

# Planning and Executing Internal Audit : Function Based(Prodn.)

Whether material reconciliation highlighting total material consumed, standard input-output norms and actual verified?

Whether variations over standard Bag consumption is measured and monitored?

Whether Daily Production Report from DCS Compiled?

whether the production report on a daily basis verified by the authorized personnel?

Whether there exists pre-defined authority levels to generate, add, and modify production data in DCS/SAP?

Whether there exists Standard Operating Procedures (SOP) for quality control and inspection?

Whether there exists a system of review of Quality Control (QC) norms periodically to ensure their validity?

Whether Adherence to the pre-determined sampling techniques & exception reports duly approved for the results deviating from the QC norms?

# Planning and Executing Internal Audit : Function Based(Prod'n.)

- Whether all complaints received by the Production department pertaining to quality/quantity are reviewed?
- Whether Customer-complaints closed in time for amicable solution?
- Whether Engagement of external agency for quality validation are approved and reports are reckoned to pre-empt possibility of quality non-conformity issues?
- Whether process for re-working QC failed products exists after obtaining due approval from appropriate authority against QC failed product?
- Whether all products are bagged after the same being qualified for /passed by QC?
- Whether the plant maintenance plan considered while development of production plans?
- Whether preventive maintenance schedule Compiled and duly adhered to?
- Whether breakdown maintenance and opportunity loss of production measured?
- Whether impact of breakdown maintenance on the production schedule ascertained?

# Planning and Executing Internal Audit : Function Based( Prod'n.)

- Whether cost accounting system is maintained to accurately accumulate and identify manufacturing cost (i.e. by cost centre or product)?
- Whether cost accounting system is provide adequate information to analyse actual manufacturing cost, standard cost and other information needed to properly safeguard and value inventory?
- Whether appropriate assumptions are made to allocate fixed cost?
- Whether periodic comparisons of standard costs to actual manufacturing costs are performed, and any discrepancies resolved in a timely manner?
- Whether adjustment to the standard cost, for whatsoever reason, are approved by the appropriate authority, adequately documented and reflected in accounting?
- Whether the cost of by product is taken into consideration in arriving at cost of production?
- Whether the scrap accumulated is within the approved limit and timely reported?
- Whether approval from competent authority is taken before disposal of scrap accumulated?

# Planning and Executing Internal Audit : Function Based-Storage

- Whether Vehicle requisitions are made as per warehousing/despatch plan.
- Whether warehouse locations selected are mapped in Company electronic database.
- Whether Rental Agreements with Landlord entered into with specific area and facilities.
- Whether photograph for the facility is captured and available for validation.
- Whether appropriate authority level is fixed for rental amount and period of occupancy.
- Whether vetting by legal dept. is mandatorily carried out.
- Whether capacity for the area occupied is calculated and known to despatch Dept. for maximum utilization.
- Whether warehouse is maintained properly i.e moisture free, water leakage free etc.
- Whether Bags are kept properly to ensure count and tallying with book balance.
- Whether every variety with trade and non-trade identification is kept separately in warehouse.
- Whether all sales affected are against 'Sales Bill' only.
- Whether all inwardation is updated immediately for accuracy in stock at hand.



# Planning and Executing Internal Audit : Function Based- Storage

- Whether transfer between one Warehouse to another takes place and system captures the movement to ensure accuracy in stock position.
- Whether 'cut and torn (C & T)' bags are identified and kept separately with identification in system database.
- Whether damaged cement (solidify) kept separately and marked in Inventory.
- Whether regular validation for C & T is carried out by Co. officials for initiating appropriate disposal action.
- Whether handling Bills are validated by Warehouse personal and parallel checking of system data for receipt/invoicing/return etc.
- Whether time for Order and execution is maintained with time lag therefor.
- Whether 'short weight' bags are identified on random basis?
- Whether 'height of bags kept', distance from Wall, and keep walk-way between two rows to facilitate count etc. is maintained.
- Whether MRP compared between Bill and actual stock, while effecting despatch/sale.
- Whether FIFO process followed for physical movement.

# Planning and Executing Internal Audit : Function Based- Storage

- Where the Warehouse is responsible for collection, if so, timeliness of deposit of Cheques /Return instrument collection etc. to be monitored for appropriate trigger of action.
- Whether warehouse agreement includes responsibility for stock loss/damage due to breaking of Walls etc.
- Whether volume is measured for each location to influence decision on continuation of the facility.
- Whether Bills are timely booked for liability.

# Planning and Executing Internal Audit : Function Based- Despatch

## Dispatch Planning:

- Review the procedures followed for finalizing Dispatch Plan.
- Ensure that Dispatch Plan is finalized according to the market condition (demand and competition) requirements at various locations and considering the production schedule.
- Ascertain other factors considered while finalizing Dispatch Plan (tax implications etc.).
- Verify authority levels for finalization of Dispatch Plans & their adherence.
- Study the system followed for communication of dispatch Plan to the Works and its follow-up.
- Verify whether changes in dispatch plans are authorized and are promptly conveyed to the Works.

## Dispatch Arrangement at the Works:

- Identify the system of receiving dispatch Plans/instructions at the works and their documentation.
- Review actual dispatches in comparison with budgeted dispatches.
- Check dispatch of goods through non-regular modes (Road shifted to Rake or vice versa) of transports & reasons thereof.
- Ensure that dispatch schedules are given to the transporters /railway authority well in advance according to the Dispatch Plan.

# Planning and Executing Internal Audit : Function Based- Despatch

- Check whether placement of trucks is as per the required schedule.
- Whether movements of goods have been affected due to non-availability of trucks/rakes.
- Check monthly bills of the transporter and identify instances, where clubbing of DO (Delivery Orders) two or more trips are made to the same place on the same day and reasons thereof.

## Secondary Transport:

- Identify the system of finalizing secondary transport contracts, selection of transporters/mode of transport and controls over the same.
- Ensure that documented authority levels for finalization/selection of transporters and mode of transport exist and are properly adhered to.

## Transportation Budgets:

- Compare the budget for transportation/freight cost (transport mode-wise) with actual transportation expenses and review variances, if any.
- Ascertain periodicity of comparison of Transportation Budgets & initiation of remedial measures.

## Transport Contracts:

- Whether quotations are called for from various transporters for fixation of rates.
- Ensure that a proper agreement duly vetted by the Legal department is entered into with the transporters & renewed on time.



# Planning and Executing Internal Audit : Function Based-Despatch

- Check whether freight charges and transit time from all the relevant locations across the country are defined in the agreement and delivery is made within the normal time mentioned in the contract. Abnormal delays to have approval mechanism.
- Ensure transshipments and diversions are properly authorized after considering cost/expense reimbursement.
- Ensure that, acknowledgement copies confirming receipt of materials are submitted by the transporters within specified time limit.
- Ensure that, security deposits are collected from all the transporters.
- Transit losses are recovered from Transporters at appropriate local cement rates.

## Planning and Executing Internal Audit : Function Based- Sales & Mktg.

- Whether appointment of Dealers /Stockists is made based on selection criterion e.g experience, market reach, financial strength etc. laid down by Company.
- Whether agreement entered into with dealers/stockists etc. specifically mentions rights and liabilities including payment to be made to Company from sales through retail outlets.
- Whether appropriate Security Deposits are obtained from Dealers /Stockiest before initiation of trade.
- Whether validation of Customer Master is carried out at regular intervals.
- Customer categorization between trade sector and non-trade are made to apply appropriate pricing.
- Whether price revisions are made/captured timely to apply on deliveries/despaches at appropriate rate/s for realization of correct value.
- Whether appropriate inco terms are captured for ensuring billing accuracy.

## Planning and Executing Internal Audit : Function Based- Sales & Mktg.

- Whether 'Credit Notes' for cash discount (prompt payment) are considered separately based on actual payment made against the relevant Invoice.
- Whether target based volume discount, regional discount, trade discount, scheme discount (construction week, Diwali bumper etc.) are dealt separately for each market/ dealer /stockist etc.
- Whether 'credit limit' is appropriately fixed and monitored.
- Whether collections are monitored Dealer-wise and reversals for bouncing instruments are passed immediately for giving ensuring accuracy in outstanding balance and denial of prompt payment incentive.
- Whether evaluation of dealers is taken place periodically to assess potential to cater, off-take during relevant period, growth, payment habit etc. and ranked accordingly.



# Planning and Executing Internal Audit : Function Based- Purchase

- Whether requirement of material/ goods/ services is identified based on purchase requisition (PR) from user department for all purchases? (except small value purchases up to Rs. 5000/-)
- Whether all dept. covered under release strategy is generating PR.
- Whether general stock items purchase requirement is identified based on previous consumption trend?
- Whether all PR are duly approved / released by functional head as per release strategy?
- Whether all PR are scrutinised for accuracy of material code, quantity, cost centre, expected delivery date, specification, source of supply, services required etc. by Purchase Dept.?
- Whether availability of stock & buffer stock requirement for requisitioned items are checked before creating RFQ(Request For Quote)/ purchase enquiry?
- Whether Purchase inquiry / Request for quotation is mandatorily made PR?(except where Annual Rate Contract is available)
- Whether vendor applications evaluation is made against pre-set norms and deviations, if any, are duly approved?
- Whether all technical quotation/bids are first sent to user depts. for evaluation?
- Whether comparison statement of all quotation/ bid is prepared for scrutiny of tender & available for verification?



