

VT CAPITAL MARKET PRIVATE LIMITED

(Formerly Varun Tradecom Pvt Ltd)

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INTERNAL AUDIT AND INTERNAL CONTROL MANUAL



VT Capital Market Pvt Ltd (VCMPL) Member of NSE, BSE, MSEI & MCX Internal Audit Manual of the Company.

This Manual is in two parts. Part -I deals with the scope of internal audit in FSBPL, its organisation and status, annual audit programme, frequency, extent of checks exercised, selection of transactions for audit, audit techniques, internal audit report and the related matters.

Part-II contains checklists which give in detail the tests to be carried out for each audit item. Checklists have been prepared for main areas viz. fixed assets, inventory, cash and bank, contract notes and sundry debtors, purchases, sundry creditors, employees' remuneration, operations, utilization of manpower, personnel department, administration department, KYC documents, risk management, dealing with clients funds and securities, banking and demat account operations, terminal operations and systems, management of branches, investor grievance handling, maintenance of books and accounts, proprietary trading.

PART – I

INTRODUCTORY

1. Internal audit is an independent appraisal activity seeking to provide the management a reasonable assurance regarding the following :
 - a) That all assets of the company are safeguarded against all kinds of losses and misuse.
 - b) That the accounting controls designed to ensure the reliability of financial records are actually in operation.
 - c) That financial and other operating controls are actually in operation.
 - d) That management policies and plans are duly followed.
 - e) That the various management decisions have been made on the basis of adequate study and cost benefit analysis, keeping in view the long term objectives of the company.

Internal audit is a managerial control which functions by measuring and evaluating the effectiveness of other controls. It assists all levels of management in effective discharge of their responsibilities through analysis, appraisals, findings and suggestions.

Internal Audit is not restricted to accounting and financial areas but goes beyond these, to the operational areas as well.

INTERNAL AUDIT IN VCMPL

2. Internal Audit in Varun Tradecom Private Limited (VCMPL) is a Corporate function. Internal Audit located in the Corporate Office is responsible for internal audit both in the Corporate Office and in the branches.

SCOPE OF INTERNAL AUDIT IN VCMPL

- 3.1 Internal Audit in VCMPL will have the following broad components :
 - i) Audit of primary and subsidiary records i.e. cash book, bank and cash vouchers, journal vouchers, contract notes, party ledgers, fixed assets, sundry debtors etc.
 - ii) Review of systems and procedures and internal controls to ascertain their continued adequacy, effectiveness and efficiency.
 - iii) Review of operations and performance of different departments.
 - iv) Review of expenses to ensure that propriety has been observed.
- 3.2 Its activities in these regards will be directed to :
 - Ensure that the assets of the company are adequately safeguarded against losses and misuse.
 - Ensure the accuracy and reliability of accounting and other information generated.
 - Ensure that the prescribed systems and procedures are being followed in the day to day operations of the company.
 - Ensure that the management's policies are being adhered to.
 - Ensure that the transactions and the operations in the branches are carried out with reasonable efficiency and effectiveness .
 - Ensure that all the resources are utilised with maximum efficiency to attain the corporate objectives.
 - Ensure observance of propriety in contracts and other financial transactions.
- 3.3 The above scope/activities of Internal Audit may be reviewed from time to time by the management who may add to or alter these as and when necessary.

- 3.4 The Internal Audit may also be required to take up special investigative assignments.

INTERNAL AUDIT AND INTERNAL CONTROL

4. Fields of internal audit and internal control are distinct. Any system of internal audit presupposes the existence of a system of proper and effective internal checks. Internal check is the responsibility of the supervisors in all departments. The appraisal of these internal checks will be one of the functions of internal audit. However, internal check systems may be developed in consultation with the Internal Auditor.

INDEPENDENCE OF INTERNAL AUDIT

- 5.1 To ensure effective and un-biased discharge of above functions, it is essential that : Internal Audit be objective and have the necessary organizational status.

OBJECTIVITY

- 5.2 To ensure objectivity, Internal Audit will not be given line authority over any operational or financial functions or become involved in the preparation of records (although it may advise in these matters) or be considered as a source of temporary staff for other work (notably finance and accounts work) of the company.

RIGHTS AND RESPONSIBILITIES OF INTERNAL AUDIT

- 6.1 Internal Audit will have full right of access to all company records, assets and personnel for performance of its activities as defined above. However, the audit staff shall be discreet in the use of confidential information acquired in the course of their work and shall not use the same for their personal gain nor use them in a manner detrimental to the interest of the company and the welfare of its employees.
- 6.2 Internal Auditor will be free to review and critically appraise any activity in any Unit/Department but this will not relieve the executives/supervisors of their responsibilities as internal auditing is only a staff or advisory function.
- 6.3 The Internal Audit will be informed of all changes in internal control procedures, prior to their implementation.

