PLANNING THE INTERNAL AUDIT ASSIGNMENT

[SIA-310]

By **CA SAMEER KARYEKAR**

AUDIT PLANS

SOURCES:

- INTERNAL AUDIT CHARTER / POLICY / SOP / COVERAGE GUIDELINES

- BUSINESS PLANS / FOCUS AREAS DEFINED

- ANNUAL OPERATING PLAN / ANNUAL BUDGET

- ENTERPRISE RISK MANAGEMENT PROCESSES

- BUSINESS PROCESSES & ITS RISK ASSESSMENT

- STATUTORY AUDIT REQUIREMENTS / CARO

- AUDIT COMMITTEE / BOARD OF DIRECTORS / OTHER STAKEHOLDER REQUIREMENTS

- EVENT BASED (NEW LOCATIONS, MAJOR CAPEX, WHISTLEBLOWER LETTERS, FRAUDS ETC.)

YEARLY PLAN & ASSIGNMENTS

IMPACT / **LIKELIHOOD**

IMPACT	2	3	4	5	6
Major (> £ 800K)				HSE Laws	Statutory Compliance
Significant (£500 K - £ 800K)		Bill of Material Accuracy	Import and Export Process		Debtors Reconcilation
High (£ 300K - £ 500K)	Insurance	Human Resouce Process	Post Investment Review	IP Security	Procure to Pay Order to Cash
Moderate (£ 200 - £ 100)	Customer, Vendor Asset installation	Capex Process	Costing Payroll Freight Outwards	Fixed Assets Credit Control Process	Indirect Taxes Audit
Minor (£ 100K - £ 50K)	Treasury, CSC, Provisions	Inventory	Outsourced Product process	Costing Process Secretaraial Process	Risk Management Methodology
Negligible (£ <50K)	Scrap Process	Credit Note Process	TDS Process	Inventory Valuation	Contracts Review
	2	3	4	5	6
	Remote	Possible	Occasional	Frequent	Constant

IC-RA & IA PLAN-FY

LIKELIHOOD

Once in Three Years	Once in Two Years	Every Year

Assignments / Areas (Internal / External)-ACM approved		Q1	Q2	Q3	Q4
Procure to Pay	E	√			
Physical verification of Stock (One SBU)	E	√			
Order to Cash	E		√		
Credit Notes Processes	I		√		
Payroll & Wages (Attendance, Increments, Deductions)	I			√	
Statutory Compliance (Labour Laws)	E			√	
Fixed Assets	E				√
Customer service center processes review	E				√
Action Taken Report / compliance verification	I	√	√	√	√

Assignments (Internal / External)		Month
Fraud Anonymous letter investigation	E	May
New Branch / plant operations review	I	Sept
Deep dive audit of Environment laws compliances & sustainability policy implementation	E	Aug
Physical verification of Project Fixed Assets in Regional office & project sites	E	Oct
Scrap process review (Production related, incl. Sub-con)	I	June
CSR-UP-new project visit & beneficiary feedback	I	Dec
As per MD, CFO requirements (2 assignments)	I/E	Pending

ELEMENTS OF ASSIGNMENT PLANNING

PREPARATION / UNDERSTANDING / HOMEWORK
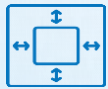
SCOPE OF THE ASSIGNMENT

AUDIT METHOD

DEFINE AUDITEES

TIME / SCHEDULING

MANPOWER

OTHER RESOURCES / ASPECTS

'INTERNAL AUDIT ASSIGNMENT PLAN DOCUMENT' SHOULD CONTAIN ALL THE ABOVE ELEMENTS

MEETING SCHEDULE

	MARCH			APRIL			MAY				JUN			
	W2	W3	W4	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4

PLANNING MEETING >>

KICK OFF MEETING >>

SPRINT 1 MEETING >>

SPRINT 2 MEETING >>

SPRINT 3 MEETING >>

DRAFT REPORT MEETING >>

FINAL CLOSURE MEETING >>

PREPARATION

[For Planning Meeting, Kick off meeting & Overall Audit Assignment]

Understanding the **Client, Industry**

- Constitution, Owners, Products, Size, Competitors, Locations, Staff-Labour, Org-structure, Risks, Operational challenges, Governance-compliance structure, ERPs-IT structures, past frauds / events, audits, Overall business model, financials.