# Planning and Executing Internal Audit : Function Based-Purchase

- Whether final purchase approval is done as per DOA (Delegation Of Authority)?  
Whether all PO contains applicable 'acceptance criteria' as stipulated in Quality standard.
- Whether GIN (Goods Inward Note) is prepared for all material supplied by supplier & received at Stores?
- Whether material is inspected by user, in case of technical items, before acceptance of delivery?
- In case of rejection whether material is sent back to supplier & rejection note is forwarded to purchase dept. to avoid wrong payment?
- Whether contract is vetted by legal department to scrutinise legal aspects?
- Whether penalty clause in case of non/under supply of contracted quantity exists in contract?
- Whether Vendor Enlistment Forms are scrutinized for requisite Tax and Compliance matters.
- Whether before importing any kind of fuel, indigenous/domestic availability is rechecked?
- Whether internal efficiency of procurement is measured by PR to PO cycle time & it is within target cycle time?

# Planning and Executing Internal Audit : Function Based - Inv. Mgmt.

Risk	List Of Controls	Existing	Effective
<u>System Controls through ERP/ SAP</u>			
1.Inaccurate inventory data base, 2.Unauthorized changes (a-d-c), 3. Undetected mistakes in Inventory Ledger , 4.Accumulation due to absence of ordering levels			
	For each category of inventory, procedures are implemented to ensure the reliability of items’ classification and codification.		
	For each category of inventory, changes to item master files are authorized based on the appropriate documentation/DOA.		
	A regular review of all database modification is performed e.g exception reports are generated and authorized.		
	Access rights are set-up and maintained according to appropriate segregation of duties and reviewed periodically.		
	Inventory Ledger is periodically scrutinized and authenticated.		
	Ordering levels are popped-up from system and orders placed accordingly.		
	Open Orders are tracked to avoid untimely and unwanted inwardation.		
	Inventory levels with Min./Max level is defined in system and exceptions are recorded/ reported.		

# Planning and Executing Internal Audit : Function Based- Inv. Mgmt.

Maintenance of physical stock/inventory		
1.Stock mix-up , 2.Stock discrepancies not noticed and mitigated,3.Uninsured stock,4.Un-reconciled stock,5.Un-updated stock position	All storage areas are locked/protected and regularly verified to avoid any mishap.	
	All items are visible/accessible for count, obsolete items and items with quality problems stored separately, storage ensures that two products cannot be mixed together i.e one item kept per place.	
	“Kardex” is maintained at the warehouse to indicate updated stock position.	
	Stocks are kept under insurance coverage and/or stock losses are realizable from the custodian.	
	Shelf life record is maintained for managing validity of the product usage.	
	Volume reconciliation for each type of stock is carried out and different categories of discrepancies are clearly identified (production/stock-take).	

# Planning and Executing Internal Audit : Function Based- Inv. Mgmt.

## Others

**1.Damaged stock not identified,  
2.Additional expenses with warranty  
period**

Material received in damaged condition or short receipt considered with proper qualified discharge on CN and/or short/damage certificates obtained from Carrier.

Warranty/Guarantee against the items are maintained in database for appropriate action/claim.

**Note : Since Inventory Management is the Function to be discussed , the Control aspects pertaining to it covered here with the audit program. Both existence of control as well as effectiveness to be measured against each of the checkpoint.**



# Planning and Executing Internal Audit – Quality Control

## Quality Control

Quality control at each of the stage indicates process adherence at each production activity as well as ensuring raw material (mix) is supportive to the grade of cement manufactured with desired applicable strength.

- Whether frequency of sample collection is adequate?

Whether sample quantity collected is sufficient for inspection?

Whether all samples are accompanied by "Sample testing request form" and entered in "Sample register"?

Whether testing is carried out as per standard QC manual & relevant work instruction?

Whether all purchase order contains quality norms and it is communicated to laboratory?

Whether all test results are recorded by Laboratory in appropriate register for further scrutiny/analysis?

Whether inspection reports are communicated to user department, Buyer/Purchases Dept.?

In case abnormal result found whether it is re-analyzed after reasonable revision in sample size before issuing 'failed' report?

# Planning and Executing Internal Audit – Quality Control

- In case of rejection, sampling frequency is increased / revised and maintained till the 'acceptance' of the product?
- Whether in case material is 'failed' during inspection ,the same is stored in a separate place & tagged clearly?
- Whether standard time limits for each type of test is defined, documented and adhered?
- Whether periodically samples are sent to external agencies to cross check the results?
- Whether all laboratory equipment calibration schedules is maintained and followed?
- Whether certificate of external agency is obtained about laboratory standards?
- Whether quality specifications required by customer is communicated in advance to production department for production planning?
- Whether customer's preferred specification is communicated to laboratory & such communication is available for verification?
- Whether quality related customer complaint resolution mechanism is available? Whether all quality related customer complaints are resolved in time and if not, it is escalated to higher authority?
- Whether all materials test certificates prepared by quality control laboratory are approved by Head - Laboratory?

# Planning and Executing Internal Audit – HR & Payroll

## Review of Engagement of Contract Labour

### *1. Assessment of requirement and approval*

- Whether skill profiles of labourers are available/maintained and Job Requisitions raised against the specific skill required.
- Whether Requisitions are raised with job description indicating requirement (number of heads) for manpower.
- Whether appropriate authority approves Job Requisitions.
- Whether comparison for excess/short engagement is traced, compared for deviations with reasoning.
- Whether Purchase/Service Orders are released against approved Requisitions.

### *2. Selection of Contractors and approval process*

- Whether standard order terms as to job nomenclature, payment terms etc. are maintained.
- Whether Contractors for a job is selected on competitive basis.
- Whether Contractor empanelment is done w.r.t –

a. Financial strength b. Past performance c. Market credentials d. Strength of workforce against each Contractor



# Planning and Executing Internal Audit – HR & Payroll

- Whether removal of the name of Contractor/s from Company's list of approved Contractors are documented and authorized by appropriate authority.

## *3. Labour identification and authentication*

- Whether each labour is traceable against identification/employment number with photograph.
- Whether HR and the engaging Dept. conduct periodical "parole" to identify dummy workmen.
- Whether inclusion/deletion of workforce are immediately notified and monitored by HR Dept.
- Whether transfer of workmen from one Contractor to another duly regulated.

## *4. Wage agreements and adherence*

- Whether systematic study as to rate contract (Minimum Wages as per statute) fixation is carried out periodically.
- Whether benchmarking with local rates for pricing/labour contract rate is carried out.
- Whether effectiveness of fixed rate schedule verified periodically and it's validated from time to time.
- Whether labour rate agreements with Unions against specific skill/trade etc. are validated from time to time.



# Planning and Executing Internal Audit – HR & Payroll

## *5. Fulfilment of safety requirements*

- Whether details of safety training to be imparted to Contract Workers with varied skill/ work engagement is documented.
- Whether Safety Dept. certifies the training completion of the workmen before allowing to work/job.
- Whether adequacy of safety requirements are validated from time to time for ensuring compliance.

## *6. Engagement – requirement vs. actual*

- Whether multiple Contractors are engaged in the same Job/job area.
- Whether rates applicable are benchmarked and applied for rate fixation.
- Whether ‘work permits’ are issued with predetermined strength required for the job.
- Whether work permits on job completion are signed-off and jobs in Contractor Bills be traced therefrom.
- Whether actual engagement is certified by the engaging Dept.?
- Whether same contractor is allotted job under ‘turnkey’ as well ‘labour supply’.
- Whether lower or higher engagement against requirements or extra time required/booked is compared and deviation with reasoning documented.
- Whether Gate Security certifies entry/exit of workmen and the same tallied with billing.

# Planning and Executing Internal Audit – HR & Payroll (Employees)

- Whether information related to appointment/transfer/resignations given to the outsourced vendor have been duly checked and authorized and accurately captured.
- Whether only approved employee details are forwarded to Payroll processing/ outsourced vendor
- Whether statutory deductions are made as per the minimum requirements set forth in law
- Whether all statutory deductions are made automatically through reviewed Salary Structure
- Whether differences in statutory deduction between last month & current month salary are scrutinized through variance report
- Whether all compensation related payments data are sent by HR Dept. and cross verified by Accounts
- Whether after updating by the outside vendor, the data is validated by accounts by scrutinizing the variance report
  - Whether retirement benefits like superannuation, PF ,gratuity computation is authorized by appropriate authorities
  - Whether retirement benefits are given as per the Company's policy
- Payment statement is authorized by Manager-Accounts before payment is released
- Whether the amount disbursed matches with salary computed by outsourced vendor
- Whether salary is credited to the bank account of the employees as per list /sent by outside vendor and tallied

# Planning and Executing Internal Audit – HR & Payroll (contd.)

- Whether Manager Accounts checks the list and authorizes and releases the payment through E payment system
- Whether salary payment is released through two authorized signatories
- Whether the list of signatories does not have resigned/retired employees name
- Whether salary list has names, bank account number and net pay of the employees
- Whether internet access system is given to employees of outsourced vendor handling salary processing account
- Whether intrusion detection system is in place at outsourced vendor/in-house processing Team
  - Whether back up of payroll data is taken on a daily basis by outsourced vendor /in-house Team and kept at different location
  - Whether non-disclosure agreement has been signed by all employees of the outsourcing vendor handling client account
- Whether salary related complaints are resolved within 7 days in all cases
- Whether copy of appointment letters are sent by HR Dept. to Accounts dept. as well as the outsourced vendor.
  - Whether Accounts Dept. checks the data and verifies it with uploaded data in SAP/other ERP
- Whether date of joining is uploaded in SAP /ERP by HR department and is sent to the outsourced vendor as per the appointment letter based on which proportionate salary for the month is processed.



