

Evolving Checklists for IA with Case Studies

OPPORTUNITIES FOR NON - TRADITIONAL PRACTICE AREAS FOR CA'S 6 AND 7 OCTOBER 2016 AT WIRC – BKC

CA CHIRAG BAKSHI

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Internal Audit – main stream or non traditional

- ▶ Forbes Insights conducted a global survey about the role of Internal Audit.
 - ▶ The organizations represented generated revenues ranging from US\$1b (38%) to more than US\$20b (9%).
 - ▶ In the survey, 96% of respondents indicate it important role to play in their overall risk management efforts.
 - ▶ 74% believe that there is room for improvement
 - ▶ 44% of respondents believe that Internal Audit is helping their organization achieve its business objectives.
 - ▶ 37% — say they involve Internal Audit in key business decisions and strategy.

Internal Audit – main stream or non traditional

62%

of stakeholders expect more value from internal audit, including nearly half of those already receiving significant value

CBOK 2015 Practitioner Survey: Participation from Global Regions

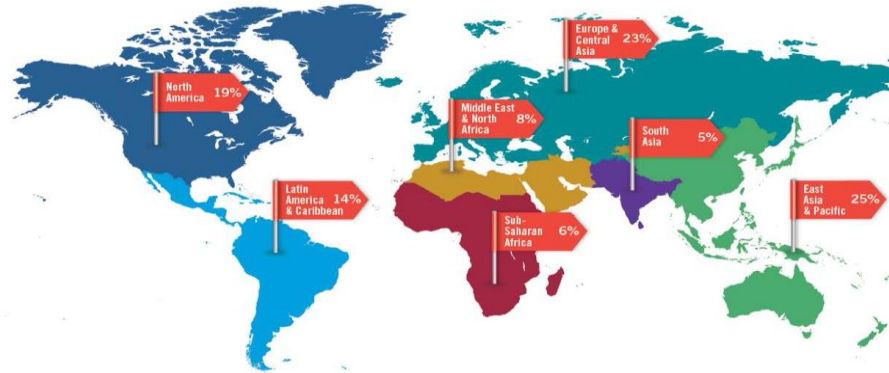


Exhibit 2 Performance Measured Against Stakeholder Expectations

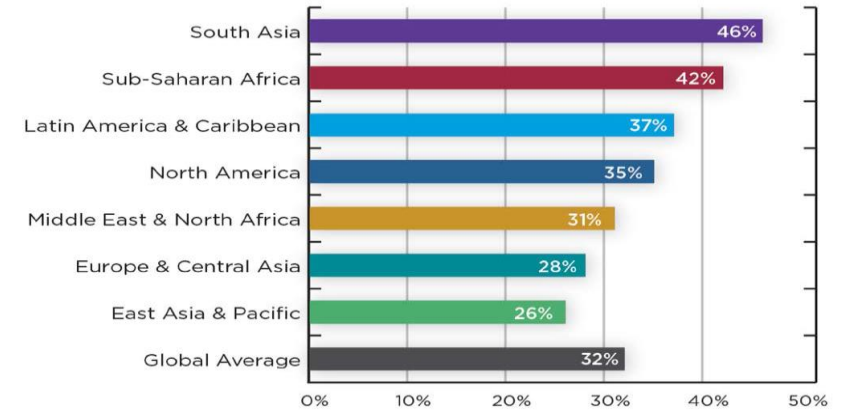
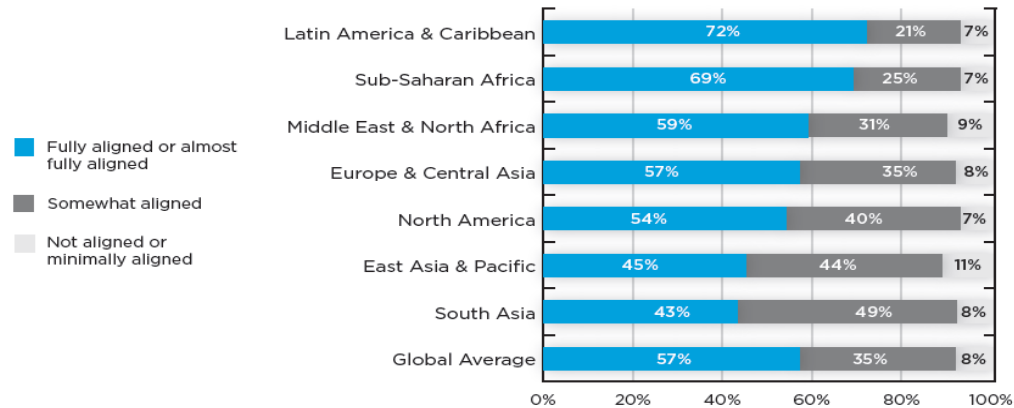