Understanding the **Area & Context**

- **Any special reason** why the area is being audited ? **Known issues, Focus areas** / aspects
- Area: **statistics, stratification, monitoring** / MIS, **personnel, locations, delegations**, overall **approach of management** towards the area / function, **policy-processes, certifications**, if any

Previous Reports / **Other Audits**

- Previous observations / other audit observations, its **status**
- Any **other audits**-HO / CO, Central Auditors, GST, Statutory, IFC audit observations, Fraud Investigations etc.
- Understand **changes** in the existing processes, controls, overall approach / set-up
- **Discuss** with the Audit team, if possible, also with the client personnel

Scope **detailing,** Checklists preparation

- Define / Revisit the scope and **enlist all the aspects** to be covered based on charter, appointment letter and / or various discussions
- Checklists: **update**/ **revise, contextualize, align** to mandated scope, identify **critical aspects** to be discussed in kick off meeting, enlist initial **data requirements**

SCOPE

Objectives, Expectations
- <u>Focus areas</u> by management (P2P): Price revisions, shortage quantity, vendor changes, localization
- <u>Other normal objectives:</u> Design, Effectiveness, Efficiency, Accuracy, Completeness, Compliance, Prevent Errors-Frauds, aligns to Company Objectives

Detailing & Common Understanding
- The aspects under each area to be covered should be <u>articulated</u> and <u>communicated</u>.
- <u>Exclusions</u> to be agreed.
- Audit <u>Period</u>, sampling <u>methods</u>, <u>extent</u> of samples

(refer below example)

Feasibility & limitations
- To agree boundaries: auditors won't take comparative quotes
- An engineer / subject matter expert not included since budget not allotted
- No visit to Chennai since the operations are not that large, it will be done through virtual meetings

EXAMPLE >

Sr	Area (Detail scope)	Coverage	
		Locations	SBUs
1.	**PROCUREMENT FUNCTIONS** (MRP-Material Requirement Planning, Vendor master, quotes-selection, MRP, Ordering, GRN, rejections-rework, bill passing, accounting, vendor payment, vendor evaluation, balance confirmations, Debit Notes, Credit Notes, materials & services, non-PO purchases). Exclusions: Inter-company purchases		
2.	**REVIEW OF TRANSPORT AND LOGISTICS OPERATIONS** (Terms of delivery analysis, route identification, contracts / spot, approval processes, delegation of authorities, transporter and vehicle masters, weight masters / information, POs, linking of LRs>PO/SO> Purchase & Sales invoices>Transporter invoices, charge back process to customers / suppliers, SO / PO terms, contracts v/s. transporter bills, accounting, taxes, RCM, MIS) Inter-company purchases to be included in samples	Pune, Gurgaon, Chennai	D1, D4, D7
3.	**INVENTORY MANANGEMENT** (Item & Item-vendor master, stock levels, MOQs, Lead times, perpetual & periodic verifications, movements analysis, good in transit-transporters godowns analysis, weights, scrap, hold-cycle times, MIS/ monitoring, ageing, obsolete and damaged materials, provisioning, write offs, Sub-con-reconciliations, valuation, various approvals) All items / purchases to be included in samples		