# Planning and Executing Internal Audit – HR & Payroll(contd.)

- Whether appointment letters are issued by authorized persons
- Whether details of final settlement such as gratuity, leave encashment given by personnel dept.
- Whether PF and SA calculation checked and all outstanding dues recovered from the final payment
  - Whether the amount of final settlement duly authorized
  - Whether information regarding separation of employee is sent to outsourced vendor for final settlement on a monthly basis
- Whether the SAP/ERP/System Data is updated for resigned employees immediately after last date
  - Whether all Transfer related data is updated along with change in cost centre in SAP immediately on the date of new reporting
- Whether the information regarding transfer given to outsourced vendor immediately with effective date
  - Whether transfer letters are issued by authorised persons
  - Whether attendance details are captured correctly and on a timely basis
  - Whether leave details are submitted in a proper format and is captured correctly
  - Whether leave and out of office travel is updated on a monthly basis
  - Whether balance leave is carried forward as per company policy
- Whether calculation of balance leave is done correctly and verified

# Planning and Executing Internal Audit – HR & Payroll (contd.)

- Whether all leave details including leave without pay is informed to the outsourced vendors on monthly basis
- Whether overtime rates fixed are as per law
- Whether all overtime sheets are approved by appropriate authority
- Whether calculation of perquisites of employees is done correctly and is verified
- Whether the calculation of bonus is done accurately and as per company policy
- Whether the calculation is verified by Accounts Dept.
- Whether the bonus amount is updated by the outsourced vendor accurately and paid with salary
- Whether bonus is disbursed to all employees on time
- Whether the changes in compensation structure is informed to the outsourced vendor on time
- Whether the variance report is checked for the inclusion of amended salary structure by Accounts Dept.

# Planning and Executing Internal Audit – HR & Payroll

Whether loans and advances are accounted correctly in books immediately

Whether deductions for loans and advances is intimated to the outsourced vendor

Whether the deductions are verified by the Accounts Dept.

Whether annual confirmation of outstanding loans and advances is taken before finalisation of accounts

Whether TDS is calculated and deducted as per declaration submitted by employee

Whether proofs of investment are submitted by the employees against the declaration

- Whether TDS is deducted for all employees on timely basis
- Whether the TDS deducted is deposited with the authorities on timely basis -before due dates
- Whether TDS return is filed on quarterly basis without default
- Whether TDS is correctly accounted in the books



# Planning and Executing Internal Audit

## ☐ Knowledge of Business and Industry

Any Industry is dominated by four 'M's viz. Man, Machine, Materials and Money; Cement Industry is also no exception in this regard. The aforesaid four basic inputs coupled with Outputs create Operational Systems/Processes /Activities for the Industry. Each such Operational System is again conglomeration of many sub-systems /activities.

## ☐ Operations and Process understanding

Operations and Process of Cement industry discussed hereunder

## ☐ Internal Audit Programme

## ☐ Internal Audit questionnaire and check-list

## ☐ Audit Conclusion and corrective measures



Microsoft Edge  
PDF Document

# Internal Audit Charter --Contents

- Mission and Purpose
- Responsibilities of Management
- Scope of Internal Audit function
- Internal audit's purpose within the organization
- Internal audit's authority
- Internal audit's responsibility
- Internal audit's position within the organization
- Reporting
- Relationship with external auditor

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# Audit Charter – Sample(Contd.)

## 1. Need for Internal Audit Charter

Charter is the cornerstone for building a robust assurance function within an organization. It's the pivotal document that sets the philosophy / tone of the function and makes it operational in discharging its responsibilities. This Charter aims to institutionalize the duties, reporting lines and protocol of Assurance Team.

The Charter provides the framework in which Assurance Team operates, its objectives, interface with businesses audited, overview of the procedures followed in Assurance function, and remedies to issues and challenges.

An equally important component of this Charter is Assurance Team's engagement with the Review Committee and Audit Committee to various companies audited by the Team.

## 2. Objectives of Assurance Team

The primary objective is to serve as an oversight function that objectively evaluates and recommends improvements to the Company's internal control structure through a risk based audit approach.

Essentially, the broad objectives of are:

- a. Build an IA structure which encompasses all levels of Controls, Governance, Business Process and risks as well as transactional controls.

# Audit Charter – Sample(Contd.)

## 1. Vision and Mission Statement

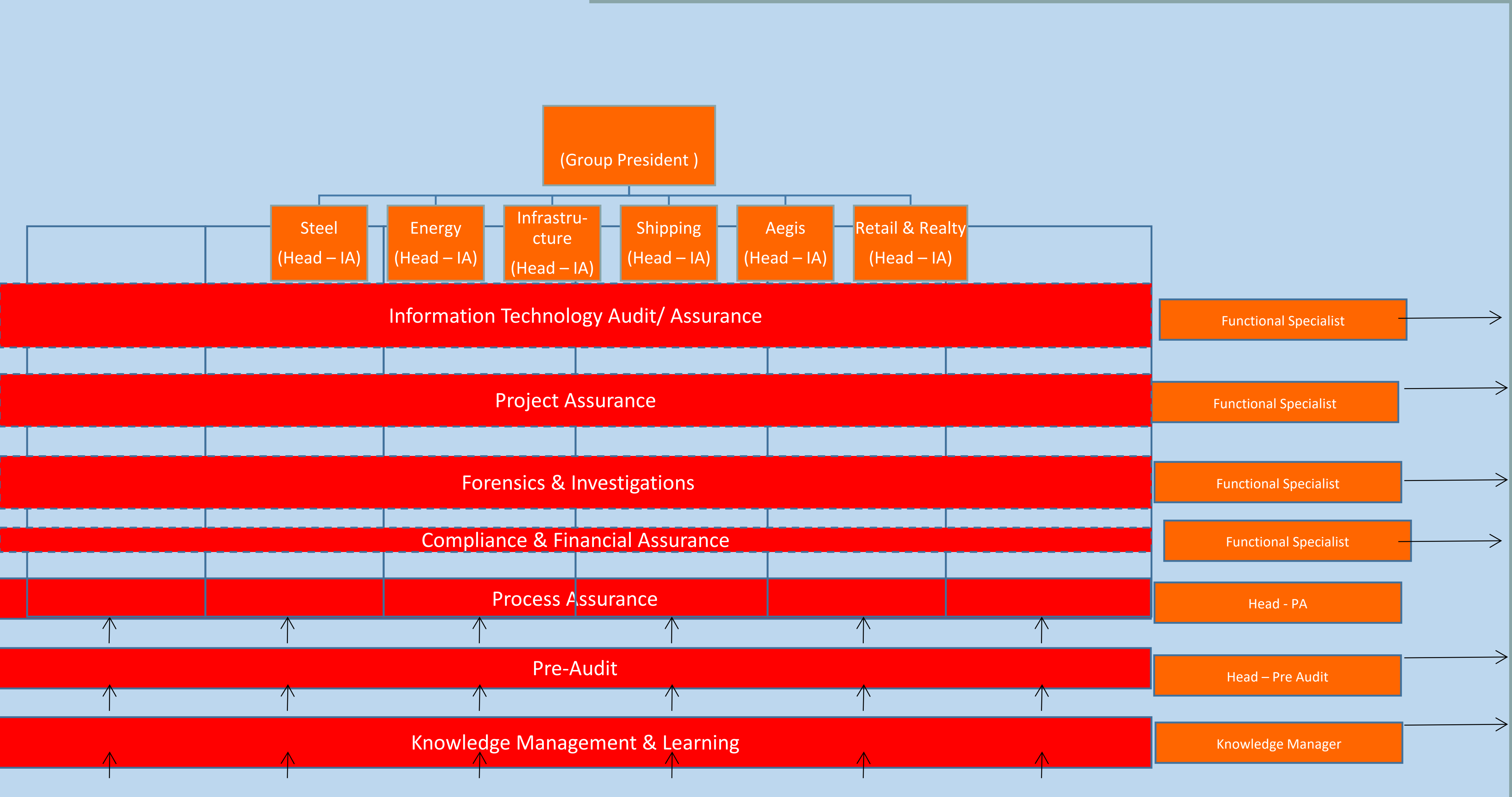
To establish an audit function that is truly reflective of entity's Vision of being “respected global entrepreneur, through the power of Positive Action”.

We believe in aligning the Assurance Team's vision through robust audit practices powered by:

- Systematic planning and approach;
- Engagement and involvement with the auditees and various stakeholders; and
- Knowledgeable, proactive and world class resources.

Assurance Team provides “Control Assurance” to Management embedded with “Business Consulting” to enhance the performance of the organization and stakeholders' value.

# Audit Charter – Sample(Contd.)





# Audit Charter – Sample(Contd.)

## Role of Assurance

- Assurance is an independent body that performs internal audit of various group companies as per the internal audit plan and calendar agreed with the respective Management and/or Audit Committees of these companies.
- Assurance Team reports directly to the Audit Committees of various companies audited by it and the Review Committee.
- This Charter represents the general authorization from Promoter Directors, Company Management and Audit Committees to conduct internal audits of Group entities.
- The specific authorization to perform the scope of work is according to the Internal Audit Plan approved by the Audit Committee annually.
- The scope of work contained in this plan will be based on joint assessment by Assurance Team and Management of the inherent risks and the significance of these risks in terms of its likelihood and impact to the business. Internal audit coverage focuses on risks that are significant to the organization.
- A typical internal audit carried out by the Team is to ascertain the risks in achieving process objectives and assessing the appropriateness of management's response to address these risks.
- They may also carry out special reviews or investigation on request from Management or Audit Committee or Review Committee.

