventory counts and inventory records, especially systematic differences.
- Differences between receiving reports and inventory actually received.
- Inventory items not actually received.
- Differences between purchase orders, purchase invoices, receiving records, and inventory records.
- Purchases from suppliers not approved on vendor list or with no EIN numbers.
- Missing inventory when performing inventory counts.
- Duplicate purchase orders or invoice numbers.
- Vendors not listed.
- Adjusting entries that have increased inventory over time.
- Large reversing entries to inventory accounts after the end of the period.
- "Accidental" sales to customers that are later reversed.

Identifying Inventory and Cost of Goods Sold Control Symptoms

- With inventory and cost of goods sold, some of the most common control symptoms are:
 - Management override of significant internal control activities related to purchases, inventory, and/or cost of goods sold
 - New, unusual, or large vendors that appear not to have gone through the regular vendor-approval process
 - Weaknesses in the inventory counting process
 - Inventory that cannot be easily physically inspected
 - Unclear or ineffective cutoff procedures

Inventory and Cost Of Goods Sold Fraud

- Inclusions in inventory of merchandise already sold for which purchases are not recorded.
- Inventory that appears to not have been used for some time, or inventory that is stored in an unusual location.
- Excessive intercompany movement of inventory with little or no controls or documentation.
- Material inventory write-offs after the end of the period.

Inventory and Cost Of Goods Sold Fraud

Identifying Inventory and Cost of Goods Sold Behavioral or Verbal Symptoms

- With inventory and cost of goods sold, some of the most common behavioral or verbal symptoms are:
 - Inconsistent, vague, or implausible responses from management or employees arising from inventory-purchase- or cost-of-goods-sold-related inquiries or analytical procedures
 - Denied access to facilities, employees, records, customers, vendors, or others from whom inventory- and cost-of-goods-sold-related evidence might be sought
- Undue time pressures imposed by management to resolve contentious or complex inventory and/or cost of goods sold related issues.
- Unusual delays by the entity in providing inventory and/or cost of goods sold related, requested information.
- Untrue or questionable responses by management to inventory and/or cost of goods sold or other queries made by auditors.
- Suspicious behavior or responses from members of management when asked about inventory and/or cost of goods sold related transactions, vendors, or accounts.

Actively Searching for “Control” Symptoms

- Because inventory frauds, like revenue-related frauds, are so easy to perpetrate, it is important that a good control environment and control procedures be in place
- Where controls are weak, or can be easily overridden, a missing control or an observance of an override represents a fraud symptom, not just a control weakness. As such, it should be pursued with the same vigilance as any other “fraud symptom”

Actively Searching for “Behavioral or Verbal” and “Lifestyle” Symptoms

- Lifestyle symptoms are usually not very effective in helping you find inventory-related financial statement fraud because financial statement fraud usually does not benefit the perpetrators directly
- Searching for behavioral and verbal symptoms can be very fruitful
- Ask questions that go beyond simple inquiries and watching closely for inconsistencies and changes in response or behavior can be powerful tools for detecting fraud

Inventory and Cost Of Goods Sold Fraud- Few Tips

- Visit locations or perform certain tests on a surprise or unannounced basis; for example, observing inventory at locations where auditor attendance has not been previously announced.
- Count inventories at a close to year-end date.
- Alter the audit approach in the current year. For example, contact major customers or suppliers (both verbally and in writing), send confirmation requests to specific parties within an organization, and/or seek more and different information.
- Perform a detailed review of the entity's quarter-end or year-end adjusting entries and investigate any entries that appear unusual as to the nature or amount.

Control Self Assessment

Internal auditors normally consider operations as a whole with respect to the **five key internal control objectives**. The IIA's (Institute of Internal Auditor) *Standards of Professional Practice* outlines **five key objectives for an entity's system of internal control**:

- ❖ **Compliance with policies, plans, procedures, laws and regulations;**
- ❖ **Accomplishment of established objectives and goals for operations or programs ,not just the financial aspects;**
- ❖ **Reliability and integrity of information;**
- ❖ **Economical and efficient use of resources;**
- ❖ **Safeguarding of assets;**

These are collectively coined as “CARES”.

Control Self Assessment (Contd.)

The most pertinent way to accomplish ‘control effectiveness assessment’ is to implement ‘self-assessment of Control’ program as part of the Company’s ongoing evaluations within its monitoring activities. Self- Assessment of Controls is a sustainable process whereby management periodically authenticates the operational effectiveness of the company’s key controls vs. relying on internal or external auditors to make such an assessment. Self – Assessment steers management responsibility and augments confidence in management’s appraisal of the effectiveness of their internal control system. Applied technology solutions are available for comparing transaction details against predetermined thresholds, monitoring for trends and patterns, and assessing automated performance indicators and matrices. ‘Self’-assessment refers to the involvement of management and operating staff in the assessment process. Propagating a framework named **‘OPTION’**, where

I. **O- Objective Setting**

II. **P – Process and related Risk defining**

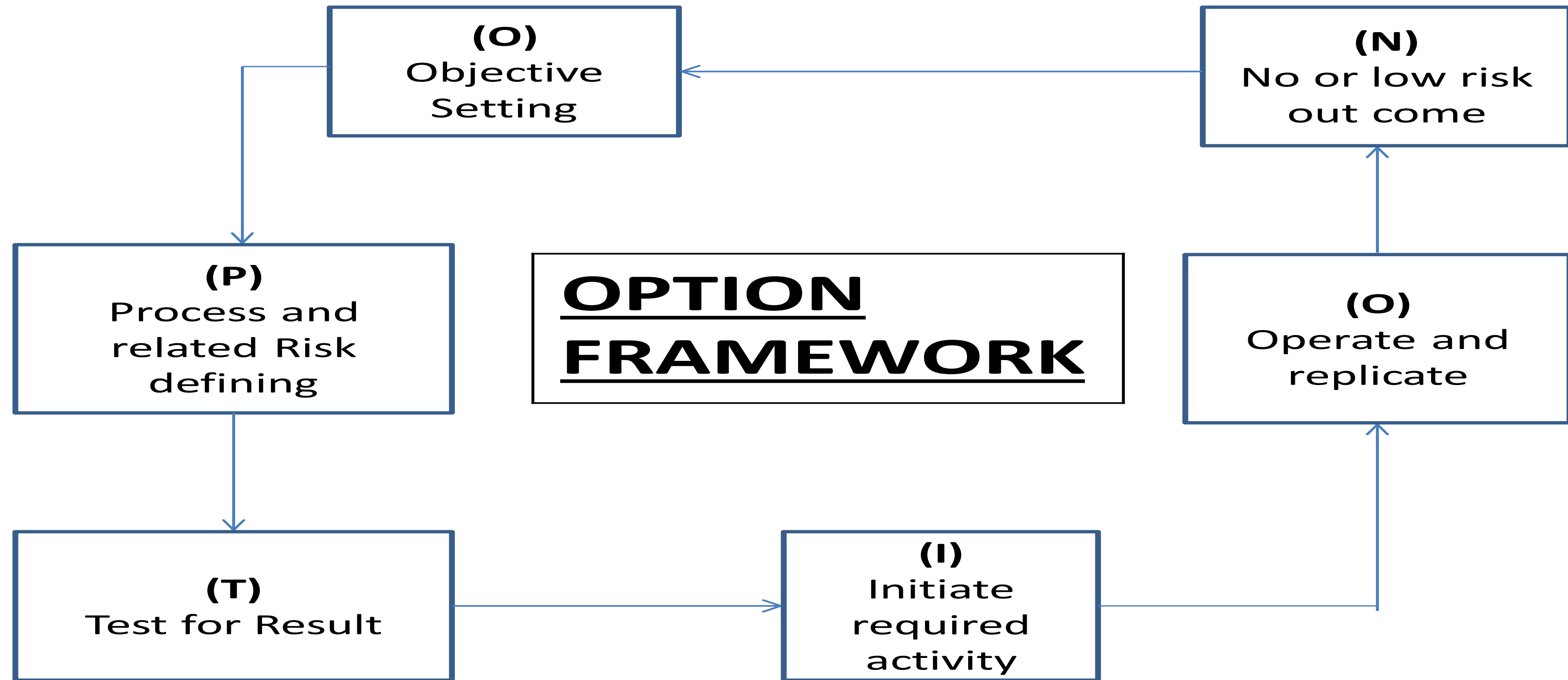
III. **T- Test for results**

IV. **I- Initiate required activity**

V. **O- Operate and replicate**

VI. **N- No or low risk outcome**

Control Self Assessment (Contd.)



Control Self Assessment (Contd.)

