SCOPE OF WORK OF INTERNAL AUDITORS
(As per some appointment letters issued over the years)

SAMPLE- 1: CEMENT CO

The Company would like to avail of your services in the area of Management Audit and therefore, it has been decided to appoint your firm to conduct the Management Audit of our Vizag Cement Works for the year 19x1-x2. The Audit should cover all aspects of the Company’s operations with particular emphasis

- on the adequacy of internal controls,
- compliance with the laid-down procedures,
- review of the operation of the Unit and
- Also recommendations for improvements in these areas.

SAMPLE-2: SPEED CARGO TRANSPORT CO

The Scope of work of the internal auditors for the year 19x1-x2 is as under.

1. Report on all payments not supported by documents, irregularity in passing, verifying and certification from competent authority, etc.
2. All payments in excess Rs. 10,000 made in cash.
3. Any other opinion on internal controls.
4. Verification and certification of
   (a) Monthly age wise analysis statement of our outstanding with remarks for any defectiveness.
   (b) Bank reconciliation statement on the closing date of the reporting month with remarks on old entries.
   (c) Monthly receipts and payments A/C with trial balance as on the closing date of the reporting month.
   (d) Unbilled Goods Delivery note Note (GDN) statement as on date.
   (e) Abstract of G.D.N physical stock.
   (f) All payables as on the closing date of the reporting month.
   (g) Report of Excess/Short realization on outstanding.
   (h) Any abnormal payments in comparison with booked freight.

SAMPLE -3: BRANCH OF A CO

The Scope of work of the internal auditors for the year 19x1-x2 is as under.

1. Vouching of transactions of books of accounts and related documents.
2. To ensure that all statutory requirements are met with schedule.
3. To ensure that accounting documents are sent to H.O as per schedule.
4. Compare and analyse budgets and actual expenses/ incomes
5. Analyse Sundry Debtors control.
6. Advise Management on expenses justification.

SAMPLE - 4: MINING CO

The Internal Audit should cover the following broad areas:

(a) Compliance with procedures and systems through selective transaction audit.
(b) Appraisal of performance in key areas and system of management control therein particularly relating to:
   (I) Productivity of man and machine,
   (II) Availability and utilization of machines,
   (III) Cash Management,
   (IV) Inventory control with special emphasis on capital stores and spares of Heavy Earth Moving Machinery,
   (V) Invoicing system and Debtors control,
   (VI) Personal claims (Salary/wages bills, LTC/LLTC, O.T. etc.)
   (VII) Project implementation, keeping in view the time of completion and cost over-runs,
   (VIII) Contracts/agreements specially sand/coal transport contracts,
   (IX) Road/local sales and collection etc. thereof,
   (X) Revenue management,
   (XI) Any other item(s) specified by Director (Finance) of the company.

(c) Reliability of MIS Reports;
(d) Improvement, if any, in respect of above, since last Internal Audit.

SAMPLE - 5: MINERAL EXPLORATION CO

The internal Audit should cover the following broad areas:

(a) Compliance with procedures and system through selective transaction audit.
(b) Appraisal of performance in key areas and system of management control therein, particularly relating to,
   (I) Productivity of men and machines of coal exploration and personnel engaged in planning and Design jobs,
   (II) Availability and utilization of machines,
   (III) Cash Management,
   (IV) Inventory control with special emphasis on capital stores and spares for drilling rigs,
   (V) Salary Administration (Covering personnel),
(VI) Revenue Management,
(VII) Project implementation, keeping in view the time of completion and cost over-runs,
(c) Reliability of MIS reports
(d) Management Control System (including MIS System) in the Company, and
(e) Improvement, if any, in respect of above, since last internal audit, achieved by reason of suggestion/advice/guidance from earlier audit.

SAMPLE - 6: POWER GENERATION CO

Scope of Financial review:
The broad objectives of internal audit shall be as under:

a) To ensure that the accounting and financial management systems are reliable and effective in design and to assess the extent to which they are being followed:

b) To review the efficacy, adequacy and application of accounting, financial and operating controls and thereby ensure the accuracy of the books;

c) To verify that the systems of internal check is effective in design and operation in order to ensure the prevention of and early detection of defalcations, frauds, misappropriations and misapplications;

d) To identify areas of significant inefficiencies in existing system and to suggest necessary remedial measures;

e) To confirm the existence of financial propriety in all decisions and determine compliance with the Govt. and Statutory requirements;

f) To review performance of various functions in the light of performance budgeting and to suggest cost reduction programme, if any.

The scope and extent of Internal Audit shall be as indicated in Annex.-A The sampling size shall be broadly as suggested in manual of Internal Audit Procedure (Phase –I). Special attention may also be paid for scrutiny and review of various parties account (suppliers and contractors) materials issued on loan and scrutiny of confirmation of balances by parties. Suggestions, if any for modification of the manual may also be indicated.

Scope of Operational review:
As will be again emphasized in the Internal Audit kick-off meeting, the additional responsibilities of the Internal Auditors will be on operational areas, and the following points shall be required to be verified and reported. A special Annexure-B has been attached to elaborate operation audit.