Exhibit 6 Internal Audit Aligned to Strategic Plan



How many internal auditors
work with checklists?

Checklist and internal audit

Can checklist based
internal audit succeed?

What is the importance of checklist?

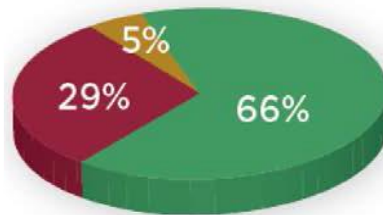
Checklist and internal audit

- ▶ Verification of Purchase vouchers
- ▶ Verification of order to cash cycle
- ▶ Evaluating mitigation of identified risk through control testing

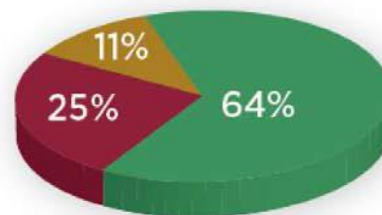
Checklist and internal audit

Exhibit 8 Pressure Felt to Change an Audit Finding or Report

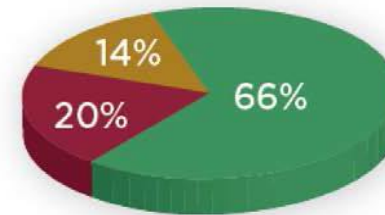
CAE or Equivalent



Director or Manager



Staff



Never

One time or more

I would prefer not to answer

Standards

ICAI IA Standards

SIA 2	Para 10
SIA 3	Para 4, 6, 8 10
SIA 10	Para 6 and 7
SIA 11	Para 13 and 20
SIA 15	

IIA Standards

Performance Standard

- Independent/objective
- Due professional care
- Internal/external assessment
- Planning
- Communication
- Documentation

COSO Internal Control Framework

Deals with Internal Control setup and maintenance.

Internal audit is part of this framework.

Testing is assigned to internal auditor

evolution

- ▶ Do checklists evolve?

Understanding the objective of preparing a checklist.

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Preparing for Audit

- Audit plan
- Audit Programme
- Business understanding
- Defining Objective for each Scope Line items
- Initial Data requirement
- Scope progress tracker