Measuring Effectiveness (Case Study)

For updating and measuring the effectiveness of Control in any of the Business Process/Sub-process/Activity a questionnaire with pre-agreed scoring (3 = Existence of adequate control ; 2 = Major controls in place ; 1= Partial control ; 0 = Absence of control) methodology need to be in place. Weightage in scale of 3 (3 = High;2= Medium; 1=/low) need to be used as multiplication factor to arrive at the actual score. One such example in the Sub-process viz. “Fixed Asset” given hereunder

| Self-Assessment Questionnaire | | | | | | | | | |
|-------------------------------|--|-----|-------|---------|----------|-------------|----------------------------|----------------------------------|------------|
| Sr. No | Self-Assessment of Control | Wt. | Maker | Checker | Approver | Score Scale | Max Score =Wt* Score Scale | Actual Score = Wt. x Test Result | Risk Grade |
| Capex Approval and Monitoring | | | | | | | | | |
| 1 | Whether there is exists detailed Capital Expenditure policy highlighting the procedures to be followed for estimation of CAPEX & pre-defined authority for sanction of the capital expenditure budget with value limits? | 3 | 896 | 567 | 9101 | 3 | 9 | 6 | |
| 2 | All CAPEX proposals are approved as per DOA? | 3 | 896 | 567 | 9101 | 2 | 6 | 6 | |
| 3 | Whether separate CAPEX proposals for assets to be replaced are put specifying the need to replace the asset? | 2 | 896 | 567 | 9101 | 2 | 4 | 4 | |
| 4 | Whether a Bill of Material is prepared for all assets to be constructed in SAP PS module? | 2 | 896 | 567 | 9101 | 3 | 6 | 4 | |
| | Whether the sanctioned budget for each material | | | | | | | | |

Control Self Assessment (Contd.)

Requisitioning, Ordering ,Receipt of Assets

| | | | | | | | | | | |
|----|---|-----|---|-----|-----|------|---|---|---|--|
| 9 | Whether SAP allows to raise Purchase Requisitions or Purchase Orders or Service Orders only up to the amount of budget available? | | 2 | 896 | 567 | 9101 | 3 | 6 | 8 | |
| 10 | Whether expenses charged to WBS are settled periodically to charge them to relevant Asset Under Construction (AUC) A/c? | | 3 | 896 | 567 | 9101 | 3 | 9 | 4 | |
| 11 | Whether the AUC accounts are Capitalised as Fixed Assets on receipt of Project completion Certificate? | | 3 | 896 | 567 | 9101 | 3 | 9 | 9 | |
| 12 | Whether Fixed Assets are properly classified (while capitalising) as per the provisions of the Companies Act? | | 3 | 896 | 567 | 9101 | 3 | 9 | 6 | |
| 13 | Whether it is ensured that CENVAT and VAT on the cost of assets are not included within the capitalization cost? | | 3 | 896 | 567 | 9101 | 3 | 9 | 9 | |
| 14 | Whether ageing analysis of all AUC are done periodically and reasons for long pending non-completions are found out? | 194 | 2 | 896 | 567 | 9101 | 2 | 4 | 0 | |

Control Self Assessment (Contd.)

| Asset identification and Verification | | | | | | | | | |
|---------------------------------------|--|---|-----|-----|------|---|---|---|--|
| 15 | Whether physical verification is done on project completion to identify surplus materials? | 3 | 896 | 567 | 9101 | 3 | 9 | 2 | |
| 16 | Whether a unique identification no. is given to assets and sub-units during at Capitalisation? | 3 | 896 | 567 | 9101 | 3 | 9 | 9 | |
| 17 | Whether Fixed Asset Register being updated for all fixed assets constructed/purchased? | 3 | 896 | 567 | 9101 | 3 | 9 | 6 | |
| 18 | Whether the unique asset no. of the asset has been attached and displayed on the asset? | 3 | 896 | 567 | 9101 | 3 | 9 | 6 | |
| 19 | Whether Physical Verification of Fixed Assets is being carried out at regular intervals? | 3 | 896 | 567 | 9101 | 3 | 9 | 6 | |
| 20 | Whether all discrepancies noticed during physical verification are adjusted only after taking approval of higher authorities? | 3 | 896 | 567 | 9101 | 3 | 9 | 3 | |
| 21 | Whether the surplus items are added as Fixed Asset at nominal value in the books of Account? | 3 | 896 | 567 | 9101 | 3 | 9 | 6 | |
| 22 | Whether movement/transfer (within the plant or to other locations) are done 'gh a std. form signed both by the transferor & transferee dept. | 3 | 896 | 567 | 9101 | 3 | 9 | 0 | |

Control Self Assessment (Contd.)

| | | | | | | | | | |
|----|--|---|-----|-----|------|---|---|---|--|
| 23 | Whether FAR is updated after receiving approved Asset Transfer Note? | 3 | 896 | 567 | 9101 | 2 | 6 | 0 | |
| 24 | Whether transfer from one plant location to another is approved by defined approving authority? | 3 | 896 | 567 | 9101 | 2 | 6 | 0 | |
| 25 | Whether proper steps have been taken to ensure physical security of assets? | 2 | 896 | 567 | 9101 | 3 | 6 | 6 | |
| 26 | Whether adequate steps are being taken in case of theft/encroachment of Assets? | 2 | 896 | 567 | 9101 | 3 | 6 | 6 | |
| 27 | Whether assets are allowed to be taken out only on the basis of valid gate passes issued by appropriate authorities? | 3 | 896 | 567 | 9101 | 3 | 9 | 9 | |
| 28 | Whether there is a regular process of identification of idle or non-performing Assets by Departments? | 3 | 896 | 567 | 9101 | 3 | 9 | 6 | |
| 29 | Whether identified NPAs are sent to Technology Officer to check the genuineness of NPA claim? | 3 | 896 | 567 | 9101 | 3 | 9 | 0 | |
| 30 | Whether NPA list got approved as per DOA before the identified NPAs are transferred to stores for disposal? | 3 | 896 | 567 | 9101 | 3 | 9 | 6 | |

Control Self Assessment (Contd.)

| | | | | | | | | | |
|----|---|---|-----|-----|------|---|---|---|--|
| 31 | Whether all assets finally approved as NPAs are transferred to Stores for disposal/discarding? | 3 | 896 | 567 | 9101 | 3 | 9 | 6 | |
| 32 | Whether all receipt of goods and Invoices are first adjusted against the advance given and are not shown as payables? | 3 | 896 | 567 | 9101 | 3 | 9 | 9 | |
| 33 | Whether approvals of HOD, COO, MD etc. have been taken before the asset is actually dropped and written off in the Books? | 3 | 896 | 567 | 9101 | 3 | 9 | 9 | |
| 34 | Whether projects dropped in between are expensed in a separate GL and are not capitalised? | 3 | 896 | 567 | 9101 | 2 | 6 | 6 | |
| 35 | Whether physical verification of asset to be dropped is carried out? | 3 | 896 | 567 | 9101 | 2 | 6 | 6 | |

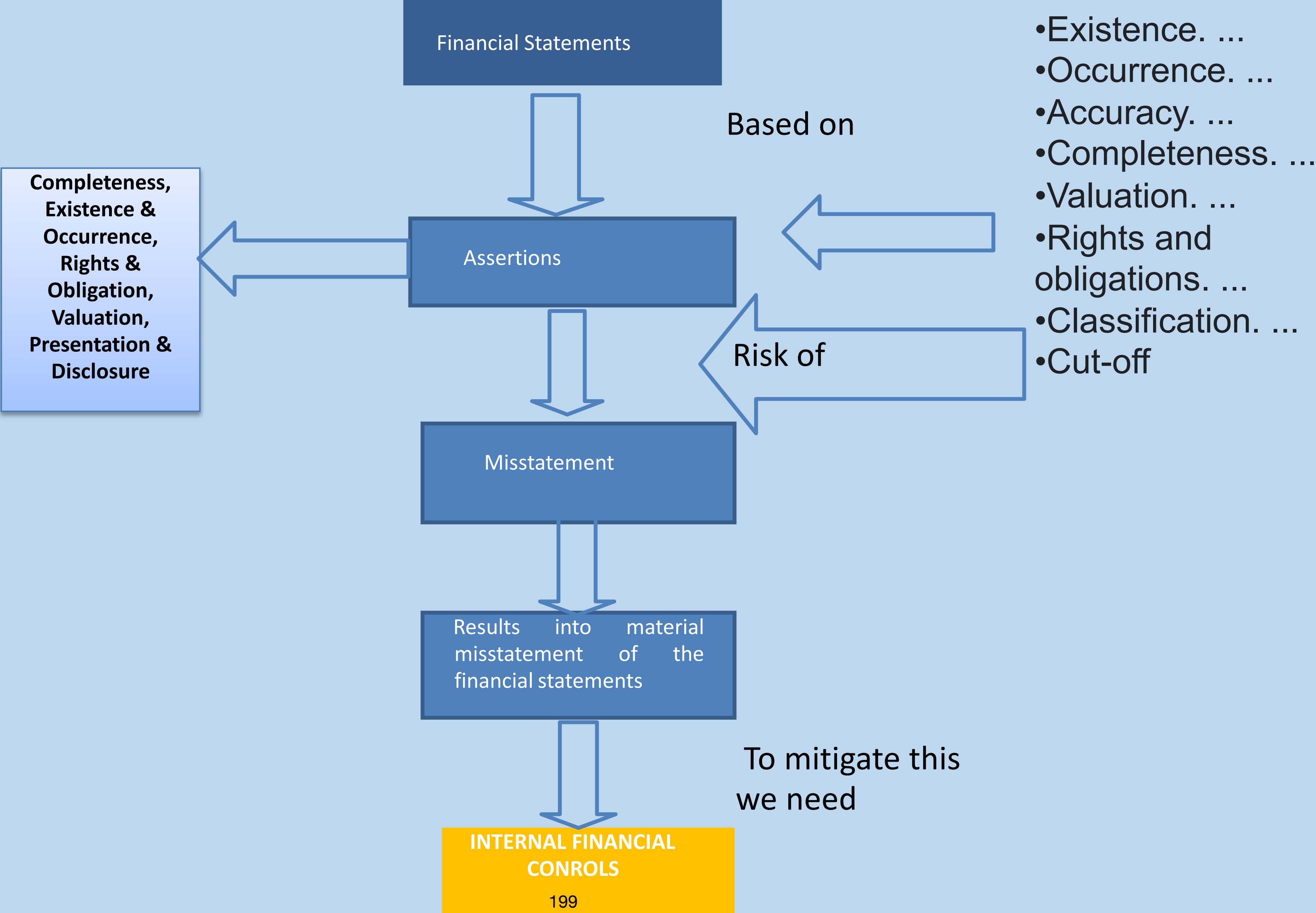
Control Self Assessment (Contd.)