AUDIT METHOD

- Its is important to Communicate the Broad Audit Method
- New Techniques, if any may also be communicated (Software's, Methods etc.)
- Frameworks / Audit Standards which may be used / referred
- Ask for expectations / suggestions, if any
- Discuss any doubts with Auditees
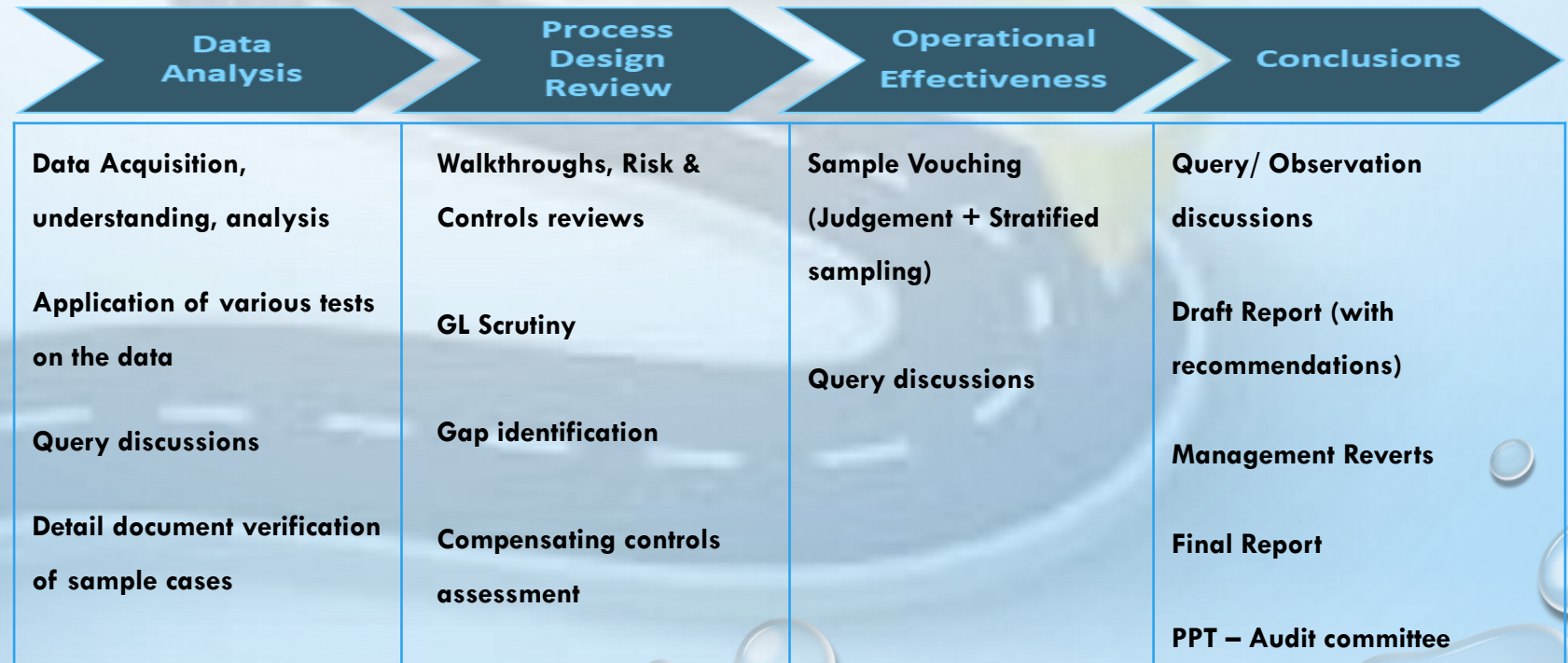
IA FRAMEWORK (Risk Based Audits) REQUIRES: -
- ✓ System & Process focus &
- ✓ Entity level review for holistic evaluation

EXAMPLE: -

Data Analysis	Process Design Review	Operational Effectiveness	Conclusions
Data Acquisition, understanding, analysis	Walkthroughs, Risk & Controls reviews	Sample Vouching (Judgement + Stratified sampling)	Query/ Observation discussions
Application of various tests on the data	GL Scrutiny	Query discussions	Draft Report (with recommendations)
Query discussions	Gap identification		Management Reverts
Detail document verification of sample cases	Compensating controls assessment		Final Report
			PPT – Audit committee

TIME / SCHEDULING

- START & END DATES

- MONTHLY SCHEDULES (MIS DATES, BLOCK HOLIDAYS, BUSY DAYS ETC.)

- DAILY SCHEDULES & TIME ALLOTMENT TO AUDIT ACTIVITIES

- LEAVE PLANS MAPPINGS OF PERSONNEL INVOLVED IN AUDIT

- CUT OFF DATES (DATA RECEIPT, WALKTHROUGHS ETC.)