# **Audit Charter – Sample(Contd.) Responsibility**

- Assurance team will be primarily responsible for ensuring that all the audits are carried out as per the approved audit plan and special requests of the Management.
- Assurance team's functional review will be carried out by the oversight committee, namely, Review Committee.
- Team will execute the audit under the direction and supervision of the Group President.
- An audit report summarizing the exceptions noticed during the course of audit review will be circulated as per the distribution list by the Business Audit Lead.
- Assurance will be responsive to the company's changing needs and will strive for continuous improvement and maintain integrity in carrying out their activities.
- A representative from Assurance will be present for Audit Committee meetings (including Management Audit Committee {MAC}) to discuss key findings and matters requiring attention of the Audit Committee.
- Assurance will not be responsible for implementation of the action plan agreed by the Management.
- Assurance will, suo moto, interact with the statutory auditors for matters requiring inputs from them or on request from the auditors or the Management. (All internal audit reports released by Assurance will be submitted to the statutory auditors by the Management only, unless formally requested by Management to release it from Assurance).
- Group President shall have the discretion to roll-out policies and procedures best suited to the function.

# Audit Charter – Sample(Contd.)

- **Team members will ensure “Confidentiality” of data / record / information at all times and there is no sharing of information to internal or external parties without formal approval of Group President and/or the Management.**
- **Assurance will appraise Management of non-availability of data / records / response and seek necessary guidance on way forward.**



# Audit Charter – Sample(Contd.)

## Management's responsibilities

- **Management will be responsible for risk management, and laying down business processes and internal control structure. Assurance Team shall only review these and can raise concerns or suggest improvements to the Management. They will not play Management role in designing, implementing, monitoring and evaluating the right procedures, controls or systems for the organization.**
- **Management shall make available all resources, people, systems, records, etc. to ensure smooth conduct of audit. Management shall not limit or restrict access to work papers, records and systems.**
- **Management shall be obligated to respond to inquiries and recommendations, formal and informal, in a timely and diligent manner.**
- **Management will provide periodic update on the implementation of action plan , which will be presented to the Audit Committee (including MAC) and Review Committee.**
- **Management shall be responsible for inviting the concerned Business Audit Lead and Group President for the Audit Committee meetings.**



# Audit Charter – Sample(Contd.)Scope and Coverage

- Team shall have uninhibited and complete access to all records, data, information, documents, systems and personnel for discharging its audit duties / objectives.
- Assurance shall have audit documentation tool to preserve the documents, records, information, etc. that were collected to support the reported conclusions and observations.
- Team shall be independent of the Management of entities audited and will have reporting line to the Audit Committee of each of these companies.
- Team will work closely with Management to identify and assess risk and control, which will assist them in the effective discharge of their responsibilities, while maintaining their independence.
- Team may time-to-time advise Management on existing and evolving corporate governance, risk management and compliance practices prevalent and may suit to the organization. Team shall not serve as a substitute for management control, since an adequate internal control structure should not necessitate the performance of any audit.
- Team will not review areas where they were responsible for the design or implantation of a process or system.

# Audit Charter – Sample(Contd.)Scope and Coverage

- Team shall not assume organizational responsibilities or authority outside the department, and not perform management functions, procedures, reviews or render organizational decisions. Similarly, the Internal Audit Department shall not in any way utilize its resources to relieve or subsidize other persons or functions in the Company.
- Team will keep abreast of relevant best practices and new developments affecting their work, and in matters affecting the organizations audited.

# Audit Charter – Sample(Contd.)

## Operations by Assurance Team



# Audit Charter – Sample(Contd.)

The Team will perform a detailed Risk Assessment as a part of the Audit Planning process.



Assurance Team's role in terms of Risk Management are:

Giving reasonable assurance on the correctness of risk evaluation; Review the process of tracking and communicating risks; Reviewing the process of treating key risks by the Management; Participating in discussions and advising on risk management matters, but not discharging any duties or functions of risk management

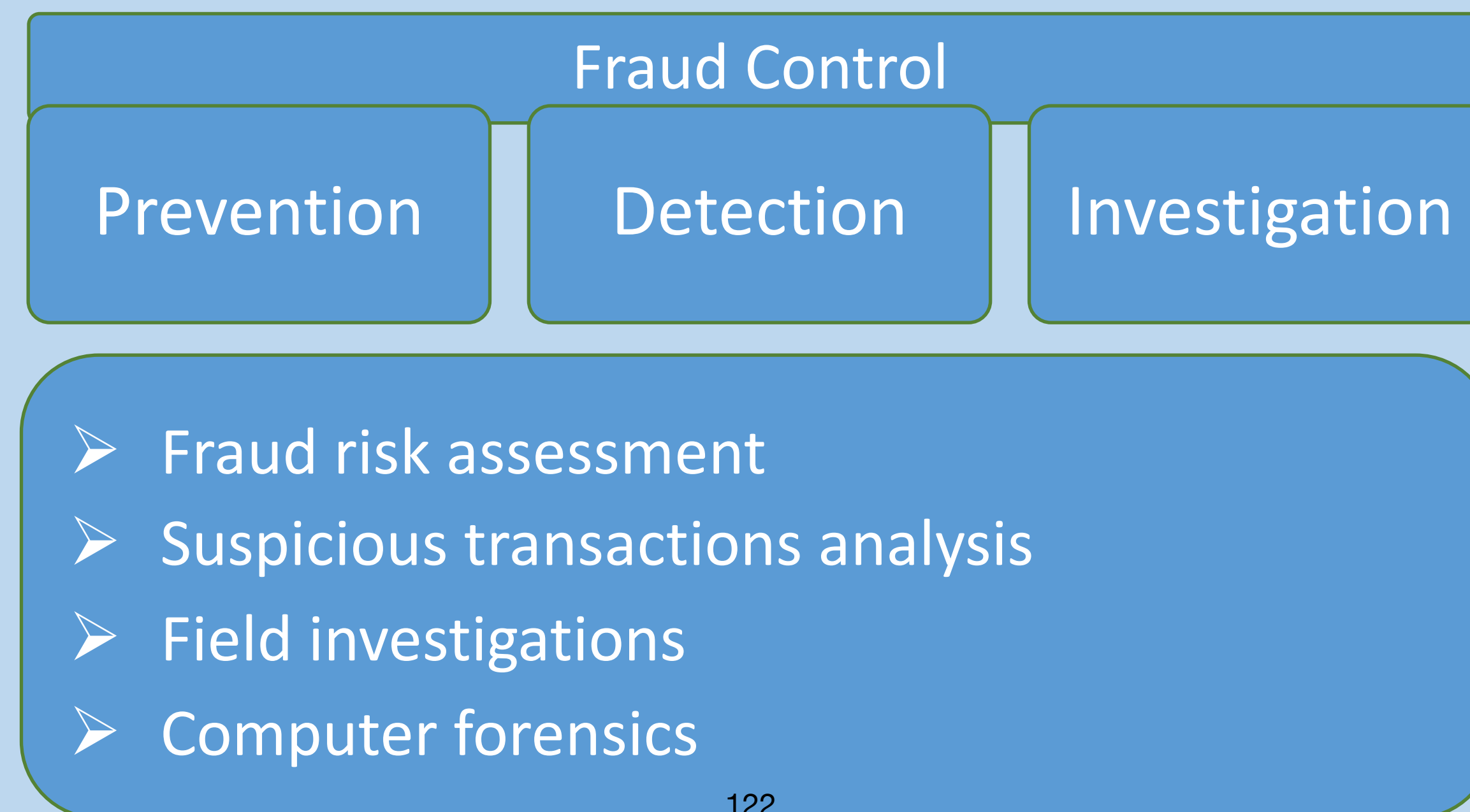


# Audit Charter – Sample(Contd.)

Identification and reporting of fraud during the course of audit reviews will be done and the team will deploy the resources (internal or external) with requisite skillsets to conduct review of suspicious or fraudulent transactions either suo moto or on formal request from Management or an empowered Committee.

Assurance team will review and evaluate the fraud management framework established by Management of each group companies.

A graphical representation of Team's involvement in fraud control is given below:



# Audit Charter – Sample(Contd.)

## Audit Committee Meetings

- Audit Committee can be either:
  - Management Audit Committee; and
  - Board Audit Committee.

### Management Audit Committee meeting

- A MAC meeting is held prior to the AC for discussion with company's Management on key issues to be presented to the Board Audit Committee. A MAC meeting, therefore, has to be held quarterly.

**Note:** In certain businesses, MAC meetings are not held and the reports are directly discussed in the Board Audit Committee meetings.

- MAC also serves as a forum for the company's Management to provide their explanation or clarification on the audit observations that are being presented.
- A MAC can provide guidance to the audit team on any additional work to be performed or to overcome any issues or hassle while conducting the audit.
- MAC meetings will be attended by the Business Audit Lead and Group President. In addition, any team member may attend the meeting with approval from Group President.

# Audit Charter – Sample(Contd.)

## Board Audit Committee (AC) meeting

- Review of internal audit and internal controls is one of the agenda items during the AC meeting.
- Board Audit Committee meeting will be convened by the concerned business at least once in a quarter for which the Assurance team will be invited.
- Assurance will be represented at least by the Business Audit Lead and Group President.
- A summary of key observations and other audit related matters will be presented to the Audit Committee.

# Audit Charter – Sample(Contd.)

## Review Committee

- Functional review of the performance for each month is carried out by the Review Committee.
- Review Committee provides guidance for handling any matters that has reached an impasse or can ask for special reviews to be conducted or can seek additional information on matters reported.
- Review Committee can co-opt or through Group President invite any additional member, if it deems necessary.
- Monthly operations report is submitted to the Review Committee members, which is discussed during the monthly meeting.
- Minutes of Review Committee meeting is circulated along with the actionable, the status of which is to be reported in the ensuing meeting.