Accounting controls

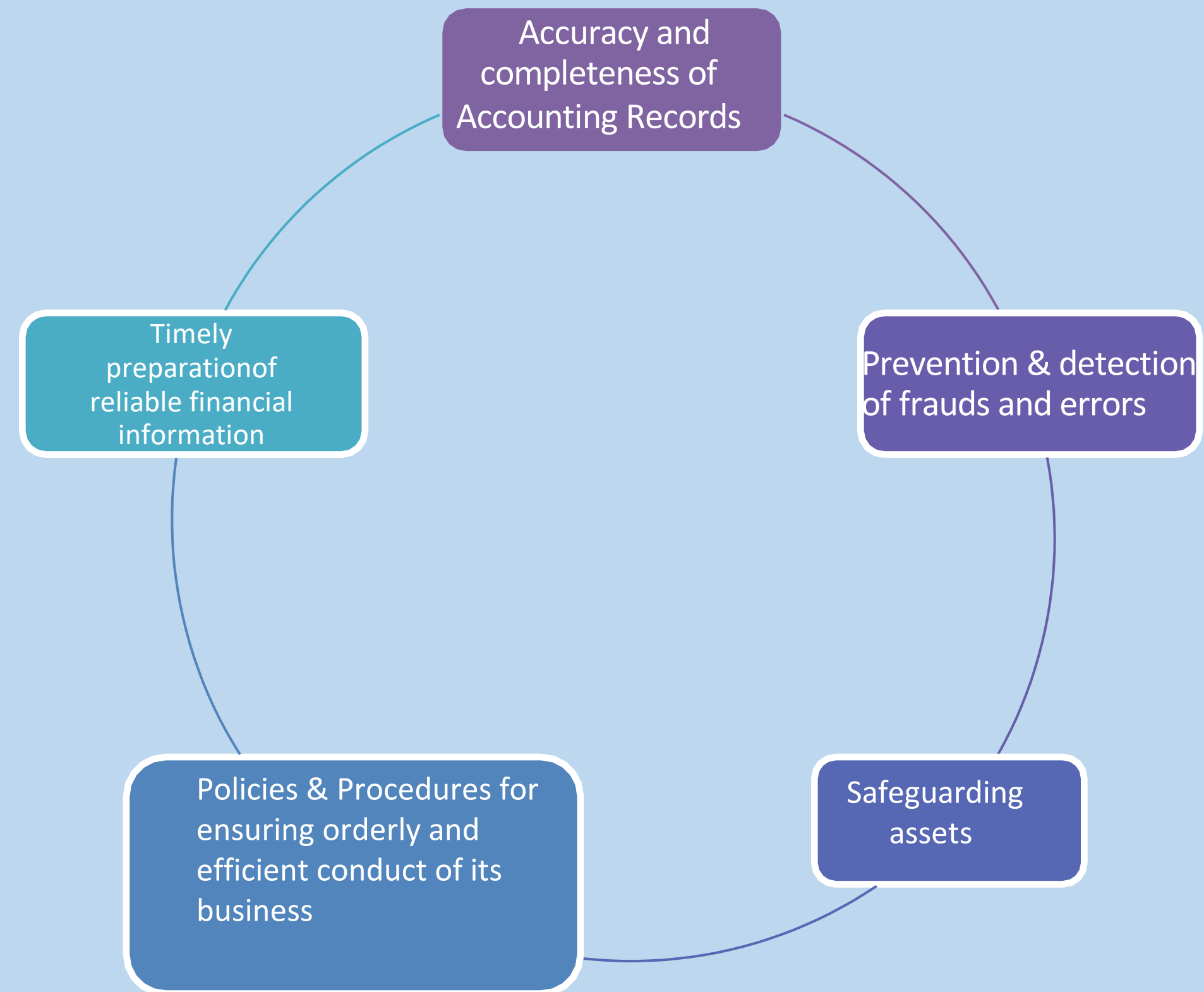
| | | | | | | | | | |
|----|--|---|-----|-----|------|---|---|---|--|
| 36 | Whether all the provisions of the Accounting Standards and disclosure requirements are complied with? | 3 | 896 | 567 | 9101 | 3 | 9 | 9 | |
| 37 | Whether rates of Depreciation as per 'Life class' used for computation? | 3 | 896 | 567 | 9101 | 2 | 6 | 6 | |
| 38 | Whether depreciation computed by the system is test-checked for correctness before Accounts are Finalised? | 3 | 896 | 567 | 9101 | 3 | 9 | 9 | |

For the 'Fixed Assets' module, 38 controls with weightage scale band of 1 to 3(High =3, Medium =2 and Low=1) used to measure the existence, effectiveness and adequacy of controls. Similarly, actual score derivation based on assessment, also on a similar scale of 0 to 3 (3= Effective,2= Partially Effective,1= Existing and 0=Non-existing)used. Out of Maximum Score of 294, the function assessed at 210; which in turn measured at 71% effectiveness indicating further scope of improvement in the said area of activity. The typical nature of assessment and corrective measures provides more robustness in the process and risk management. Continuous updation of risk-scape, leads to operate only with acceptable risk and helps internal financial control (IFC) as well as internal control over financial reporting (ICFR).

Internal Financial Control (IFC)



Internal Financial Control (IFC)



| Internal Financial Control(IFC) | | | | | | |
|--|--|--|---|--------------------------------|--|---------|
| Identification of Risk of Material Misstatement ("What Could Go Wrong") | | Identification of Risk of Material Misstatement ("What Could Go Wrong") | | Work paper Refere nce | Findings and Observations | Remarks |
| Risk NO. | Risk Description | Control No. | Control(s) | | | |
| 1 | Inventory stated in the general ledger does not reconcile to the inventory records and/or the reconciliation contains invalid items. | 1 | <p>Management reviews and approves the reconciliation of the inventory records to the general ledger and any reconciling items are reviewed and addressed on a timely basis.</p> <p>AND</p> <p>By virtue of SAP Configuration, it automatically reconciles the sub-ledger of inventory with main inventory ledger. It is reviewed by the Management on Timely basis</p> | WP5 | Inventory General Ledger and Sub Ledger | |
| 2 | Inventory is received and not recorded in the inventory system. | 2 | Inventory and trade payables entries are automatically recorded by the ERP system upon matching the purchase order and GRN and Invoice | WP 1 | Doc. Are same as mentioned in Risk 1 of Procurement & Payables | |

Internal Financial Control(IFC)

| | | | | | | |
|--|---|---|--|------|--|--|
| | <p>Costs of sales are:</p> <ul style="list-style-type: none"> - Recorded when no sale exists - Not recorded when sales exist - Recorded at the incorrect amount - Recorded in the incorrect period - Incorrectly classified. | 3 | <p>1. Recorded when no sales exists/ Not recorded when sale exists Dispatch of Goods does not take place till the time delivery challan as generated from system is accompanied with Invoice is checked at the gate and further Loading of material happens only after Delivery order is given at the factory godown. There is Weightment slip attached which ensures material is loaded .</p> <p>2. Recorded at Incorrect Amount The Sales Invoice is generated based on SO created and hence the rate is derived from the same.</p> <p>3. Incorrectly Classified The accounting is mapped based on the product and SO further classification of sales is done at the time of financial preparation after review by the accounts head</p> | WP6 | Sales Order linked with Invoice, Delivery order and gate outward entry check done for sample | |
| | Inventory has been sold that is removed from the accounts at incorrect amounts. | 4 | <p>On a periodic basis, accounting personnel calculate the inventory cost under the costing method utilised by the entity. Prior to recording the journal entry, management reviews the calculation, methodology, significant assumptions used, supporting documentation, and the journal entry for accuracy and proper account classification</p> <p>AND</p> <p>Cost of sales is recorded and inventory is relieved automatically by the ERP system upon matching the customer sales order, shipping documents, and the invoice generated, completing a 3-way match.</p> | WP 1 | Doc. Are same as mentioned in Risk 1 of Procurement & Payables | |
| | Physical inventory counts are not performed on a periodic basis, potentially resulting in inaccurate inventory records. | 5 | <p>Physical inventory is counted periodically and discrepancies are investigated and corrected within the inventory records. Inventory records based on the physical inventory are reconciled to the general ledger with any differences being recorded as a book to physical inventory adjustment.</p> | WP 2 | Physical Verification Report | |