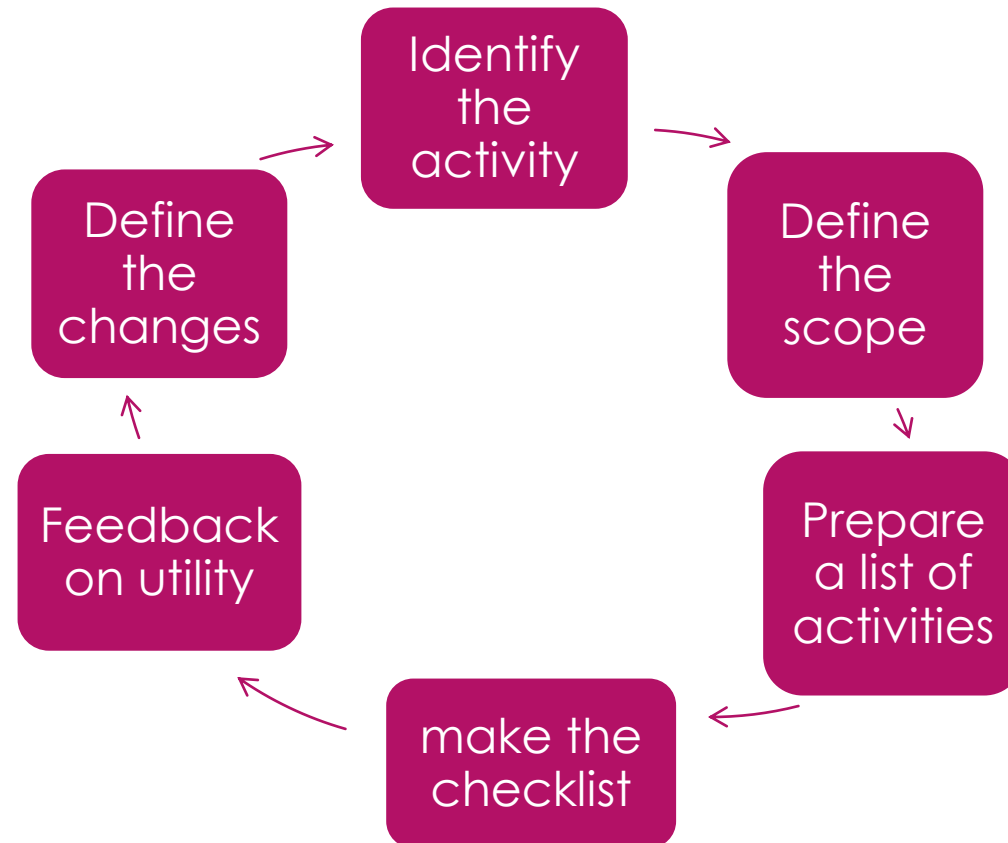
Doing Audit

- Sampling techniques
- Sample determination
- Tracking the observations to derive conclusion
- Tracking evidence collection
- Tracking referencing of evidence to observation

Completing Audit

- Closing Meeting
- Closing the documentation
- Closing the observations
- Sign off from auditee
- Final report

The Checklist evolution



Understanding the objective of preparing a checklist.

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Preparing for Audit

Audit plan

Audit Programme

Business understanding

Defining Objective for each Scope Line items

Tracking the Scope progress

Doing Audit

Sampling techniques

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Final report

Audit Plan

- ▶ An overview of the audit
- ▶ Schedule of audit
- ▶ Names of the team members
- ▶ Type or nature of audit process that will be done

Audit Plan (F-INT-03)		
Part-A Plan		
Name of the Client		
Audit period		
Audit commenced on		
Audit Coordinator (Client)		
Audit Team	Team Leader	Team Members
Scope for the period (tick)	Process	Substantive Checking
Total Days Planned for Audit		
Total Man-days		

Audit Plan

- ▶ An overview of the audit
- ▶ Schedule of audit
- ▶ Names of the team members
- ▶ Type or nature of audit process that will be done

Audit Plan (F-INT-03)		
Part-A Plan		
Name of the Client	AB Pvt Ltd	
Audit period	January to March 2016	
Audit commenced on	30 th May 2016	
Audit Coordinator	Mr D.C. Sheth	
Audit Team	Team Leader	Team Member
	CAS Y CAM S	Sh, Ad
Scope for the period(tick)	Process ✓	Substantive Checking ✓
Total Days Planned for Audit	10 days	
Total Man-days	33 man days	

Scope



- ✓ Procurement Cycle
- ✓ Inventory Management
- ✓ Revenue-Export & Domestic and Service Income
- ✓ HR & Payroll Processing
- ✓ Production Cycle
- ✓ Reconciliation and Costing
- ✓ Logistic Function
- ✓ Legal Compliances
- ✓ Capital / Critical Expenses Review
- ✓ Financial Controls & Reporting
- ✓ Information Technology Review
- ✓ Follow-up of Action Taken for improvements

Checklist - Audit Plan

- ▶ Components of checklist
 - ▶ Object of this form – audit plan
 - ▶ Mandatory fields
 - ▶ Mandatory content
 - ▶ Guidance on how to fill?

Part-B Programme*

Sr. no.	Scope of work	Process Review	Substantive Checking	Sample	Date	Team Member
1.	Statutory Compliances	Yes	Yes	100%	30.05.16 to 01.06.16	M
2.	Procurement of Material – RM and PM	Yes	Yes	40%	02.06.16 to 06.06.16	M
3.	Fixed Assets Review	Yes	Yes	100%	30.05.16 to 02.06.16	Sh
4.	HR review	Yes	Yes	100%	02.06.16 to 06.06.16	Sh
5.	Expense Overheads Review	Yes	Yes	40%	03.06.16 to 06.06.16	Ad
6.	Cash & Bank Transactions	Yes	Yes	40%	30.05.16 to 02.06.16	Ad
Date: 30/May/2016						
Approved by:			Signature:			

Understanding the objective of preparing a checklist.