# Approvals, Acceptance and Amendments

The signatures below signify approval of the GACC Review Committee and acceptance by Group President-GACC.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Member- Review Committee

Signature \_\_\_\_\_ Date \_\_\_\_\_

Member- Review Committee

Signature \_\_\_\_\_ Date \_\_\_\_\_

Group President

## Amendments

Amendments shall be signed by persons consistent with those authorizing this original Charter to be effective.

# Role of Internal Auditor as Management Member

- ✍ Internal Auditor can be an employee of the entity/Organization designated for performing Internal Audit.
- ✍ Firms and Consultants can also be appointed to perform the function of Internal Auditor.
- ✍ Persons can also be hired on Contractual basis to conduct Internal Audit ( IA).
- ✍ Reporting relationship for the employee internal auditor can be as per Organizational hierarchy.
- ✍ The employee internal auditor is accountable to Audit Committee (AC).
- ✍ Independency is a challenge while serving the entity and reporting to AC
- ✍ A clear job profile for the internal audit role need to be in place for the IA Team.
- ✍ Multiple tasks of the appointing entity having conflict of interest as internal auditor should not be taken up.
- ✍ Should not take part in management decisions, however, can guide the decision making process.
- ✍ Eyes and Ears of Management, developing foresight of Audit Committee.

# Role of Cost Accountant as Internal Auditor

- **Companies Act 2013 u/s 138(1), specifically provides an opportunity to Cost Accountants/Firm of Cost Accountants , who can function as an Internal Auditor , if otherwise not been found disqualified.**
- **The Cost Auditor is supposed to comment on adequacy of Internal Audit under Cost Accounting Record Rules 1968, hence he can not be appointed as Internal Auditor for the said period.**

# Management Audit

- ❑ The two words **Management** and **Audit** creates a new word ‘ **Management Audit**’. The newly formed word exactly answers the most pertinent question-why management audit is necessary for an organization? They are *efficiency* and *profitability*.
- ❑ *Management Audit is a future-oriented, independent, and systematic evaluation of the activities of all levels of management for the purpose of improving organizational profitability and increasing the attainment of the other organizational objectives through improvements in the performance of the management function, achievement of program purpose, social objectives and employees’ development. -The Institute of Internal Auditors Inc.*
- ❑ **Objectives of Management Audit:**
  - ◆ It helps management in setting sound and effective targets.
  - ◆ It suggests management in getting desired results and revealing any defects and irregularities in the process of management.
  - ◆ Management audit helps the management in the effective discharge of their duties.
  - ◆ It helps in the coordination of various departments.
  - ◆ It facilitates the training of personnel and marketing strategies.
  - ◆ It also helps in comparing inputs with outputs.
  - ◆ It ensures strong relations with outsiders.
  - ◆ It also helps in ensuring that the organization has the most efficient internal organization.



# Qualities of Management Auditor

- ☐ A management auditor should have good knowledge and experience of Managerial Functions.
- ☐ An Auditor should have good knowledge of financial statements analysis techniques.
- ☐ An auditor should know human resource accounting and social accounting.
- ☐ He who knows about economics and business laws, etc.
- ☐ He should be through in understanding operational ( Production, Sales ) aspects.
- ☐ Understanding the working of the organization and its problems is also required.
- ☐ An Auditor should have sound knowledge of preparation and understanding of financial statements.
- ☐ He should know and understand the objectives of the organization very well.
- ☐ He should understand planning, budgets, rules, and procedures to be applied in management.
- ☐ He should be well-versed with the entire production process.
- ☐ He should have enough knowledge and experience to understand the reason behind the lack of coordination between different departments.
- ☐ He should have the quality of giving practical and achievable solutions to the problems in the organization.

## Role Of CMAs in Management Audit (MA)

A Management auditor should have the following specific qualities:

- i. Ability to understand and gauge business problems.
- ii. General understanding of the organization.
- iii. Expert knowledge on the principle of delegation of authority, management by objective, management by exception, management planning and control and the different budgetary systems, and those of internal control devices (viz. flow chart, the flow of work, analysis of work schedules, etc.,).
- iv. Sufficient knowledge and experience in preparing various reports for presentation.
- v. General understanding of different laws-General laws, Company law, Tax laws FEMA, etc. that affect the functioning of the whole of the organization.
- vi. Background knowledge about-Engineering, Statistics, Costing, Management accounting, financial accounting, industrial psychology, Managerial economics, etc.
- vii. Tactfulness, perseverance, and lastly-pleasing and dynamic personality.

# MAP ( Management Audit Program)

A management audit program is an essential prerequisite to conducting the audit. It is a plan of action drawn in advance of taking up the audit, and to help the auditor to cover the entire area of his function thoroughly. He should lay down for himself a proper procedure to be followed to complete the work in time, giving thorough coverage to all aspects. An efficient management audit program shall comprise the following:

- (i) Review of the Organizational objectives and plans
- (ii) Study of the policies and practices of the management.
- (iii) A critical review of the organizational structure
- (iv) Study of the systems and procedures
- (v) Evaluation of operations
- (vi) Study of the efficiency of the use of physical resources available
- (vii) Exercise of proper management control
- (viii) Maintain a suitable monitoring system through a management information system (MIS)
- (ix) Check on adherence to the statutory obligation and
- (x) Above all, review the efficiency of manpower handling, which ultimately results in the organization's effectiveness.



# MAR ( Management Audit Report )

## **Management Audit Report (MAR)**

It is important to prepare a good MAR. A good MAR can motivate the management and get the required results.

## **Characteristics of a good management audit report**

The detailed characteristics of a good management audit report can be summarized as follows :

- (i) Pertinence
- (ii) Comprehensiveness
- (iii) Brevity
- (iv) Timeliness
- (v) Motivating
- (vi) Formatting



# Reporting Format (Audit Report) with Risk categorization-

Critical /High(****)	High frequency and high magnitude
Important/Medium (***)	High magnitude and low frequency
Others/Low	High frequency and low magnitude
	Low frequency and low magnitude

Observation / Recommendation / Action Plan	Impact / Concern
--	------------------

Background :

<u>Heading</u>  <u>Observation</u> • <u>Recommendation</u>  <u>Action Plan</u>  <u>Responsibility:</u> Implementation Dt.	<u>Financial /Operational Risk</u>
--	------------------------------------

<u>Heading</u>  <u>Observation</u> • <u>Recommendation</u>  <u>Action Plan</u>  <u>Responsibility:</u> Implementation Dt.	<u>Financial /Operational Risk</u>
--	------------------------------------

# Observation Categorization criterion:

## “ **Critical/High Risk** ”

Loss value/opportunity loss/cost impact exceeding Rs.50 Lacs or more  
Statutory non-compliances including Accounting Standard  
Major process lapses leading to unauthorized transactions  
Identified fraud, defalcation etc.

## “ **Important/Medium Risk** ”

Loss value/opportunity loss/cost impact of less than Rs. 50 Lacs  
All IT related lapses and transaction deviations  
Absence of any Benchmarked and/or Process improvement initiatives

## “ **Others/Low Risk** ”

‘Nice to be issues’ under “Other” heading  
Desirable improvements  
Residual clause i.e issues not falling under “Critical” and/or “Important”

# Report Writing Guideline:

## What is a Report

“Account given or opinion formally expressed after investigation or consideration or collation of information” **(The Concise Oxford Dictionary)**. Report is the communication of Auditor’s view point /expression of opinion to the appointing authority/Users of audit information on conclusion of an audit assignment/Review backed by proper analysis of data/events. Such assignment could be periodical, Operational (Review of operations) and/or event based. A key thing to keep in mind, right through Report writing process is that a report written to be read, by someone else i.e ‘intended audience ‘. The audience includes -

- Immediate Auditee
- Head Of Department/Function
- Reviewing Authority at HO ( if any)
- Top Management of the entity
- Management Audit Committee ( Few entities having such forum)

# Report Writing Guideline: (Contd.): Basic Assumptions

- There is no RIGHT way to express or WRITE REPORT
- Try to express facts ,not impress
- WRITING effectively is a skill and art, which can be LEARNT
- Successful Audit Reports do not pull any punches or blindside recipients. A tactful approach can lead to a satisfying, constructive outcome for all parties involved.
- One can catch more flies with Honey than with Vinegar



# Report Writing Guideline: (Contd.): Some tips for Report writing

- Wear the cap of auditee
- Write for your audience
- Do not present problems, be part of solution
- Stay away from Jargons ( Do not write “ CTR to be addressed to Regulator for KYC /AML Compliance “)
- Issues/points/Bullets must be in seriatim of importance
- Clear and concise uses of short sentences and simple words (not verbose)
- Appropriate Caption (10 to 15 words) representing the issue
- Present each issue in separate bullet point
- Only relevant paragraphs under the same bullet
- Write max.3 - 5 lines for each observation/bullet

# Report Writing Guideline: (Contd.): Some tips for Report writing

- Avoid wordiness, Maximum 12 - 15 words in each sentence
- Recommendation, with Probable solutions after detailed analysis
- Be Positive ( Use of 'was to be there' instead of 'was not there' ) e.g ( Log Sheet to validate 'car running' expenses was not there instead " Log Sheet to validate 'car running' expenses was to be there )
- Use Active Voice (minimum use of passive)
- Provide objective evidence
- Use correct grammar and spelling
- Use graphs (pie-charts, tables, etc.) wherever necessary
- Specify sample size and deviation value/volume at stake
- Mention 'root cause'
- Minimize the length of sentence ( e.g under the present scenario –prevalent )
- Avoid abbreviations e.g GRN = Goods Receipt Notes
- Analyze your audience to decide on the best Report format
- Develop a central message
- Newspaper like headline that would accurately summarize key issues of the Report

**Do not present problems, try to provide practical solutions. Remember Internal Auditors are solution providers.**

# Report Writing Guideline: (Contd.): Avoidable matters

## ✓ **Use of abbreviations**

For repetitive use first time abbreviated form to be described and subsequently abbreviation can be used (GRN = Goods Receipt Note)

## ✓ **Unnecessary sharpness/implication drawing/ sensitizing**

Information on travel exp. is not always accurately recorded in the General Ledger which has an impact on quality of information and accounts

## ✓ **Too few facts (and too little research) for drawing of conclusions**

Non-payment of ESI – The main reason to enter into a new agreement was ESI & PF but during the course of audit no such details ( ESI No. of individual employees) could be provided by the Contractor. Even after repetitive queries we have not received the required details. The Contract need to be cancelled.