Internal Financial Control(IFC)



| | | | | | | |
|----|--|----|--|------|--------------------|--------------|
| 6 | <p>Physical inventory counts:</p> <ul style="list-style-type: none">- Count inventory that does not exist- Do not include counts of all inventory- Do not include consideration of movement of inventory during the physical inventory- Are not valued at the appropriate cost- Book to physical adjustments Are not recorded or recorded at the incorrect amount. | 6 | Physical inventory is counted periodically, and discrepancies are investigated and corrected within the inventory records. Inventory records based on the physical inventory are reconciled to the general ledger, with any differences being recorded as a book-to-physical inventory adjustment. | WP 2 | Physical Report | Verification |
| 7 | Inventory held by a third party that has been sent to a job worker has not been removed from inventory. | 7 | On a periodic basis, the reports provided by the third party to the entity, either directly or by confirmation, are reviewed and reconciled to internal records and used by the entity to relieve inventory and record cost of sales. | WP 3 | Third Party Report | |
| 8 | Inventory may be recorded at the incorrect cost under the entity's costing method. | 8 | On a periodic basis, accounting personnel calculate the inventory cost under the costing method utilised by the entity. Prior to recording the journal entry, management reviews the calculation, methodology, significant assumptions used, supporting documentation, and the journal entry for accuracy and proper account classification. | WP7 | RM Valuation | |
| 9 | Inventory may be recorded at an amount that exceeds the lower of cost or net realisable value (NRV) as the significant assumptions [specify assumptions] utilised in the lower of cost or NRV analysis are inappropriate, do not have a sufficient basis, or do not have sufficient support. | 9 | Management reviews and approves the cost v/s NRV evaluation prepared by finance personnel and the resulting journal entry. | WP 4 | FG Valuation | |
| 10 | The adjustment for lower of cost or NRV is recorded in the incorrect accounting period. | 10 | Management reviews and approves the cost v/s NRV evaluation prepared by finance personnel and the resulting journal entry. | WP 4 | FG Valuation | |

Internal Financial Control(IFC)

| | | | | | | |
|----|---|----|--|------|---|--|
| 11 | The adjustment for lower of cost or NRV stated in the general ledger does not reconcile to the calculation and/or contains mathematical errors. | 11 | Management reviews and approves the cost v/s NRV evaluation prepared by finance personnel and the resulting journal entry. | WP 4 | FG Valuation | |
| 12 | In evaluating the adjustments for obsolete, slow moving, or excess inventory: - Management’s method for determining the E&O (excess and obsolete) adjustments is inappropriate or has not been applied consistently. - The estimates are based on assumptions that are unreasonable, lack sufficient basis, or lack sufficient support. | 12 | A Report is send in respect of Obsolete, Slow Moving or Excess Inventory which has been not used for past 90 days is send to Commercial Head of the Unit | WP8 | Inventory Ageing Report as generated and reported collected | |
| 13 | Obsolete, slow moving, or excess inventory exists but no adjustment is recorded against inventory and as a component of cost of sales. | 13 | Management reviews and approves the excess and obsolete adjustment calculation prepared by finance personnel and resulting journal entry. | | NA | |
| 14 | Obsolete, slow moving, or excess inventory does not exist but an adjustment is recorded against inventory and as a component of cost of sales. | 14 | Management reviews and approves the excess and obsolete adjustment calculation prepared by finance personnel and resulting journal entry. | | NA | |
| 15 | The calculations for obsolete, slow-moving, or excess inventory and related adjustments are based on inaccurate inventory usage/movement data. | 15 | Management reviews and approves the excess and obsolete adjustment calculation prepared by finance personnel and resulting journal entry. | | NA | |

Internal Financial Control(IFC)

| | | | | | | |
|----|---|----|--|------|---|--|
| 16 | The adjustment for obsolete, slow moving, or excess inventory is recorded at the incorrect amount, in the incorrect general ledger account, or in the incorrect accounting period | 16 | Management reviews and approves the excess and obsolete adjustment calculation prepared by finance personnel and resulting journal entry. | | NA | |
| 17 | The adjustment for obsolete, slow-moving, or excess inventory stated in the general ledger does not reconcile to the calculation and/or contains mathematical errors. | 17 | Management reviews and approves the excess and obsolete adjustment calculation prepared by finance personnel and resulting journal entry. | | NA | |
| 18 | Inventory may be removed from inventory records and recorded as a cost of sales when it has not actually been consumed. | 18 | Consumption entry is reversed on return of unused materials from the User Department. | WP 8 | Reversal Entry Passed in respect of Unused Material returned from the User Department | |
| 19 | Inventory held by a third party and not yet sold is improperly removed from inventory and recorded as cost of sales. | 19 | On a periodic basis, the reports provided by the third party to the entity, either directly or by confirmation, are reviewed and reconciled to internal records and used by the entity to reduce inventory and record cost of sales. | WP 3 | Third Party Report | |
| 20 | The entity uses inappropriate standard costs in valuing its inventory, including incorrectly calculating the allocation of labour and overhead. | 20 | Management reviews the new standard cost analysis and supporting documentation and approves changes to standard costs, including labour and overhead allocation assumptions, before the changes are made to the inventory | WP 4 | MIS Report | |
| 21 | Intercompany profits are : .Not Eliminated | 21 | Intercompany sales are anaylsed at period end to calculate the amount of intercompany profit in inventory to be eliminated. Finance Personnel prepare the JE, Supporting documents for intercompany profit to be eliminated. | | Not Tested | |



Case Study

Case Study : Descriptions

1. CMA Club visited a Goa Resort. All Resort facilities like Swimming Pool, Health Club, Gym, Food Court, Golf Course etc. used by some of the Members. You are Auditor of the Resort. Make Audit Programme to check whether entire usage charges and food bills are paid by the Club before check-out. The Stay was for 3-nights.
2. Draft a Hospital Review Internal Audit Report highlighting top three(3) Risk areas.
3. You are Library In-charge of LLB Institute. Draft appropriate 'Internal Control' measures for Purchase of Books, Issue and Custodianship.
4. ABC Limited going to Machine based attendance recording system at it's 'No Mans Land' Plant. To make it IT-enabled with all control aspects in place, prepare a presentation for Audit Committee.
5. Provide a list of Documents , which as Auditor You will check for ensuring payment accuracy.
 - a. Weighment based lifting for Mining operation
 - b. Annual Day celebration at City Hall
 - c. Transporter Bills
 - d. Staff Canteen for subsidised Food

Case Study : Descriptions

6. Make a 'Audit Plan' for a 'Multi product Retail Shop' with risk base identified.
7. In a Plant You are to ensure consumption of Raw Material is as per norm set. Highlight the basic points You need to to know. Write possible reason for high consumption variance and present the same to President Production.
8. Make an Inventory age-wise report with assumed datum for each of the 8-year period (No. of Item Codes, No. of pieces/Kg. and Value in INR). Find out the reason for pile-up and suggestive actions. The entity having three Plants in operation.
9. You have reviewed the Quality Dept. operations and going to discuss the draft report with QC Head. Prepare a mock discussion and ultimately your points are accepted by Management and going to implement the necessary steps.
10. Your Company having 1000 Warehouses (WH) across India. From Your HO you are going to assist Management by suggesting appropriate control mechanism w.r.t end to end WH Operations. Make a process document with functions applicable for WH operations.


Case Study : Descriptions



Contd.

Multimodal Transportation

Environmental concerns and related questions



3. Case Study : Library Internal Controls(Books Purchases, Issue & Custodianship)

Purchases

- ☐ **Proposition from Members for the requirement of specific Books**
- ☐ **Managing Committee approval for 'list of books' to be procured**
- ☐ **Approved Budget for purchase of Library Books by Managing Committee**
- ☐ **Selection of Book sellers/Agency/Publisher House for purchases**
- ☐ **Approved discount over printed rate and pay-term by Library Committee**
- ☐ **Bill approval alongwith physical copy of Books delivered/received**
- ☐ **Checking physical condition of Books before approval/acceptance**
- ☐ **Payment Voucher approval and fund transfer**
- ☐ **Accounting for Payments made in Library Accounts**
- ☐ **'Receipt and Payment Account' indicating value of books purchased**
- ☐ **Catalogue with Year of Purchase and tagging of Books with serial number**

Case Study : Goa Hotel

Room Sales and Cash Collections

(a) Grade-wise (Ordinary, Luxury, Super Luxury) Room tariff and booking as per Front Office and verification with Billing Desk to ensure appropriate billing for room-nights. Room Service (food drinks, laundry), Minibar (Fridge kept inside room with food, drinks and beverage) material, sports facility usage etc. recorded and billed appropriately for collection. There are various sales points scattered in a hotel and sales are both for cash and credit. The control over cash is very important. The charge for room sales is made from the guest register, and tests are to be carried out to ensure that the correct number of guests are charged for the exact period of stay. Any difference between the rate charged to the guests and standard room rent is to be investigated to see that it is properly authorized. Credit Card/Debit Card, cash, Foreign Exchange and Cheque (Corporate Bookings), RTGS/NEFT etc. to be tallied with Bill value.