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IDR

Define scope for the period

Identify the process for audit

Identify data requirements for audit

- ✓ Procurement Cycle
- ✓ Inventory Management
- ✓ Revenue-Export & Domestic and Service Income
- ✓ HR & Payroll Processing
- ✓ Production Cycle
- ✓ Reconciliation and Costing
- ✓ Logistic Function
- ✓ Legal Compliances
- ✓ Capital / Critical Expenses Review
- ✓ Financial Controls & Reporting
- ✓ Information Technology Review
- ✓ Follow-up of Action Taken for improvements

IDR

- ▶ The scope for the period
- ▶ Timeline from the programme for that period
- ▶ The data which will be required for completing this scope items.
- ▶ What will be a checklist like.

1	Q2	Expenses	Service Note receivables	26 th Sep 2016	30 th Sep 2016
			Bill passing		
			Invoice Booking and Tax credit		
			Payment		
			Debit note and credit note		
			Pre paid/ post paid		
			Provisions		
			Annual Rate contract		
			Journal Vouchers		
2	Q2	Inventory	ABCD Category	3 rd Oct 2016	7 th Oct 2016
			Issue Procedure		
			Physical verification		
			Slow moving / non-moving inventory		
			Review of storage and issue		
			Valuation process		

Sample Checklist

Cash

Check opening cash balance with last audited cash book (check properly)

Vouching (all vouchers above 1% of total monthly cash outflow or Rs. 2000 whichever is less)

Cash payments exceeding Rs. 20000 needs to be checked thoroughly

Obtain Negative cash balances with dates and amount.

Physical Cash balance is matched with Book cash balance

Cash Advances above 1 months period are thoroughly scrutinized

Cash book is duly signed by cashier and counter signed by accountant

Cash Receipts are duly serial number.

Convert cah book in excel and check for duplicate entry. Cancelled vouchers. Vouchers amended etc.

Obtain Cash balance certificate from management

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Tracking referencing of evidence to observation



Tracking referencing of evidence to observation

- ▶ Contents of Audit Tracker
 - ▶ Scope for the period
 - ▶ Team member tasks
 - ▶ Object of each scope
 - ▶ Desired outcome
 - ▶ Actual fieldwork
 - ▶ Actual outcome
 - ▶ Observations
 - ▶ Evidence

Understanding the objective of preparing a checklist.

