Internal Audit [Simple + Scoring] 5M

ICs ka Audit

Risk : price purchase ↑
Control : Quotations

Independent assurance on
- effectiveness of ICs. & risk mgt process
- to enhance governance & achieve org. objectives.
  [functioning].

MERRi Governance

objectives & scope of I.A. [eg]

- Monitoring of ICs. : 3 way match — P.O. (Qty), Invoice, G.R.N. [Goods Receipt Note] before approving vendor payment.
- Examine financial & operating info: IA of [Sales Records (F) + Delivery Records (O) + Sales commission (F)] to check accuracy of sales.
- Review of operating Acts: Inventory mgt + Handling → to prevent damages.
- Review of compliance with L&Rs.: New Tax Laws.
- Risk mgt : of complex financial instruments eg futures/ options
- Governance : Achieving objectives of ethics & values.

2 mins

critical Acts. performed by I.A f^n

1. Define plan; scope & methodology on periodic basis. [Qrtly]

A1 A2 A3 A4

2. Monitor audit assign ments [planning, execution, reporting of findings & closure of observations]

[kaun?]

3. Plan, acquire, engage, review performance, training & development of staff, talent & other resources.

4. Identify, source, engage & manage external experts & technical solutions. [process automation]

[Experts]

5. Communicate with all key stakeholders [Srmgt / BOD] about progress & achievement of objectives.

Quin

Main Responsibilities of I.A. f^n w.r.t. Accounting f^n & financial records.

1. Maintain I.C. system by examining
   - A/c procedures
   - Receipts & Disbursements. [+/-]
   - Safeguards for assets.

Savdhan!

2. Operate independently of A/c staff.

3. Not involve himself in executive f^n to maintain objectivity.

kya karein?

[Door] [Paas]

4. Observe facts & situations & bring them to notice of authorities.

5. Associate closely with mgt & keep knowledge upto date.

Conclusion: At all times, must be independent.

Quin

Cases:

1. 3 way match

P.O. — 100 Qty. ← 3 way match → Invoice — 100 Qty
3 way match → G.R.N — 80 Qty. — nahi kiya

Invoice: over-invoicing ↓ payment zyada.

G.R.N: under-receipt of goods.

2. controls → in built in functions → cost effective

Customers credit unit

- ↓ Separate credit control dept.
  - Kharcha
- ↓ sales & a/c system
  - ↓ controls in built.
  - • past history / details
  - ↓ cr. limit ✓
  - paise Bacha
  - cost effective

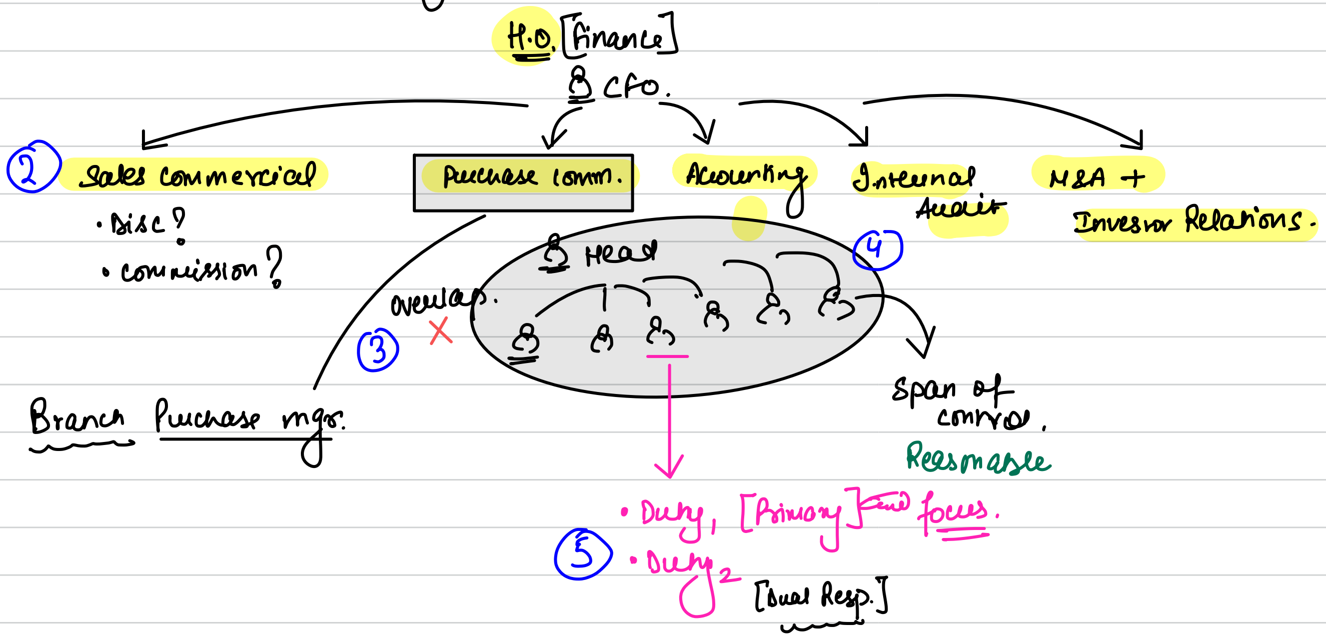
3. Inherent Limitations of I.C. [maker checker]