(b) Daily room occupancy report, Check In – Check Out Record and Billing for occupancy to be validated on daily basis. The total sales reported with the total bills issued at each sales point have to be reconciled.

Case Study : Goa Hotel

(c) Food Bills with KOT(Kitchen Order Token) and signed Customer copy as evidence for consumption , other facility charges with respective facility usage token as per prevalent tariff. Special care must be taken in respect of bills issued to customers who are staying in the hotel, because they may not be required to pay the bills immediately in cash but at a future date or by credit cards. Billing is to be done room-wise. It must be ensured that all customers pay their bills on leaving the hotel or within specified dates.

A. **Receipt and Payment verification:**

- (a) Consumption shown in various physical stock accounts must be traced to the customers' bills to ensure that all issues to the customers have been billed.
- (b) All payments to the foreign collaborator, if any, are to be checked. Agency commission agreements and spent validation. Payment made to Brand Owner as per arrangement
- (c) Expenses and receipts are to be compared with figures of the previous year, having regard to the average occupancy of visitors and changes in rates.
- (d) Special receipts on account of letting out of auditorium, banquet hall, spaces for shops, boutiques, and special shows, marriage parties etc. should be verified with bookings and the arrangements made.
- (e) In depth check should be carried out on the customers' ledgers to verify that all charges have been properly made and recovered.

Case Study : Goa Hotel

- (f) The occupancy rate should be worked out, and collection made against the same. Benching of rates with other similar hotels and same quality of services, and with previous year. Material deviations should be investigated.
- (g) Expenses for painting, decoration, renovation of building, etc. are to be properly checked.
- (h) It is common that hotels get their bookings done through travel agents. The auditor should ensure that the money is recovered from the travel agents as per credit terms allowed. Commission paid to travel agents should be checked by reference to the agreement on that behalf.
- (i) Apart from control over stock of edibles, control over issue and physical stock of linen crockery, cutlery, glassware, silver, toilet items, etc. should be verified.
- (j) The auditor should verify the restaurant bills with reference to KOT (Kitchen order Ticket).
- (k) The auditor should ensure that all taxes have been included in the client's bills.
- (l) Computation and payment of salaries and wages vis-a-vis number of employees must be checked.

Case Study : Goa Hotel

Stock

- A. Utensils purchased, records for issue to Housekeeping/Kitchen etc. to be regularly updated and periodically verified. The stocks in a hotel like all saleable items, food and beverages need to be compared with Kitchen and other relevant records, consumption of raw items etc. These should be physically verified (with or without surprise element) at periodic intervals.
- B. The following may be noted in this regard:
 - (a) Food procurement and Issue to Kitchen, KOT validation process with Guest Orders. Stale, outdated food to throw Bin also be recorded for reference. All movement and transfer of stocks must be properly documented.
 - (b) Store Keeper is responsible for all movement records to justify stock at hand. Areas where stocks are kept must be kept locked and the key retained by the departmental manager. A key holding register (shift-wise) to be maintained to fix responsibility w.r.t noticing mishandling at the time of verification, if any.
 - (c) Unauthorized persons should not be permitted in the stores area without specific permission.
- C. Many hotels use specialized professional valuers to count and value the stocks on a continuous basis throughout the year.

Case Study : Goa Hotel

D. Periodical physical verification and documented valuation process need to be adhered. The auditor should ensure his presence at least for part of the time during verification process to strengthen vigil. The Auditor to considered that all stocks are valued at the year end.

E. Fixed Assets Register with all necessary noting as to installation date, cost, description, life class etc. to be maintained and depreciation on reporting dates to be computed. The fixed assets should be properly depreciated, and the Fixed Assets Register must be updated.

(v) Section-wise /Cost Centre-wise detail e.g manpower deployed, maintenance spent, wages, managerial expenses etc. to be maintained on regular basis for cost analysis and necessary help in decision making.

a. Casual Labour: In case the hotel employs a casual Labour, the auditor should consider, whether adequate and accurate records have been maintained in this respect. Automated time recording facility is now available in most of the hotels and time clocked there collected for considering attendance.

b. The wages payment of the casual Labour must also be checked thoroughly.

Case Study : Goa Hotel

(vi) Cost – Revenue comparison facility-wise (Swimming Pool, Golf Course, Spa etc.) to be monitored for service level assessment with recovery rate /change required to maintain service level.

The compliance with all statutory provisions, and compliance with the Foreign Exchange (FE) Regulations must also be verified by the auditor, especially because hotels offer facility of conversion of foreign exchange to rupees/Receiving FE from foreign travelers.

Case Study : Library Internal Controls(Books Purchases, Issue & Custodianship)

Issue

- ☐ **Member Registration for Library facility Usage (Reading Room and Lending)**
- ☐ **Member Photo ID and signature attestation/authorization for drawing Books - lending**
- ☐ **Maximum lending period and penal action (provision for fines for daily default w.r.t return of books)**
- ☐ **Catalogue with identification number of Books, Name and Author**
- ☐ **Book Issue Slip containing (triplicate) full information identification number of Books, Name and Author**
 - One Copy for Library Record, One for borrower, One for Issuing counter**
- ☐ **Authorization of Issue Slip by Librarian**
- ☐ **Obtaining borrower signature on two copies of issue slip**
- ☐ **For reading Room – 2 Copies of Issue Slip (Borrower and Office)**
- ☐ **Return of Book against borrower slip only**
- ☐ **Security or Close Circuit Camera to oversee the facility**

10. Case Study : High RM Consumption Variance – President Production

Points Need to Know :

1. History of BOM for each of the Product.
2. BOM Approval Authority.
3. Any change in major Production Equipment.
4. Any change in Production Process of a Product.
5. Feeding of RM–Manual or Mechanized and any changeover ? If so from which Date.
6. Changeover Note for BOM change and approval authority.
7. Actual consumption recording Process and any change made?
8. Whether up-keep/Storage of RM remained same all throughout the period?
9. Whether Production Orders are closed at the end of each run?
10. RM Quality remained constant/same in last couple of years.
11. Booking for consumption i.e how consumption entry is passed?

Case Study : High RM Consumption Variance – President Production

Reason for high Variance

- ✓ Production of 'P' started from February 2022 , since then the BOM change made for 12 times and significantly RM - & RM -2 , the two mother RM BOM consumption varied between 5% to 75%. We are given to understand that the RM Quality yet to be finalized, which causing significant variation in actual consumption.
- ✓ RM- X, used in 'Product Q' in place of RM-3 due to sudden spurt in price by about 50% (Rs.380 Per Mt. to Rs.575/- per Mt.) However, BOM yet to be prepared/modified for introduction of the new RM since June 2022.
- ✓ New Waterbase coating Raw Material is in use on trial basis since last six months. The Oilbase RM is also in use . However, same Product Code is used for booking consumption of both and units produced also not separately recorded.
- ✓ Since the FG passes through various production processes and each process consumes Raw Materials of fixed volume as per BOM. However, month closing date exercise carried out for different processes not identical and varied between 25 to 31 days. In Process i.e Semi Finished Product volume varies significantly ,which in turn causes high variance in consumption when compared with BOM.
- ✓ W.R.T six Products (A,B,C,X,Y,Z) the BOM consumption was fixed based on manual dozing for which about 10% handling loss was considered. Since last two years, OLBC (Over Land Bulk Conveyor) is in use, which caused losses even less than 1%. The change not given effect in BOM.

Case Study :High RM Consumption Variance – President Production

Contd.

- ✓ In the BOM Database maintained in SAP, multiple BOMs are available for the same Product. The Production Team and approver considers any of available ones not the particular one used. The multiple BOMs having same RM specification varying between 3 p.c to 13 p.c weightage. This caused significant variation with actual consumption.
- ✓ BOM authorization process was to be there before booking consumption against the related BOM. However, despite elapse six months , some of BOMs in use are yet to be approved.

2. Case Study : Report on Review of Hospital (Top 3 Risks)

Major Risks

- ❑ Revenue not in tandem with Patient Servicing
- ❑ Inadequate Infrastructure to handle Patient rush (ICU, OT, No. of Wards etc.)
- ❑ Absence/inadequate Medical Staff to cater critical diseases
- ❑ Poor referral mechanism to attract Patients

Observations

- ❑ **Mismatch between Patient served at Indoor and Outdoor with collection, raising possibility of revenue leakage**
 - During April to July 2022, total 18800 patients (1900 indoor, 4800 Bed Occupancy) treated at various facilities, for which Rs. 18 Crore collection was booked. Facility-wise charges for tests (X-Ray, pathology, blood etc.) and doctor 'log book' for patients treated at Outdoor, reveals a total collection of Rs.22.2 Crores. Explanation for the differential shortfall amounting to Rs.4.2 Crores remained unexplained.
 - We have noticed a serious process gap in collection Process. Patients treated at different facilities on a day allotted single 'Token No' and the software in use at different facilities not being aligned for the purpose of total billing. As a result, charges billable for multiple facilities not accumulated for collection in totality.
 - The Software Vendor was called at our instance and we are assured by Management that issue will be resolved after discussion with Accounts and respective Department/Facility In-Charges within next two months, till such time manual checking of different 'Doctor Logs' will be carried out before release of Patient.