## ✓ **Recommendations/Opinions not clearly identified as opinions/ recommendations**

Administration Dept. should report after examining the past records as to whether any misappropriation has been done in the past also.

## ✓ **Desire to please recipient/auditee**

While verifying mobiles provided by Company to employees ,we found that other number mentioned in the list was available with other employee or mobile was switched off.

# Report Writing Guideline: (Contd.): Avoidable matters

- ✓ **Lacking of action orientation and managerial viewpoint**  
Explanation for non-preparation of BRS is required from Regional Accts.
- ✓ **Blunt approach**  
The average attrition of employees in the Co. is quite high in comparison to country average
- ✓ **Failure to identify cost / benefit relationship of recommendations**  
Effective loyalty program or retention initiative to be taken by the Dept. to create long lasting impact on Company product range.



# Report Writing Guideline: (Contd.): RCA-Root Cause Analysis

**Issue: Price escalation claimed by Vendors due to delay in payments over stipulated days**

## **Reasons Identified:**

- ❖ Delay in acceptance of material
- ❖ Delayed in Quality certification
- ❖ Delay in raising Goods Receipt Note ( GRN)
- ❖ Delay in sending bill alongwith GRN to Payment Section
- ❖ Delay in processing payments
- ❖ Fund problem for which payment release not made
- ❖ Absence of Signatories
- ❖ Despatch section unmanned to attend cheque despatch

## **Action Plan to follow/emanate from root cause and owners to be identified accordingly**

- a. Delayed quality certification- In the absence of any in-house testing facility, materials are sent to Local University Laboratory. The Laboratory returns the sample with test result fortnightly.

Action Plan: Capex need to be sanctioned for in-house test facility.

- b. Delay in processing payments- All payments are processed from HO. Bills alongwith Challan, certified GRN forwarded to HO. After completion of necessary checking and posting, bills travelled back to Unit for drawing cheques.

Action Plan: Bill passing and payment processing need to be decentralized to avoid multiple movement of documents.

# Report Writing Guideline: (Contd.): Few Examples \*Only green

- The Company gives many benefits to employees including being able to park car in the underground parking lot, 2 weeks of paid vacation each year, and employee discount on all merchandise. Also they can use the club facility for free.
- The Company gives following benefits to employees :
  - Underground parking
  - Two weeks of paid vacation per year
  - Employee discount on merchandise
  - Free club facility
- Serial numbering of the forms would help in tracking the applications received for digital certificates.
- Serially numbering the forms helps to keep the track of applications received for digital certificates.
- Finalization entries were not passed in the System till May 28, 2009 due to problems faced in entering back dated vouchers. This resulted in delay in accounts closure.
- Finalization entries were not passed in the system till May 28,2009 ;due to problem faced in entering vouchers with back date which resulted in delay in closing Accounts.

# Report Writing Guideline: (Contd.): Few Examples \*only green

- Difference between the amount sanctioned and the amount actually spent on the project.
  - Major deviation from the budgeted cost of the projects has been observed in 11 cases during our audit. The difference in the expenditure varies from 40% to 77% in 7 of these cases. Details are given in Exhibit-VI. Further there is no system for analyzing the causes of difference between the budgeted expenditure and the actual expenditure
  - Sanctioning of budgets in excess of actual requirements diverts the application of funds. Also there are chances that because of excess funds sanctioned for any particular project, some other projects may not be approved on account of shortage of funds. Further, there is a tendency of spending carelessly when the budget amount is sanctioned without thorough analysis of actual requirements.
  
- Variation in the budgeted vis-à-vis actual Project cost
  - Variation in the budgeted vis-à-vis actual project cost in eleven projects (73% of total projects) ranged from favorable variance of Rs. 3 lakh (10%) to adverse variance of Rs. 45 lakh (77%).
  - The system of documenting variances between budgeted & actual cost with reason-wise analysis needs to be introduced.
  - This highlights the need to re-look at the budget finalization process, as mis-match in budgeted and actual cost could result in paucity of funds to a few projects or delay in project execution due to cost overrun.

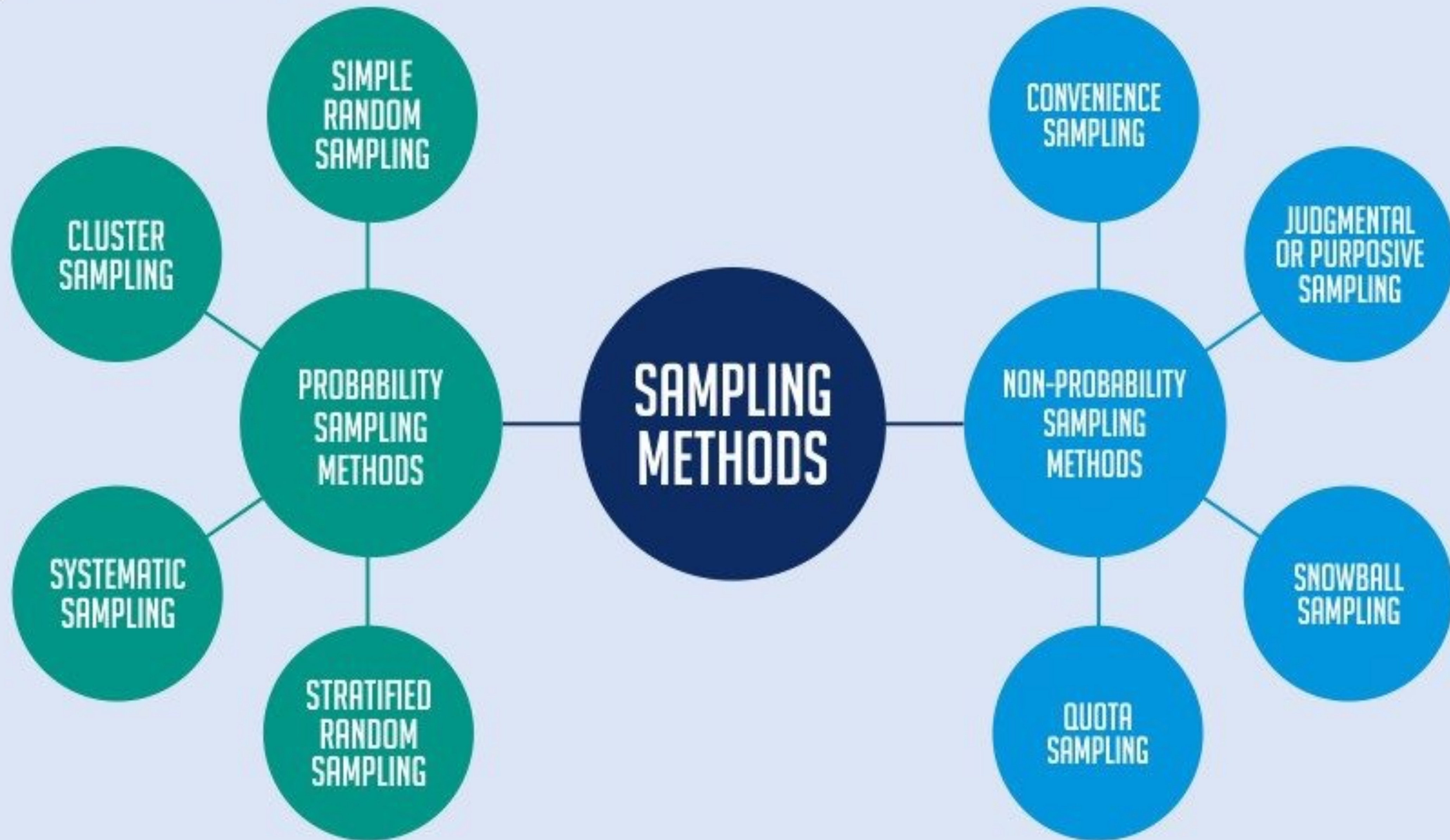


# Report Writing Guideline: (Contd.): Few Examples

- For the year 2019-20, production losses resulting to contribution loss of Rs. 2945 lakhs was reported due to non-availability of steam and power.
- Production loss on account of non-availability of steam and power resulted into contribution loss of Rs 2945 lakhs.
- Since condensing of steam leads to loss of energy, utilisation of it has to be kept minimum.
- To reduce loss of energy, utilization of condensed steam has to be kept minimum.
- The expenditure of Rs.51.66 lakhs incurred by the company on behalf of COM for community development (other than the annual grant of Rs. 41.81 lakhs) has been booked during 2008-09 under various expense heads other than community welfare expenses without giving any disclosure.
- Rs 51.66 L was incurred for community development on behalf of the Co. (in addition to the annual grant of Rs. 41.81 L). Instead of booking under 'Community Welfare Expense', it has been taken to various other heads.
- High-pressure steam when fed into the topper turbines, generates power as well as gives low pressure steam. Average leakage in turbines for the year Aug'18 to Mar'19 were in the range of 2.69% to 7.83% (Average 5.16%) against the norm of 1%.
- High-pressure steam are fed into toper turbine, which generate power and residual low pressure steam. The set norm for expected leakage in turbine is 1%. However, on average, the actual has been increased to 5.16% ranging between 2.69% to 7.83% during the period of August, 2018 to March, 2019.