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Report

Framework

Introduction

Timeline

Scope

Method

Risk criterion

Executive summary

Risk

Responsibility

Report body

Scope wise observations

Background

Discussion

Observations

Root cause and impact

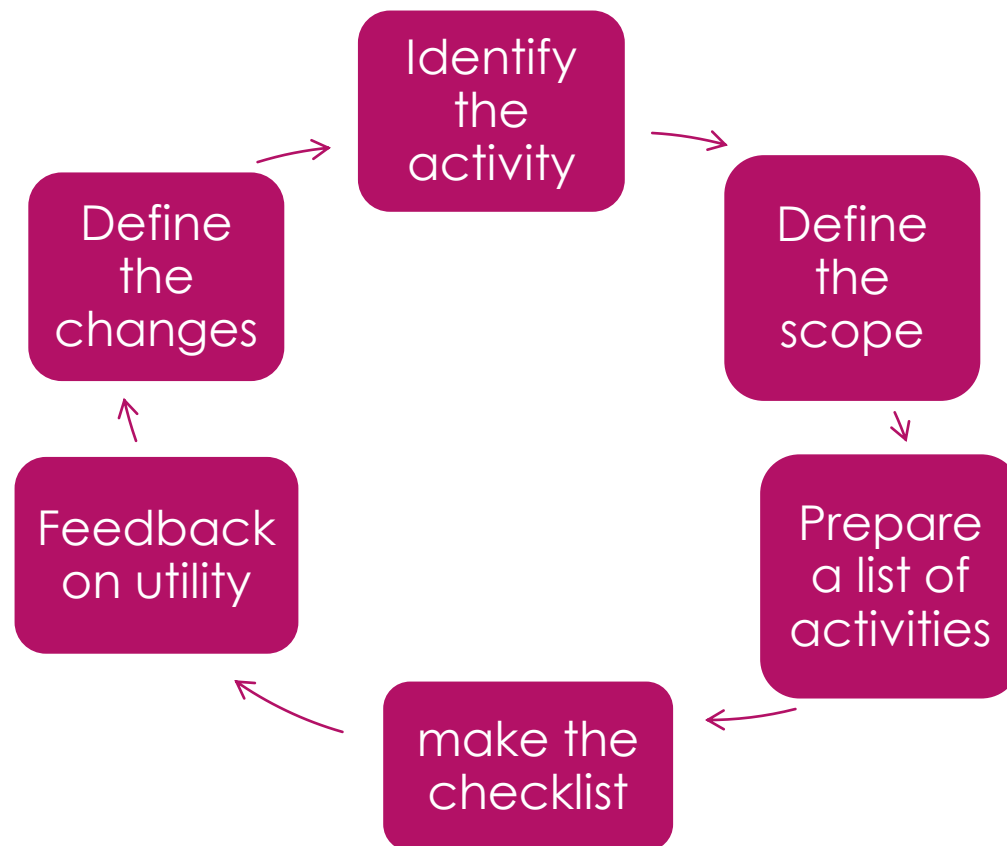
Recommendation

Action plan

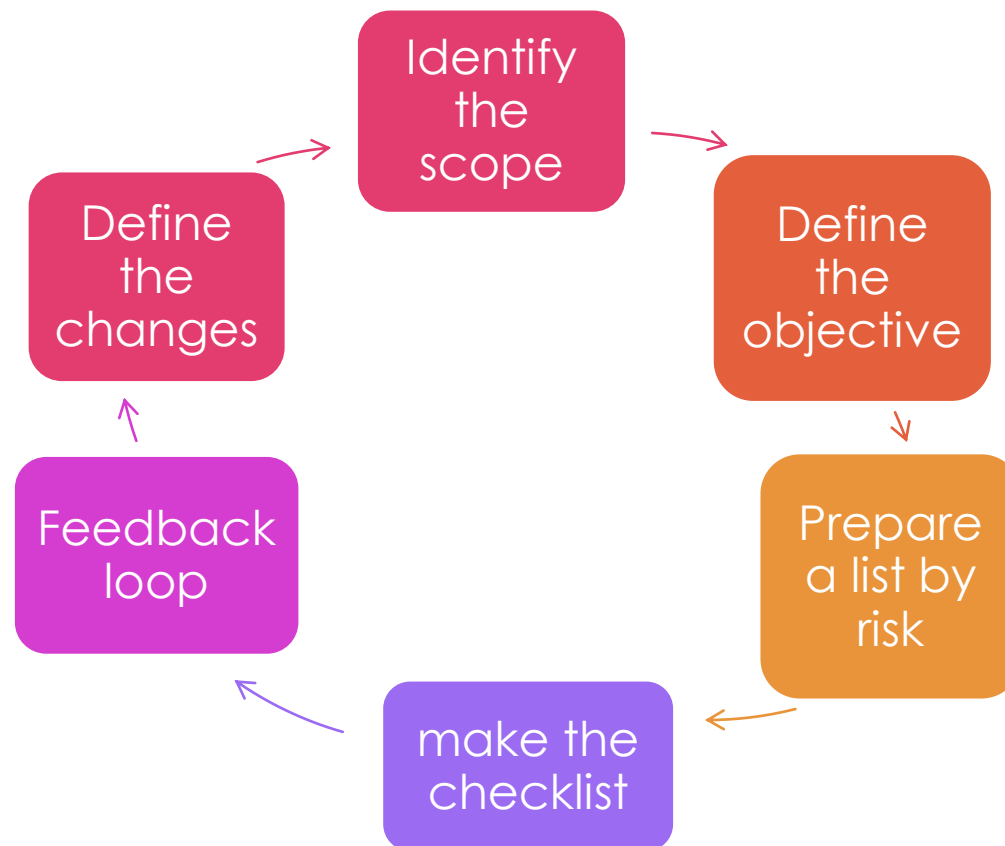
Responsibility

Sign off

The Checklist evolution



The Checklist evolution



Thank you



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