Case Study : Report on Review of Hospital (Top 3 Risks)

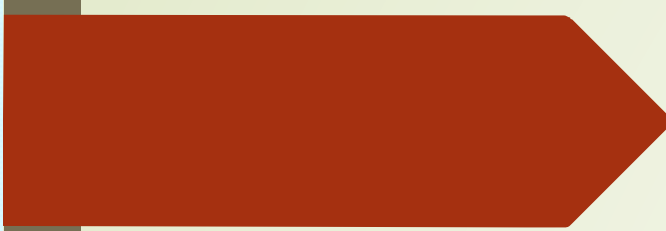
Recommendations

- a. **Patient Registration (Token No.) to be uniformly logged in all facilities e.g Pathology, Blood, X-Ray etc. After reporting at each of the facility, the bill value to be generated based on Usage by Patient. Accumulation against the 'Token No.' to be collected before handing over treatment papers/Prescription etc. The 'null Token No.s' for not using the facility to be dropped automatically at the close of business hours.**
- b. **Daily Cash with auto billing as indicated above, need to be reconciled and signed-off jointly by Accounts and Superintendent (In-Charge of all Facilities).**
- c. **Necessary Software update need to be carried out within 30-days to pre-empt possibility of further revenue loss.**

Case Study : Ten Questions to understand environmental concerns

1. While coming to Plant on our way , we have noticed a small river flowing towards north. The colour of the river water is black. Now, we are noticing at the Plant site; waste water pipeline is discharging at the river. This may cause trouble for flora and fauna and fishes in the river. Why before throwing into river, defusal action not being carried out? What is our future plan for discharging filthy water.
2. Huge amount of coal dust flying across the populated belt. At Guest House this morning, we have noticed dust particles on our clothing kept outside after washing. Are we using any mechanism to reduce spreading of dust ? This may impact health and cause breathing trouble of localites.
3. Are we measuring the sound created by running wheels 24x7 from our Batch Mixing Shop? The high pitched sound causing trouble even at the furthest corner of the Guest House during night. Perhaps the sound pollution creating hearing problem among local people. What course of action you are proposing to reduce sound pollution?
4. Our Project site is completely barren and not even a single green patch can be noticed. How we are going to convert the place to a 'green belt' .

Case Study : Ten Questions to understand environmental concerns

- 
5. In our Kiln, presently we are using fossil fuels. What is our plan to changeover to 'AFR (Alternate Fuel)' to neutralize both cost and negative impacts fossil fuels. In the farming zone nearby, paddy and wheat is cultivated , hence we can't see any problem in getting husks at a throw away price.
 6. We are using Coal for firing our Mixers. Within 50 Km. vicinity , we have CBM(Coal Based Methene) source, which is clean fuel with maximum protection for environment. Have we made Cost Benefit analysis to plan CBM usage in near future. CBM is a bit costlier than coal firing, but we can avail 'green house gas' credit. Moreover, as a responsible citizen, we can keep our environment free from pollution.
 7. As a responsible Citizen, have we ever conducted any health survey on the population surrounding us ? This goodwill gesture can help us to 'win the heart' of the local community.
 8. How we dispose our waste materials and colony sewerage. To materialize our business plan, the workmen and staff strength will be at least doubled by turn of the year. We need to make a concrete plan for waste disposal.
 9. NOX and other gases are measured during the time of operations? We should measure and take appropriate action to reduce negative impacts.
 10. Is our 'stack emission' process effective? If not, then what is our plan to make air 'clean'.

Case Study :Multimodal transportation

- ❑ Our core command area is Gujarat with a radius of 250 Km. from Plant and the catered by Road transport. Our distribution network spread over NEWS approximately 3000 Km. Our quest for on time delivery with low freight propelled us use combination of Modes of transportation.
- ❑ We are the benchmark in fertilizer industry for lowest distribution cost. Our competitors use maximum two modes for reaching to delivery destination viz. Road and Rail. While we use three viz. Road , Rail and Water ways.
- ❑ As a first mover, in two areas (None and Only) we are using Burges to carry full truck load (40 Mt.) from one side of the river to other side, wherefrom Wagons are loaded for South India destinations. By following this route we are saving Rs.22/- per Mt.
- ❑ For at least 888 destination , we use the process of transshipment. Due to narrow , unmetalled road condition bigger trucks can't cater small Dealer Orders ranging 20 Mt. - 30 Mt. per Delivery Order. We have mapped the Dealers in a radius 30 of Km. and material sent in Traylor Trucks , wherefrom smaller trucks carry the load and deliver at Dealer premises. This has attracted Dealers of other Brands to order our Product. In time, within cost budget, with assurance for on time – every time ; our small Dealer family increased by at least 2222 across India.

Case Study :Multimodal transportation

- ❑ From our plant, Rake/Wagon Loaded materials unloaded at Hazira Port and Cape size Vessels of 1,25,000 Mt. capacity carries the same to Vizag, Kakinada. Since Kakinada Port do not have berthing facility, floating cranes are used for unloading in Burges. After reaching at Shore, Burges unload materials using smaller sized cranes to Trailer Trucks for respective destinations. Using sea route, per Mt. savings achieved worked out to Rs.33/- . Trucks ply with a PTPK (Per Ton Per Km.) of Rs.800/- .
- ❑ Our Logistic Team is very active at all the Railway Sidings used by us. They ensure clearance from Sidings within 8 hours of rake arrival. Large fleet of Trucks depending on despatch plan arranged and vehicles are loaded directly from rakes to avoid multiple handling cost and 'on time' availability of material at the market place. Each handling costs Rs.22 per Mt. Moreover, Rake transportation is cheaper by Rs.88 per Mt. when compared with Road freight.
- ❑ For export consignments, we use 60 Mt. – 100 Mt. Trucks to Okha, Kandla Ports, wherefrom Vessels are loaded for Gulf and African Ports like Mombasa.
- ❑ For 'Core Command Area' , we use 8 Mt.- 10 Mt. capacity Vehicles at a fixed freight of Rs.250/- per Mt. irrespective actual distance. Our competition, use Trucks and their minimum PTPK is Rs.500/-. Since most of the Dealerships are common, our detailed working indicates a savings of Rs. 77 Crores p.a.

Case Study :Multimodal transportation

- ❑ Since January 2022, we have launched a Scheme named DOT (Delivery By Own Truck) , where we are giving a Discount to Dealers taking material through their own Truck. The Discount is lower by at least 10% of our prevalent Freight/Cost incurred through multimodal movement. This will translate into a savings of Rs. 111 Crores p.a. at the volume of Previous Year at existing cost.
- ❑ For every movement of material using single , double or multiple modes adequate and appropriate documentation, Contracts and approval mechanism as per Delegation Of Authority is in place.

Case Study : Process Control – End to End Warehouse Operations

Functions

- Selection of Warehouse (WH) Locations – Cost benefits for nearness to Market place
- Space Hiring – Competitive basis at BOP (Best Obtainable Price)
- Agreement with space owners – Safeguarding Business Interest
- WH Identity No.- No. series & allotment for identification through ERP
- Legal compliance - GST Registration, Municipal Rules etc. for compliance
- Handling Agent (HA)Selection – Process of selecting cost effective Agent with high quality service potential
- Fixing Duties and Responsibilities of HA - Settling terms and conditions for the Job and subsequent payment
- Agreement on Commission/Fixed Rate, Expense reimbursement for HA – Terms of Agreement
- Storage and Up-keep Guideline – ‘Dos’ and ‘Don’ts’ with Stock at WH
- Stock Transfer Acknowledgement – Receiving and updating Book Inventory
- Invoicing – As per System Database – Sale or transfer Finished Goods to other WH
- Transporter selection for shipment – Transportation Cost and service quality as criterion for selection
- Transportation Agreement – Terms and conditions and payment including recovery for product loss/mishandling
- Receipt acknowledgement by Buyer – Delivery proof
- Note : Assumed collection /adjustments by sales accounts

Case Study : List of Documents to ensure Payment Accuracy by Auditor

Weighment based lifting for Mining operation

- ☐ Serially pre-numbered Lifting Challan (To be handed over to Truck Driver)
- ☐ Weighment Slip (Truck No. and Weight- Tare & Gross, timing)
- ☐ Vehicles Deployed (Trucks, Dumpers , Hoists etc.) with capacity notification
- ☐ RC Book for above Vehicles
- ☐ Contractual terms as per PO
- ☐ Security Report/Record for entry/exit of vehicles (must for minimum guaranteed payment)
- ☐ Fuel reimbursement (Fuel Bill, drawal and distance based pre-fixed requirement)

Annual Day celebration at City Hall

- ☐ Booking confirmation with necessary agreement copy with landlord
- ☐ Audio, Video arrangement for the day with Bill from Suppliers
- ☐ Entertainment expenditure Bills – Food, Snacks etc.
- ☐ Bills from performers like Musician, Band etc.
- ☐ Transportation , Travelling (as far as possible original third party Bills, Hire Charges, Tickets etc.)
- ☐ Gift items , Prizes purchase Bills
- ☐ Advances drawn and adjustment therefor