Leave plan

Sr	Personnel	MARCH			APRIL			MAY				JUN			
		W2	W3	W4	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4
	AUDIT FIRM / TEAM														
1	Sameer	√													
2	Mandar (P2P)		√												
3	Sachin (Logistics)		√	√	√										
4	Aditi (Inventory)		√	√	√										
5	Abhijeet				√	√	√								
6	Mugdha				√	√	√								
7	Pratibha				√	√	√								
8	Parag								√	√	√				
										√	√				
													√		
													√		

Leave plan

Sr	Personnel	MARCH			APRIL			MAY				JUN			
		W2	W3	W4	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4
	COMPANY PERSONNEL														
1	Dattatraya Pandit	√													
2	Harshal.P (P2P)		√												
3	Paras.J (Logistics)		√	√	√										
4	Saumya.R (Inventory)		√	√	√										
					√	√	√								
					√	√	√								
					√	√	√								
									√	√	√				
										√	√				
													√		
													√		

TIME / SCHEDULING

| PLAN | FIELDWORK | REVIEW | REPORT |

			▌ << Cut offs											
Sr	Broad Group of Audit Activities		MARCH			APRIL			MAY				JUN		
	(Based on availability of Auditees, Data these activities can be pre-poned or postponed with 2-3 days flexibility)		W2	W3	W4	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4
1	Planning Meeting	√													
2	Virtual - Kick Off meetings for all areas - with concerned auditees		√												
3	Data collection- (All audit areas - P2P, Invn., Logistics)		√	√	√										
4	Data Analysis- (All audit areas - P2P, Invn., Logistics)		√	√	√										
5	Walkthroughs & Audit procedures execution - **P2P** - on field / client place				√	√	√								
6	Walkthroughs & Audit procedures execution - **Logistics** - on field / client place				√	√	√								
7	Walkthroughs & Audit procedures execution - **Inventory** - on field / client place				√	√	√								
8	Observations / Query -Discussions							√	√	√					
9	Draft Report preparation								√	√					
10	Closure Meetings											√			
11	Issue of Final Report												√		

AGILE

SPRINT-1
Apr-W3-Fri REVISIT:
- Scope
- Strategy
- Auditees
- Resources
- Time
- Observations

Change Audit plan

SPRINT-2
May-W1-Fri REVISIT:
- Coverage
- Strategy
- Auditees
- Resources
- Time
- Observations

Change Audit plan

SPRINT-3
May-W3-Fri REVISIT:
- Coverage
- Strategy
- Auditees
- Resources
- Time
- Observations

CUT OFF
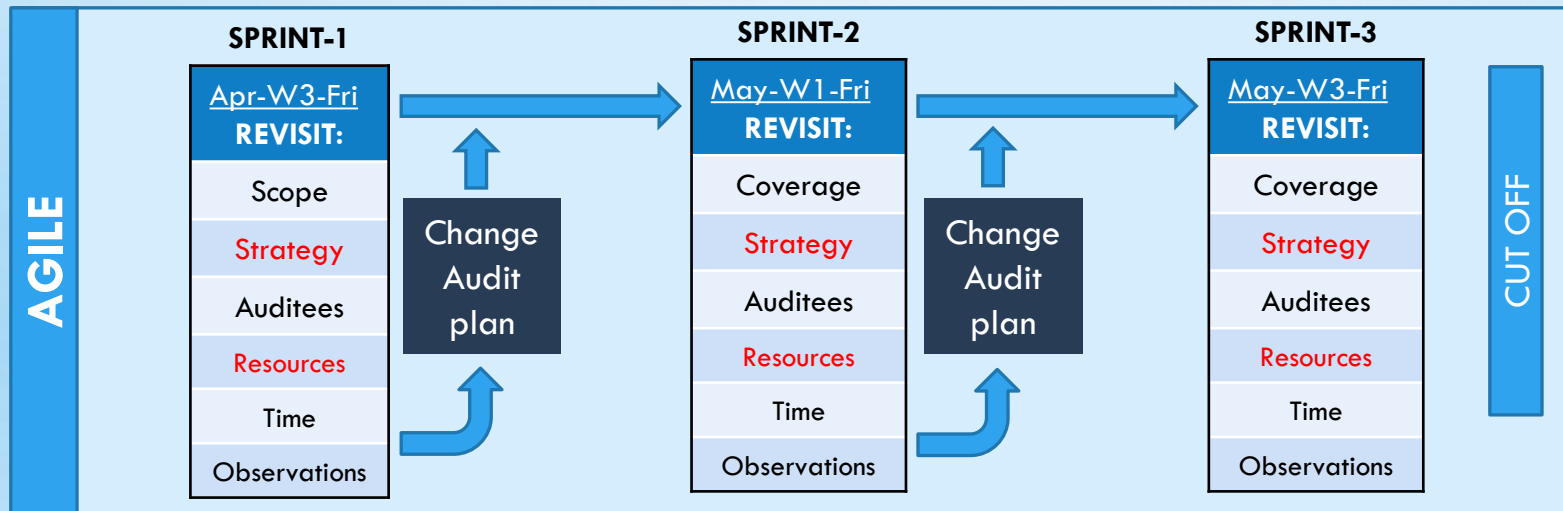
Formally Communicate Changes to Audit plan to all stakeholders immediately