I. Input costs: Adequacy & efficiency of the operational control system for the following inputs viz. coal, furnace oil, chemicals. The review should use a randomly selected sample of transactions (sample size – 5%) and go through the material procurement-to-payment control cycle to include receipt, inspection, weighment, issue and inventory (physically verification process). The objective is to form an opinion that the controls are proper and operating adequately during the year which can be relied upon by management. (Special
attention should be given to the weighment of coal and that procedures regarding testing of surface moisture are adequate and being followed.)

II. **Tariff agreements**: Tariff fixation as per provision of Electricity Supply Act. Analytical study of agreements with State Electricity Boards for tariff fixation with a view to explore further possibilities of any point that can favour our company. Special emphasis should be given to transmission losses & procedures to detect discrepancies on dual side metering.

III. **Cost of generation**: Adequacy & regularity of ROOT CAUSE ANALYSIS of variances of actual cost of generation when compared with the standard cost derived from tariff rates.
   a) **Price Variation** – This should be analysed to find the course of action available in tariff agreement if it differs adversely.
   b) **Usage Variance** – This should be analysed in depth to find out the root cause for adverse variance and to suggest alternatives to eliminate the same.
   c) **Mix variance** – Wherever applicable this should be analysed and suggestion should be brought out for improvement.
   d) **Expenditure variance** – Fixed cost along with the capacity utilization should be compared with the standard norms and suggestion may be brought out accordingly for improvement.

IV. **Stores & spare parts**: To ensure whether store records of all operational inputs and spares have been properly maintained following scientific inventory management & continuous physical verification system

V. **Energy accounting**: Billing and check of reconciliation of generation with sale and internal auxiliary consumption should be verified.

VI. **Scrap & disposal management**: To ensure scrap and other obsolete and non-moving items of operational activities have been identified and duly disposed of.

VII. To verify energy meters are calibrated regularly & are working properly.

VIII. Balances from SEBs should be confirmed & follow up correspondence reviewed for old balances.

**Scope of Verification of Assets**:
The internal audit shall also include verification of fixed and current assets exists as shown in the relevant documents and necessary adjustments are made in respect of discrepancies noticed at the time of physical verification. The firm shall also associate themselves with the physical verification taking place at least once in each phase of audit and review the verification procedures. The firm shall also verify interalia compliance to the requirement of MAOCARO in regard to physical verification of fixed assets, construction and other stores.
**Scope of Verification of capitalization of expenditure:**

Internal Audit shall also include verification of capitalization of expenditure during the year in accordance with the approved accounting standards and the policy of the company.

**Report on Sample:**

Every report should be suitably supplemented by a statement indicating particulars of records checked and also the volume and value of records checked as compared to the total volume and value of the transactions.

**SAMPLE - 7: GENERAL SCOPE OF WORK FOR INTERNAL AUDITORS BY A FINANCIAL INSTITUTION TO BE FOLLOWED BY INVESTESEE COMPANIES**

1. To study the existing system of accounting and maintenance of records at office (s) and factory and to suggest for improvement with a view to introduce proper checks and controls at different stages of purchases including capital items, issue of materials, stores, sales, etc. and also to eliminate delays at various stages.

2. To help the company in setting up the procedures to be followed in regard to capital expenditure namely selection, terms of payment, receipts, etc.

3. To check the systems for control of scrap generation disposal and stock thereof.

4. To study and to suggest improvement in the costing systems being maintained by the company and to suggest improvement in the system, if any, for working out unit/batch contribution.

5. To check existing system for control of input/output and comparison of actual figures with the standard set.

6. To certify the various financial statements like monthly Profit and Loss Accounts, Cash flow, statutory liabilities position, monthly Stock Statement, etc. for submission to Bank, us (lending financial institution) and/or other financial institutions by the company.

7. To certify the proforma invoices to be submitted for stage release of reconstruction loan, duly verifying the same with capital expenditure programme, tenders, quotations, etc.

8. To verify and authenticate the Purchases, raw materials and stores received raw materials and stores consumed for submission to Bank and/or other financial institutions. To undertake physical verification of stock by perpetual inventory system through ABC analysis so that A & B items cover at least twice in a year and C items at least once in a year. Periodical checking/reporting of non-moving and obsolete stores, WIP, finished goods, scrap generation
and disposal and reporting thereof. And on inventory of raw materials, WIP, stores and finished goods over normal stocking policy.

9. Vouching of cash/bank transactions, sales invoices, order position and sales realization. The position of outstanding, steps taken for realization of debts lying outstanding, for more than 90 days are to be specifically intimated at the end of each quarter. Physical verification of cash and checking of bank reconciliation statement periodically.

10. Quarterly report as to the compliance of the terms and conditions of the terms loan agreement executed between the company and IRBI/Bank/Other financial institutions.

11. To evolve a system of management information.

12. Monthly/quarterly internal audit report covering all the above mentioned aspects may please be submitted to the company and us (lending financial institution) within 20th of the following month to which it relates. Even if the report could not be submitted on or before 20th of the following month, for reasons beyond their control, they should state such facts in writing to the company as well as us on or before 20th of the following month.