Case Study : List of Documents to ensure Payment Accuracy by Auditor

Transporter Bills

- ☐ Contractual arrangement/obligations
- ☐ Invoice raised by Transporter
- ☐ Certification of delivery against the basis agreed upon as deliverables
- ☐ Liability booking post certification by approving authority
- ☐ Payment approval

Staff Canteen for subsidised Food

- ☐ Budgetary approval for monthly spent
- ☐ Canteen food related supplies volume and quality certification
- ☐ Per head consumption level as per agreed norm (Union, Canteen Committee or Workmen)
- ☐ Canteen committee approval for volume vs. above norm and deviations
- ☐ Bills/Invoices raised by Vendors and approval therefor
- ☐ Payment Voucher approval

Case Study : Controls for Mechanical attendance recording

Shortcoming

Manual System

- Non verifiable attendance Datum, signatures/thumb impression can be manipulated
- Absence of data security, due to Register pages found missing
- Attendance without physical presence, immediate 'gate out' post attendance
- Mismatch between leave and attendance record
- Absence of analytical review due to manual recording of voluminous attendance database
- Failure/absence of Internal Control process
- Time consuming , manual verification process
- Accuracy can't ensured
- Consequences -
 - Excess payment
 - Lower than desired productivity
 - Workmen and Time Office tussle over attendance

Case Study : Controls for Mechanical attendance recording

Suggested Mechanical System

- At all the three entry points Mechanical Attendance Recording Machine (ARM) will be installed
- Other three ARMs will be on the exit side of the Gate
- ARM will capture/record/detect 'Face' of every employee with already captured database in Back Office
- ARM will capture timing of 'Entry' inside and moving 'outside'
- The rotating steel gate will not allow anyone to move out, without further screening through ARM
- All 'In-Out' movement of everyone will be captured and 'Time Office' will generate Daily Report for monitoring
- Such Daily Report will be circulated to 'Head Of The Dept.(HOD)' for information and necessary action
- Time as per ARM, will be considered for attendance and short hours due to 'early exit' will be deducted from pay
- No time booking in ARM for any of the date will be considered as 'leave' and auto mail will be generated
- Such auto mail addressed to HOD 'It indicate date & shift of absence for informing staff to file 'leave application'
- Non-filing 'Leave Application' will be construed as leave and deduction from available balance will be made
- For no leave at credit, pay deduction will be inflicted
- ARM Database will be preserved 'pay cycle wise' for 3-years
- The ARM maintenance Contractor M/s. None Enterprise will be responsible for 24x7 basis
- Cost of the Project is approx. Rs.50 Lacs for all the 4 (four) plant and Head Office locations
- Pay Back period is approx. two years
- Discipline and morale booster for employees perceived as benefit
- Accuracy in attendance recording will be ensured and deduction for irregularities will more than compensate Cost

Case Study :Mock Discussion with QC Head on Audit Points

Audit Team Lead : Good evening Sir

QC Head : Hi, Fine. Gone through your points. I have another meeting lined-up and hope we will be able to conclude by next half an hour.

Audit Team Lead : Sure. But major issue on authority structure for approval of coal samples and sample collection process requires a detail modus of operation disclosure from your side.

QC Head : Mr. Agile, You know I have three Quality Managers manned in each of the shift. They are basically scientist. How they can sign-off 30 results per eight hour shift after thorough scrutiny. Hence, I instructed the casual workmen who are involved in sample collection and testing to sign-off within specification ones and outliers are approved by the Scientists.

Audit Team Lead : Yah, Mr. Worthless. That is why, we have suggested auto sampling and a 'process note' also appended with our recommendation. This will reduce the risk of manipulation in manual sampling, ,if any. The Augur will number the sample and will carry out online test and outliers will be identified for rejection/reduction of rate. This will help the scientists to perform in a better way.

QC Head : Understand. But what will happen to the Contract workforce.

Case Study :Mock Discussion with QC Head on Audit Points

Audit Team Lead : Sir to run the Augur , two workmen is required in each shift . They need to be trained before deployment. Rest can transferred on wherever required basis. But, that's HR baby.

QC Head : Fine, but what about investment in machinery, Computers etc. to get on-line results.

Audit Team Lead : You can place a 'Growth Budget' and capital investment will surely more than compensate the cost of contractual deployment.

QC Head : Yes, the extra workmen can be deployed for heaping, shifting , placement of rakes etc. where numbers are required.

Audit Team Lead : Sir, SOP is also silent on GCV (Gross Calorific Value)and NCV (Net Calorific Value) parameters for imported Coal. We strongly feel, the same to be specified.

QC Head : Look, we can't reject and return the imported material and hence putting a parameter is of no use. Moreover, we have started using imported coal only from last two years. Managing production requirement is more important and challenging due to break out of Pandemic.

Case Study :Mock Discussion with QC Head on Audit Points

Audit Team Lead : Sir, but we can always ask for compensation due to lower GCV, NCV of the coal supplied. The Lab Team to point out acceptable level in SOP.

QC Head : That's fine. Will do. I have just sent an SMS , that the other meeting to be re-scheduled. Next point please.

Audit Team Lead : Our User Plant at 'zero' , tests Iron Ore coming from our own 'Poor Mines' , but we do not have Quality testing facility at the Mines. Unless test laboratory is there, how are sure that contamination not happening en-route ? Once , we compare results of both the ends, can conclude on what went wrong.

QC Head : Again it's cost issue. Setting a lab facility at 'poor mines' will cost approx. Rs.25 Lacs.

Audit Team Lead : Agreed Sir. But the expert who worked with us, opined that Ores mined are better than what we are getting here, considering the distance between the two places i.e 500 Km. contamination by Transporters is possible. Hence, we suggest, Lab facility at both the ends, one side test is not anyway helping us.

QC Head : Thanks a ton. Your supportive role for enhancing business interest is appreciable and we are going to take-up the issues with MD and COO for help in implementing your suggestions.

Audit Team Lead : Thanks , it's your thought on business excellency.

Case Study : Risk Based Audit Plan' for a 'Multi product Retail Shop'

Major Risks

- ✓ **Non-conversion of foot falls into foot print (cash bell not ringing)**
- ✓ **Shop lifting (about 1 % of sales)**
- ✓ **Lack of tracking competition and their strategy**
- ✓ **Lower allocation on spent of household**
- ✓ **Product boycott**
- ✓ **Supply chain management**
- ✓ **Economic recession**
- ✓ **Inventory Management**
- ✓ **Non-leveraging Brand for penetration**
- ✓ **Product Mix – Branded and unbranded (own)**
- ✓ **Price war**
- ✓ **Shelf Product mismatch**
- ✓ **City Tier and Product mismatch**
- ✓ **High Operational Cost**
- ✓ **Failure in ambience creation**
- ✓ **Data theft**

Case Study : Risk Based Audit Plan' for a 'Multi product Retail Shop'

Review Areas

- ✓ Customer conversion , Non-leveraging Brand for penetration ,City Tier and Product mismatch(Shop visit data- Sales- Invoices of Customers- Repeat Customers- Product range)
- ✓ Shop lifting (CC TV Camera positioning & shots- identified theft- recovery- staff positioning & responsibility)
- ✓ Lack of tracking competition and their strategy (Business Goals and roles, Competitor pricing and penetration, cost, Operational areas and Products)
- ✓ Economic recession ,Lower allocation on spent of household (For Posh, Urban, Semi-urban and Tier of Cities authentic datum, turnover and trend, micro economic scenario)
- ✓ Product boycott (Banned or poor service by Producer, non-servicing of shelf by supplier/producer, category success product identification, loss of revenue)
- ✓ Supply chain management , Inventory Management ,Shelf Product mismatch(JIT Inventory, shelf strategy, Warehouse management, supply time lag)
- ✓ Product Mix – Branded and unbranded (own), Price war (Schemes for sale, timeliness of product placement, gross margin and impacted turnover, role of brand partners, price discovery)
- ✓ High operational cost (Rental , Staff cost, Operating expenses ; benchmarking with competition, EBIT)
- ✓ Data theft (IT, Service, Data privacy, vulnerability of IT System, Master maintenance)

Case Study : Inventory accumulation

Background

Unfortunate Limited with three Plants located at Uphill, Downhill and Hill. All the Plants are pretty old, except Hill Plant. Hill Plant started operation since 2012. The Management is now facing a huge Working Capital blockage in Inventory worth Rs. 666 Crores. Annual turnover hovers around Rs.5000 Crores.

Highest accumulation reported by the new Plant i.e worth Rs.355 Crores, out of the three. The Company having a valuation policy. As per Policy, more than 5 year old inventory to be value at 10% of cost and balance at Cost. Slow and Non-moving inventories are categorised for holding over 5-years. In last 8 years, no liquidation action for accumulated inventory was considered by the Management.

Management wants that IA Dept. to point out reasons for accumulation and necessary steps to pre-empt possibility of further accumulation. Moreover, steps for unlocking value also need to be decided as per guidance from IA Dept. The Report to be discussed with Audit Committee in the ensuing meeting. Hence, the Report to be submitted by 31st August 2022.