SIA 310 – PLANNING THE INTERNAL AUDIT ASSIGNMENT

TIME / SCHEDULING

STATUS / PROGRESS TRACKER

Example: -

			10%	20%	30%	40%	50%	60%	70%	80%	90%	100%			%
A	**Audit Completion Status - Overall**														48%
B	Mandays Tracker		Budgeted :	105	Actual Till Date :		55								52%
C	Estimated Date of Completion		15-May-23												

											%	Weight	Product
B	**Audit Completion Status - AREA WISE**										%	Weight	Product
1	Data Requirements	All	‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖								45%	10%	5%
2	P2P	Mandar	‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖								65%	40%	26%
3	Logistics	Sachin	‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖‖								44%	25%	11%
4	Inventory	Aditi	‖‖‖‖‖‖‖‖‖‖								24%	25%	6%
												100%	

MANPOWER

SKILLS
- Based on the audit areas: complexity, client expectations, criticality of the area, locations assess the skills required
- Previous experience, qualifications, Seniority, IT-skills, exposure to ERPs, Engineering skills / awareness of concepts, understanding of the Industry, familiarity of the present client.

HIERARCHY
- Number of Senior Managers, Junior Audit Managers, Assistants etc. to be decided based on quantum, extent & Ramp-up plan.

SPOCs
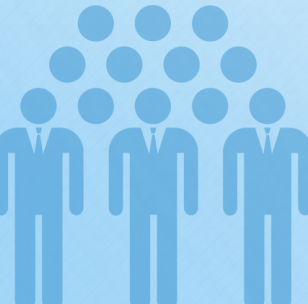- Single point of contacts to be decided from both sides

Example: -

Resource Name	Area	Qualifications	Previous Experience	Technical Skills / Experience	Remarks
Mandar.K	P2P	FCA, CIA, CISA	7 years, audited several large Engineering companies	Proficient in MS-Excel, Power-BI, SAP.	Audited at the company for 2 quarters
…..					

AUDITEES

- Who are the HODs / other stake holders for the areas under audit ?
- Who are the team members and what are their roles ?
- Understand the various Authorities; with whom the report needs to be finally closed ?
- Who are the coordinators for each area and overall audit/s ?

- Obtain their full contact details (preferably beforehand and confirm in kick off meeting) (see below table)

Example: -

Sr	Name	Designation	Related Audit Area / Aspects	Remarks	Mobile	Email	Landline / Extension
1							
2							
3							
4							

OTHER RESOURCES / ASPECTS

DOCUMENTS

- For all areas: SOPs, Policies, ISO documents, IFC-RCMs, Process documents, Work Instructions, Training / other videos, audit reports

IT SYSTEMS

- Common-Shared folder (Google, One-drive, etc.)
- Firewall, ERP-UI, Other software installations, Tally backup etc.
- Access rights to all above

SPOCs

- Coordinator-overall and area-wise, Single point of contacts (SPOCs)

OTHER

- Physical access – proximity cards, inform security etc.
- Visit Scheduling, Travel, Stay, Local conveyance, Bus / Cab arrangements,

DOCUMENTED "ASSIGNMENT PLANNING PROCESS / SOP",

CAN BE FORMULATED CONSIDERING ALL THESE ASPECTS

THANK YOU !

CONTACT DETAILS: -

SAMEER KARYEKAR

9822275133

sameer_karyekar@pgbhagwatca.com