# Use of sampling Techniques





# Use of sampling Techniques

1. **Probability sampling:** Probability sampling is a sampling technique where a researcher sets a selection of a few criteria and chooses members of a population randomly. All the members have an equal opportunity to be a part of the sample with this selection parameter.
2. **Non-probability sampling:** In non-probability sampling, the researcher chooses members for research at random. This sampling method is not a fixed or predefined selection process. This makes it difficult for all elements of a population to have equal opportunities to be included in a sample.
3. **Cluster sampling:** Cluster sampling is a method where the researchers divide the entire population into sections or clusters that represent a population. Clusters are identified and included in a sample based on demographic parameters like age, sex, location, etc. This makes it very simple for a survey creator to derive effective inference from the feedback.
4. **Systematic sampling:** Researchers use the systematic sampling method to choose the sample members of a population at regular intervals. It requires the selection of a starting point for the sample and sample size that can be repeated at regular intervals. This type of sampling method has a predefined range, and hence this sampling technique is the least time-consuming, e.g every 10<sup>th</sup> item of the population is selected out of 5000 items .

# Use of sampling Techniques

5. Stratified random sampling: Stratified random sampling is a method in which the researcher divides the population into smaller groups that don't overlap but represent the entire population. While sampling, these groups can be organized and then draw a sample from each group separately e.g a researcher looking to analyze the characteristics of people belonging to different annual income divisions will create strata (groups) according to the annual family income range. By doing this, the researcher concludes the characteristics of people belonging to different income groups. Marketers can analyze which income groups to target and which ones to eliminate to create a roadmap that would bear fruitful results.

6. Convenience sampling: This method is dependent on the ease of access to subjects such as surveying customers at a mall or passers-by on a busy street. It is usually termed as convenience sampling, because of the researcher's ease of carrying it out and getting in touch with the subjects e.g startups and NGOs usually conduct convenience sampling at a mall to distribute leaflets of upcoming events or promotion of a cause – they do that by standing at the mall entrance and giving out pamphlets randomly.

7. Judgmental or purposive sampling: Judgemental or purposive samples are formed by the discretion of the researcher. Researchers purely consider the purpose of the study, along with the understanding of the target audience. For instance, when researchers want to understand the thought process of people interested in studying for their MBA Course. The selection criteria will be: “Are you interested in doing your MBA ...?” and those who respond with a “No” are excluded from the sample.



# Use of sampling Techniques

8. Snowball sampling: Snowball sampling is a sampling method that researchers apply when the subjects are difficult to trace. For example, it will be extremely challenging to survey shelter-less people or illegal immigrants in India. In such cases, using the snowball theory, researchers can track a few categories to interview and derive results. Researchers also implement this sampling method in situations where the topic is highly sensitive and not openly discussed—for example, surveys to gather information about HIV (Aids) patients. Not many victims will readily respond to the questions. Still, researchers can contact people they might know or volunteers associated with the cause to get in touch with the victims and collect information.

9. Quota sampling: In Quota sampling, the selection of members in this sampling technique happens based on a pre-set standard. In this case, as a sample is formed based on specific attributes, the created sample will have the same qualities found in the total population. It is a rapid method of collecting samples.

10. Simple random sampling: One of the best probability sampling techniques that helps in saving time and resources, is the Simple Random Sampling method. It is a reliable method of obtaining information where every single member of a population is chosen randomly, merely by chance. Each individual has the same probability of being chosen to be a part of sample. For example, in an organization of 5000 employees, if the HR team decides on conducting team building activities, it is highly likely that they would prefer picking chits out of a bowl. In this case, each of the 500 employees has an equal opportunity of being selected.



# **Use of sampling Techniques : Auditing in Depth**

Closely associated with Sampling is the technique of 'auditing in depth'. It means a detail step-by-step audit performance of selected transaction/s tracing all the links from beginning to end.

As for example, Purchase Invoice Selected for 'auditing in depth'. The following checks to be carried out-

1. PR – Purchase requisition
2. RFQ – Request for Quote
3. PO – Purchase Order
4. DC - Delivery Challan
5. GRN – Goods Received Note
6. QAR – Quality Assurance Report
7. Bin Card & Stores Ledger
8. Payment Voucher

# Use of Technology in IA : Maximum with Minimum

- 1. Digital technologies and advanced analytics are helping Internal Audit to improve its performance. They allow internal auditors to test an entire population rather than just a sample of transactions, with significant cost savings and more accurate results.**
- 2. Increasing business complexities transforming the way entities do business, creating a new landscape of internal controls and risk management. Large-scale digital platforms are changing business processes from end to end, and the boundaries with customers and business partners are becoming blurred. These developments are shifting control points across organizations and demanding more proactive approaches from internal auditors.**
- 3. Routine and repetitive tasks can be performed faster , which gives audit team members to go for more value additive performance. Difficult tasks , with complex formulas and dependency on datum from many sources can be aligned for quick and accurate results.**
- 4. New technologies cause the three “lines of defense (LOD) ” in assurance – line management, compliance and risk management and internal audit – to encroach on each others’ responsibilities. Collaboration among these lines of defense is important, for maintaining independence and objectivity of internal audit.**

**Note : First LOD – Management ; Second LOD - Risk Management & Compliance ; Third LOD – Internal Audit**

# Use of Technology in IA

- ☐ **Data-driven audits are a hot topic in the auditing world right now due to the increased presence of risk for many businesses with respect to fraud and error due to pandemic-induced change, whether that's dealing with new remote procedures or turnover. As auditors, we're responsible for assuring and obtaining reasonable assurance that the financial statements we have audited are free from material misstatement. That's where technology can come into play to guide and augment the audit process to ensure accuracy and deliver quality audits in less time.**
- ☐ **For example, one can leverage video conferencing technology to conduct fraud inquiries, use screen sharing and secure portals to observe access controls, and leverage read-only access to gain access to all the information needed. With these tools, auditors can start to use some of that data earlier in the process to better frame conversations about things like year-over-year analysis and inform risk assessment upfront. Then when we start to tailor our audit programs, the information brought into the data-driven risk assessment can help us determine the right level of testing we need to perform throughout the audit.**

# Use of Technology in IA

**In the backdrop of all round use of technology in business arena , internal audit functions also face an internal demand to execute their activities in a more innovative and efficient manner. There continues to be significant concerns about (1) the proliferation of technology and how employees throughout the organization are leveraging a variety of desktop and mobile devices as part of their day-to-day duties, and (2) the potential for fraud in the organization etc.**



# Use of Technology in IA : Maximum with Minimum

**2. Increasing business complexities transforming the way entities do business, creating a new landscape of internal controls and risk management.**

## **Sharing a Case Study No.1:**

**In a Lime Stone Mine, Volume lifted as per distance covered by Loader Trucks as paid post weighment of the Trucks. The distance-wise rates were as follows :**

**From lifting point to Crusher ( unloading Point)**

**upto 2 Km. @ Rs. 100 per Mt.Km. ( Mt.PK)**

**2 – 5 Km. @ Rs.200 per Mt.PK**

**5- 10 Km. @ Rs.400 per Mt.Pk**

**The distances were fixed long back since inception and rate revisions at 2 year intervals since last 20 years.**

**With the introduction of GPS as recommended by IA, all Truck movements are captured from lifting point to Crusher and the Auditors now used to review the Truck-wise distance captured. This has resulted in savings of Rs. 20 Crores as per the number of Trips recorded based on different distance grid travelled by the Vehicles.**

**Summary : 1. Change in the way Audit was performed earlier . 2. Complex business operation by way way GPS introduction in Trucks and distance mapping. 3. Technological Risk for GPS and data maintenance. 4. Strengthening of Controls w.r.t payment for lifted Lime Stone.**

# **Use of Technology in IA : Maximum with Minimum**

## **Sharing a Case Study No.2:**

**Coal Mine named 'No Where ( NW) ', lifts Coal and the same transported to the Plant named 'Else Where' for consumption in course of Producing ' UTOPIA'. Transporters were paid based on material movement volume to Plant. Two years back , the auditors reviewed the area and some operational improvement was suggested. They are –**

- a. Laboratory facility at both the places viz. 'No Where ' and 'Else Where' to assess quality of Coal shifted and received, including Calorific value of despatched Coal.**
- b. Monitoring Truck Movement for the total distance of 800 Km. ( one way) , so that Truck availability can be increased , minimization of stoppages and hours spent there.**
- c. Truck sealing process ( pre-numbered Seal with single usage to pre-empt tampering and full cover by Tarpauline) to avoid contamination and/or un-authorized lifting of Coal from Truck and replacing equivalent weight by putting other materials in Truck.**
- d. Penalizing Truckers on account of difference in quality between both the points**
- e. Penalty for delay in movement and stoppages over specified numbers and hours**
- f. GPS fitted for Road followed and deviation from normal route , calls for penal action.**

# **Use of Technology in IA : Maximum with Minimum**

**On implementation the way audit was conducted earlier changed and obviously the control datum as per requirement also maintained in SAP database.**

- a. The Audit Team extracted the SAP Datum from respective T-Codes through a Software ( ACL) by ODBC (Open Database Connectivity . Open Database Connectivity (ODBC) is an open standard application programming interface (API) that allows application programmers to access any database.**
- b. Analyzed the collected database according to audit objective by developing Macros (Macros are used to make a sequence of computing instructions available to the programmer as a single program statement, making the programming task less tedious). As for example , Truck stoppages over 4-times , Stoppages time over 5 Hours , Rout deviations etc. Report generation for Reportable issues.**
- c. Quality deviations between Load Point and Discharge Point are mapped and beyond tolerance Trucks are re-checked for broken Seals , Improper Tarpauline fixing etc. to pin-point responsibility of Transporter.**
- d. Transportation Agreement with penal actions for any type pf deviations planned for and accepted.**

# Information Technology & Cyber Security

- ✓ Cybersecurity is the practice of protecting critical systems and sensitive information from digital attacks. Also known as information technology (IT) security, [cybersecurity](#) measures are designed to combat threats against [networked systems](#) and applications, whether those threats originate from inside or outside of an organization.
- ✓ Organizations with a comprehensive cybersecurity strategy, governed by best practices and automated using advanced analytics, artificial intelligence (AI) and machine learning, can fight cyberthreats more effectively and reduce the lifecycle and impact of breaches when they occur.