3 payment authorise

3 payment maker $\xrightarrow{(₹)}$ R.P.

collusion

① Organisation chart [eg Marico]



Review of utilisation of Resources. < Std vs. Actual.

Standard
- • Established for efficient use of resources.
- • Method of establishing stds. Assumptions made.
- • Detailed enough to be identified with operating responsibilities
- • wide divergence [variance] b/w Std & Actual performance ⇒ Consider the reasons.

2 mins
☺

Internal Auditor

- Integrity
  - Honest, truthful.
- Objectivity
  - × Biasness [concⁿ + opinion]
  - × undue influence
- Independence
  - Mind [Soch] ✓
  - Appearance [Hor ketein] ✓

⇒ org. structure

- key personnel [CEO, CFO, COO etc.]
- Chief Internal Auditor (Position / Responsibility).

Reporting Structure [options: BOD / A.C. (NED) | M.D. / CEO / CFO].

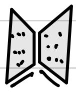
× Execution. | Execution

- Administrative Reporting [Naam]
  - MD, CEO, CFO
- Functional Reporting [Actual]
  - BOD / A.C.

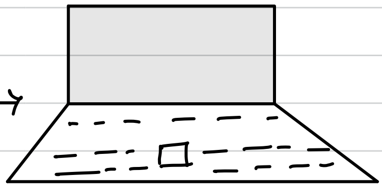
Performing I.A Engg

1. Obtain knowledge of business

conduct meetings with key stakeholders by Sr. mgr | CFO | COO



understand business docs. [SOPs, FS etc].



IT landscape, ERP systems, MIS of org. [mgr. info. system]

2. Planning

- Audit Scope [Approved by AC & BoD] → Evaluate Risk / Controls → Plan
  - Prepared by mgr.
  - Approved by CHIA
- → Share with KMP → Intro. meeting for system access.

3. Gather info.
- Plan & Intimate in advance for info. needed.
- Obtain info. directly from source.

4. Audit checks [An. Pro, sampling, Evidence, documentation, reporting]

5. Reporting the issues

- Prepare draft report as per
  - [Areas] Scope: detailed coverage ~~and~~ + & exclusions (–)
  - [period covered]
  - issues
  - recommendations

↓

- mgt action plan agreed with responsibility & timelines.

↓

- Review status of actions

↓

- Circulate final report & present to A.C.

2 Stages of Reporting

End of Assignment

Covering specific Area / function, highlighting key observations

- manner of conducting assignment
- key findings

↓

Issued to Auditee with copy to local mgt.

On Periodic Basis

Covering

Entity & plan period [Apr- June '25].

- Prepared by CHIA or E.P.
- Submitted to A.C.
- Done on Qtrly basis.

⇒ **I.A. Report includes:**

- Scope + Period } Executive Summary → Summary of critical findings → Detailed audit findings [Business Impact + Root cause] → Rating [High / Medium / Low] → Recommendation → Response [Action Plan] → Timeline for Action.

Issues

Follow up.

- Mgt is responsible to implement action plans.
- ChIA is responsible to monitor closure of PAI (Prior Audit Issues)

↓

Review follow up action of mgt

✗ Action

Draw mgt attention & Ascertain reasons.

Accepted Recommendations + Initiated actions.

↓

Review manner & extent of implementation & report recommendations not implemented.

Action Taken Report

Reference to previous audit report containing issues

- Implementation action agreed by mgt.
- Status of mgt's action (Implemented | not Implemented)
- Status of residual risk | rating for unimplementation
- Findings not Implemented for long time.

Audit trail

11:00 SK P.O. Initiate
11:05 B.B. P.O. Approve
11:10 AK. Invoice Entry
11:20 S.V. Payment.