Case Study : Inventory accumulation

Root Cause

- Lack of control over Project surplus items – accumulated value Rs. 22 Crores.
- Stock position of one Plant is not visible to other Plant/s. Uphill continuously procuring 11 such items , which are not in use since last 7 years at Downhill Plant. Such accumulation at Downhill worked out to Rs.44. Crores.
- On introduction of four new products viz. NP,PN ,P and N in 2018 at all the three Plants simultaneously ; the Raw Materials of earlier blockbuster Products namely BP,OP,HP, GP remained at hand. Accumulated value stood at Rs. 55 Crores.
- Pumps, Motors, Generator , Power House etc. received as replacement against failed Equipment within 'Warranty Period', considered in Books as fresh procurement. Value of such wrong entries worked out to Rs. 33 Crores.
- Physical verification reveled, Material and Spares having book value amounting to Rs. 22 Crores not in existence. Last issue date was recorded in ERP Database not even more than 3 years old. We are informed by Stores In-charges of respective locations that the same items recoded as missing ,mishandled.
- Storage of raw materials was to be made properly. We have noticed, huge piles of Raw Materials in mixed-up condition. Segregation and recovery is remote and can't be used used in production due to quality, performance will not match expectations. As per Book records, value of such mixed-up inventory worth Rs. 44 Crores. The item codes found in mixed-up condition, was inwarded frequently and used in Production.

Case Study : Inventory accumulation

Root Cause

- Undefined Stock level (Minimum, Maximum, Re-order and Average), causing accumulation. Based on average annual consumption level, at least 111 item Codes having more than 4-years inventory at hand valuing Rs.222 Crores (each item code holding more than Rs.1.5 Crores each).
- Spare Parts worth Rs.55 Crores not recorded in Books as Inventory, shown as transit for more than two years. Advance payment to Vendors already made for the same.
- Material Sent for Outside Processing (MASOP) worth Rs. 88 Crores, yet to be accounted , despite aged over 3-years.

As part of our review process, we have circulated the presentation with necessary documents and discussed at length the 'Actionable Points'. The 'Actionable Points' are circulated separately.

Case Study : Inventory accumulation

Action Plans

- ☐ For easy identification and making plan for use in future Projects/requirement, Project surplus items need to be codified separately with regular item code reference in ERP.
- ☐ View only access to be given to all who are authorized for releasing PR (Purchase Requisition) for assessing stock of the required item Code at other locations. Excess stock at other locations need to be reckoned before Ordering for liquidation and usage in other location.
- ☐ New Product introduction to be made only after getting clarity /clearance from COO on consumption of RMs required for the old FG. If required, sometime gap may be fixed for the purpose.
- ☐ Necessary rectification/value adjustment to be carried out for replaced item received against Warranty.
- ☐ Periodical physical verification process need to be strengthened to avoid 'surprise' w.r.t missing items. Movement of men, vehicles through security gate requires special attention to preempt possibility of theft.
- ☐ Identified storage location for bulk items , Bins for Spares to be created to avoid mix-up. Necessary wall, dividers to be made available for proper storage.
- ☐ Average consumption trend with max. safety cushion for order time lag of a month to be considered for Order level. Inventory levels to be fixed for all items.
- ☐ In-transit and returnable items to be investigated for proper resolution. Maximum period of 60 days from the issue date to be allowed for closing the matters appropriately.

AUDIT WORKING PAPERS:

Types of Working Papers :

- ☐ Accounting related
- ☐ Analytical
- ☐ Reconciliation related
- ☐ Computational
- ☐ Narrative
- ☐ Abstract or non-numerical

Internal Auditing in Different types of Organization

Organizations

- Body Corporates
- Partnerships
- Sole Ownership
- Co-operatives
- Educational Organizations
- Clubs
- Self Help Groups (SHG)
- Non Governmental Organizations (NGO)
- Local Bodies (Municipality, Panchayat etc.)
- Government Organization

Educational Institutions

- (i) Documents relating to formation of the institution, affiliation, Management structure, Governing Body, ownership etc. requires due attention for fund monitoring, donation, affiliation fees payment etc.. Examine the Trust Deed, or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of university, refer to the Act of Legislature and the Regulations framed thereunder.
- (ii) Approving authority for expense, fund transfer, bank account operation etc. Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, especially the decisions as regards the operation of bank accounts and sanctioning of expenditure.
- (iii) Semester / class-wise Student Register with details of Student name, address, Aadhar No./Card, Guardian etc. and fee structure (full fees, half fees, sanctioned waiver etc.) mapped for ensuring accuracy of collection. Where collection through direct Banking takes place, the Bank Statement to be equivated with 'fees receivable/recoverable' for completeness check and proper revenue /collection (advance/ arrear collection) recognition. Fees collected and Fees Book counterfoil reconciliation also can be carried out. Check names entered in the Students' Fee Register for each month or term, with the respective class registers, showing names of students on rolls and test check amount of fees charged; and verify that there operates a system of internal check which ensures that demands against the students are properly raised.

Educational Institutions (Contd.)

(iv) Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund, unless the Managing Committee has taken a decision to the contrary.

(v) See that free studentship and concessions have been granted by a person authorized to do so, having regard to the prescribed Rules.

(vii) Confirm that fines for late payment or absence, etc., have either been collected or remitted under proper authority.

(vii) Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.

(viii) Caution Deposit, Laboratory Deposit etc. collected and refunded are accounted for correctly in the relevant period. Verify rental income from landed property with the rent rolls, etc.

(ix) Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. Tag against the spent booked for the period under review and physical existence. Reference to Stock Register and values applied to various items should be test checked.

Educational Institutions(Contd.)

(x) Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.

(xii) Verify any Government or local authority grant with the relevant papers of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons and compliance thereof.

(xiii) Review of Receipts and Payments, Income and Expenditure for completeness and accuracy of Fund balances against bank balances. Report any old heavy arrears on account of fees, dormitory rents, etc, to the Managing Committee.

Vouching to be carried out for proper supporting and due approval w.r.t Income and expenses.

(xiv) Confirm that caution money and other deposits paid by students on admission have been shown as liability in the balance sheet and not transferred to revenue.

(xv) See that the investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated and invested along with the corpus.

(xvi) Verify that the Provident Fund money of the staff has been invested in appropriate securities.

(xvii) Vouch donations, if any, with the list published with the annual report. If some donations were meant for any specific purpose, see that the money was utilized for the purpose.

Educational Institutions(Contd.)

- (xviii) Vouch all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
- (xix) Vouch in the usual manner all establishment expenses and enquire into any unduly heavy expenditure under any head.
- (xx) See that increase in the salaries of the staff have been sanctioned and minute by the Committee.
- (xxi) Ascertain that the system ordering inspection on receipt and issue of provisions, foodstuffs, clothing and other equipment is efficient and all bills are duly authorised and passed before payment.
- (xxii) Confirm that the refund of taxes deducted from the income from investment (interest on securities, etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income tax.
- (xxiii) Verify the annual statements of accounts and while doing so see that separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of Staff, etc.

CO-OPERATIVE SOCIETIES :BASICS

- ❖ Nature and Type of Co-operative
- ❖ Purpose of the entity
- ❖ Management Structure
- ❖ Membership Rules e.g Share holding (10%)
- ❖ Responsibility of the Members and Management Committee
- ❖ Governing Rules – Central Co-operative and State Co-operative Societies Act
- ❖ Approval process of Activities
- ❖ Sanction of requisite Funds
- ❖ Scrutiny of transactions , Vouching
- ❖ Appointment of Auditor/s
- ❖ Sources of Funds/collections
- ❖ Minutes of the Meeting
- ❖ Resolutions passed with details

CO-OPERATIVE SOCIETIES :BASICS

- ❖ Submission of Statutory Documents/Filing
- ❖ Transfer to Welfare Fund
- ❖ Distribution of Dividends/surplus
- ❖ Maintenance of Books of Accounts
- ❖ Details as to any Loan transaction/s

Some important tips for IA in different Organizations

- Documents for clarity of Organization structure i.e type of Organization
- Legislative bindings i.e governing laws with respect to the Organization
- Organizational guidelines
- Management and structure for daily regular activities authorization and supervision
- Organizational Goals
- Authorized persons to carry out and approve the activities
- Alignment of activities with Organizational Goals, Objectives, Mission and Vision
- Activity-wise Internal Control structure
- Internal checks and
- Accounts ,evidence and records pertaining to support accounting
- Assets – procurement, physical existence, movement and maintenance
- Payable liabilities and payments
- Recoveries –scheduled and actuals
- Timeliness and actions of accounting recognitions
- Review and monitoring process for organizational activities
- Compliance status

Internal Audit in Different Organizations :

☐ Film Production and Distribution House

☐ Railways

☐ Charitable Trust

☐ Shipping

☐ Electricity Distribution/supply

☐ Port/ Bulk Terminals

☐ Real Estate Developer

☐ Plantations (Tea, Coffee , Rubber)

☐ Passenger Transport Organizations

☐ Newspaper printers

☐ Mines (Coal, Lime Stone)

☐ Logistic support services