## The Scope of a Cybersecurity Audit

Cybersecurity audits ensure a 360-degree in-depth audit of your organization's security postures. It detects vulnerabilities, risks, and threats that organizations face and the influence of such risks causing across these areas.

- **Data Security** – involves a review of network access control, encryption use, data security at rest, and transmissions
- **Operational Security** – involves a review of security policies, procedures, and controls
- **Network Security** – a review of network & security controls, SOC, anti-virus configurations, security monitoring capabilities, etc.
- **System Security** – This review covers hardening processes, patching processes, privileged account management, role-based access, etc.
- **Physical Security** – a review that covers disk encryption, role-based access controls, biometric data, multifactor authentication, etc.

Beyond these, a Cybersecurity audit can also cover [cybersecurity risk management](#), cyber risk governance, training & awareness, legal, regulatory & contractual requirements, technical security controls, business continuity & incident management, and third-party management.

## Who can conduct Cyber security Audit

Cybersecurity audits are generally performed by the cybersecurity services company to eliminate any bone of contention. They can also be performed with in-house security auditors.

External cybersecurity audits are performed by experienced professionals and equipped with appropriate software and tools to perform a thorough audit. The auditors possess an adequate understanding of all security protocols as well as well-trained to detect flaws in your cybersecurity risk management.

Outsourcing security audit to the cybersecurity services company has significant value, though it is quite expensive for smaller companies.

Despite the benefits of external audits, many organizations opt for internal cybersecurity audits due to their cost, efficiency, speed, and consistency. An internal security audit is done with an in-house team, they can be done more often. Moreover, **collecting and sorting relevant information is streamlined as it is not being shared with an audit vendor.**

## **How Cybersecurity Audit will be helpful for your Business?**

A cybersecurity audit offers the highest level of assurance for your cyber risk management process in place. It adds a line of sight to evaluate as well as enhance your security management.

### **Significant benefits of IT security audits are:**

- Safeguarding own IT System and backbone
- Identify and address weak spots
- Delivers in-depth analysis of internal and external security practices
- Identify gaps in the defense
- Determines enhancement of security posture requirement
- Recommends how to leverage technology in business security
- Testing of controls and adequacy
- Staying ahead of cybercriminals
- Reputational value
- Assurance to employees, clients, and vendors
- Increased technology and security performance



- a. Define scope of Audit**
- b. Network access rights , Cyber Security Policies , Tools and resource requirement**
- c. Understand relevant compliance standards**
- d. Detail Network structure for vulnerability assessment**
- e. Understanding Business processes involved, the compliance risks of each process, possible attacks, and laws & regulations**
- f. Evaluation of the performance of current security measures**
- g. Security risk responses and prioritization**
- h. Cyber Security audit and frequency**

# Data Mining - Definition

Data mining is the process of extracting and discovering patterns in large data sets involving methods at the intersection of machine learning, statistics, and database systems. Data mining is an interdisciplinary subfield of computer science and statistics with an overall goal of extracting information (with intelligent methods) from a data set and transforming the information into a comprehensible structure for further use. Data mining is the analysis step of the "knowledge discovery in databases" process, or KDD. Aside from the raw analysis step, it also involves database and data management aspects, data pre-processing, model and inference considerations, interestingness metrics, complexity considerations, post-processing of discovered structures, visualization, and online updating. (Wikipedia)



# Data Mining : Stages



- A. Identification of Objective is Business Goal What business problem are you trying to solve ? How are those selected business goals translate into specific data mining project goals?
- B. The answer to this question will lead to discovering what data sets may be needed.
- C. Data identification will give an idea of how much data preparation and pre-processing may be required.
- D. Using tools, build the model and assess initial results. Modeling itself may comprise of multiple steps with respect to describing the data.
- E. Present results.



# Data Mining Techniques





# Data Mining – Few words on Techniques

1. Classification used to segregate data in different logical classes.
2. Clustering of Data used to identify inputs which are like each other.
3. Regression is a data mining technique which analyze the relationship between variables. Regression analysis is also used to foresee the future value of a specific entity ( the given feature could be linear or non-linear). Regression techniques are rather advantageous , due to the power of neural networks which is a unique method that emulates the neural signals in brain. Ultimately the goal of regression is to show the links between two pieces of information in one set.
4. Association rule is a technique that helps find the connection between two or more items e.g Customers frequently buy together.
5. Outlier detection is a type of data mining technique, referring to observation of data items in the data set which do not match expected pattern or behaviour.
6. Sequential pattern is a data mining technique that helps to create or find similar trends in transaction data for certain time period with historical transaction date, e.g Vendor can identify items that Customers buy in different times of the year.
7. Prediction is a data mining technique which is a combination of other data mining techniques like clustering , classification etc. It analyses past elements for predicting a future event.

# Related Party Transactions

**Business enters into various transactions with parties with whom they are related or have common interests. Although such transactions are themselves legal, they may create conflicts of interest or impel other illegal situations and can impact the financial position of the co. Therefore, in order to protect the interest of stakeholders and maintain transparency in business transactions; with Related Parties are being regulated. Section 188 of the Companies Act, 2013 specifically deals with Related Party Transactions which further captivate other provisions of the Act including Section 166, 173, 177, and 184.**



# Related Party Transactions

❑ Related party with reference to a company means:

- 1. a director or key managerial personnel or relative thereof;
- 2. a firm, in which a director, manager, or his relative is a partner;
- 3. a private company in which a director or manager or his relative is a member or director;
- 4. a public company in which a director or manager is a director and holds along with his relatives, more than two percent of its paid-up share capital;
- 5. (a) any Body Corporate whose Board of Directors, MD or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager. (b) any person on whose advice, directions, or instructions a director or manager is accustomed to act. However, nothing contained in clauses (a) and (b) shall apply to the advice, directions or instructions given in a professional capacity;
- 6. holding, subsidiary, or an associate company of such company;
- 7. subsidiary of a holding company to which it is also a subsidiary;
- 8. Investing Company or the Venturer of the Company.

# Related Party Transactions Check list for Review

- Whether a list of the company's current related parties and associated transactions are available,
- Whether Minutes from board of directors' meetings, particularly when the board discusses significant business transactions with related parties are recorded properly,
- Whether omnibus approval/relevant approvals taken for the transactions from Board,
- Whether disclosures from board members and senior executives regarding their ownership of other entities, participation on additional boards and previous employment history are made available,
- Whether Bank statements, especially transactions involving intercompany wires, automated clearing house (ACH) transfers, and check payments,
- Whether Press releases announcing significant business transactions with related parties are made,

# Related Party Transactions

- Whether Audit procedures that target related-party transactions include 1) testing how related-party transactions are identified and coded in the company's enterprise resource planning (ERP) system, 2) interviewing accounting personnel responsible for reporting related-party transactions in the company's financial statements, and 3) analyzing presentation of related-party transactions in financial statements.
- Whether Accurate, complete reporting of RPT requires robust internal controls. A company's vendor approval process should provide guidelines to help accounting personnel determine whether a supplier qualifies as a related party and mark it accordingly in the ERP system. Without the right mechanisms in place, a company may inadvertently omit a disclosure about a related-party transaction.



# Cross Border Transactions

## Types of cross border transactions

- **Cross-Border Financing:** This term refers to any financing arrangement that crosses national boundaries. Cross border financing could include loans, letters of credit or bankers acceptances, Bank guarantees, depositary receipts etc.
- **Buying or Selling Products & Services:** This term refers to any buying or selling activities of products or services. Both may have different features with respect to infrastructure, permanent establishment, producing product or services outside the one's jurisdictional area, trading across the borders, bridging between local resources and outside supply etc.
- **Combined research/ shared services:** In present business styles, entities are finding it fancier to have a shared service point. Entities are introducing joint research programs for entire industry as one cartel or chamber of commerce or group of commerce. This type of arrangements of shared service centers are also concern matter in international trade if those shared service centers providing services across the borders scattered in different locations. They are very useful to outsource the routine work in less expensive areas.

# Cross Border Transactions

Furthermore, the following things may be considered before entering into a Cross-Border Transactions.  
Advance ruling

Legal compliance

Contract with States

Change in Law (An exit route in case of change in 'Laws of the Land')

Choice between Liaison office set up or Branch office set up or subsidiary incorporation

Taxation Direct and Indirect

Transfer pricing

International taxation and applicable foreign laws

Corporate tax planning

Accounting and financial analysis

Currency and Repatriation Issues