ANNUAL AUDIT PROGRAMME

- 7.1 The Head of Internal Audit will before the commencement of each year, draw up and get approved an Annual Audit Programme according to which the audit for that financial year shall be carried out. This annual programme will be broken up into quarterly audit programme
- 7.2 The annual programme will state the various areas which will be subjected to audit and the requirements for each such area. The plan shall be constructed after taking into account the coverage during the previous years, discovery of fraud in a particular area of operations during the previous financial year, suggestions of the Statutory Auditors, if any, special assignments to be taken up as per the management instructions and the budgetary constraints.
- 7.3 The Chief Manager (F&A) will monitor the progress of work every month and based on the coverage obtained or on special considerations, will arrange for special audits or authorise modifications

FREQUENCY OF INTERNAL AUDIT

- 8.1 Regarding frequency of internal audit, there is no fixed or general pattern.
Frequency of audit in a particular area will depend on a number of factors like nature of operations, transactions, management's needs, materiality etc. However, it will be ensured that the accounting areas are covered at least once in a quarter and other areas at least once in a year.
- 8.2 The priority of each area and the intensity of audit therein will depend on materiality concept, e.g. (a) the capital employed, (b) the turnover, and (c) the effectiveness of the internal control system among other things. Whereas capital employed and turnover permit objective treatment, considerable discretion and judgement has to be exercised in evaluating the prevailing internal control in the different systems locations of operation.
- 8.3 The examination of the Internal Audit would be more detailed in Units/areas where the internal control is weak.

REVIEW OF INTERNAL CONTROL

- 9.1 A broad review of internal control system will be made at the commencement of each financial year to take note of changes effected in the system and procedures since the previous review was undertaken. The adequacy of controls imbibed in the flow and custody of various assets, documents and information will be assessed through study of respective system flowcharts on each area. Evidently, all laxities of the system are not equally vital and the Head of Internal Audit shall have to assess the gravity of individual defects in doing so.
- 9.2 An internal control evaluation report will be prepared showing the Internal Audit and department's views of the controls and the suggestions on the inadequacies of the system.

PREPARATION FOR FIELD AUDIT

- 10.1 Before the commencement of an audit each member of internal audit will be explained and will familiarise himself with the functions of the department / activity / system under audit, organisation chart showing the authority and responsibility, observations/findings in the previous reports and follow-up thereon and the procedures followed. This will help in working out/updating the plan of individual audits including the extent of checks to be carried out and audit techniques to be used. It will also help in locating fields which are comparatively weak in internal control and hence require a thorough checking. The audit plan need not be rigid and will have flexibility for modifying it in the course of audit in the light of observations and findings.
- 10.2 The audit programme will be intimated to the Unit/Department concerned by about a week in advance except in case of surprise checks. The Unit/Department will also be informed of the work to be undertaken and the records which will be required for audit.

EXTENT OF CHECKS

- 11.1 The extent of checking by Internal Audit in individual areas will depend on internal control system, the materiality of the transactions and the possibility of using overall checks to obtain assurance as to the correctness of various records.

11.2 Assessment of internal control has already been discussed in paragraph 9 above

11.3 Materiality refers to the amount by which an amount may be mis-stated without its fairness being affected. It has to be subjectively fixed after considering the turnover for the particular period in respect of revenue items, the value of the block or group of assets/liabilities to which the particular account pertains in respect of balance sheet items, and the cumulative effect of similar items e.g. a number of small errors occurring under the same circumstances during the year may be significant in amount if aggregated.

The areas of transactions which involve greater turnover and larger capital employed etc. would normally be more important from the materiality angle and consequently would be checked more thoroughly.

SELECTING THE TRANSACTIONS

12.1 After considering the internal control procedures, the items to be tested will be selected either on the basis of some key characteristics (e.g. amount, period during which the transaction was entered into, nature of transaction) or purely at random on the basis of statistical techniques.

12.2 The Head of Internal Audit can select any of the following sampling technique depending on the circumstances of each case :

- (a) Judgment Sampling
- (b) Statistical Sampling

12.3 In judgement sampling, Internal Audit rely on its judgement in selecting the sample size and the individual items to be tested.

12.4 The use of statistical sampling involves determination by the Head of Internal Audit of the full extent of the population (i.e. group of data under audit), the information required, the accuracy required in the answer and the confidence with which he needs to express the answer. Size of the sample is governed by the expected rate of occurrence of the attribute being sought within the field, by the standard deviation of the population (a measure which depends on the variation in the size or value of the items within the field), by the degree of accuracy and confidence required, and is affected only to a limited extent by the size of the field from which the sample is chosen. The sample is so selected at random that all items in the field or in each stratum have an equal chance of being chosen. The results obtained from the sample have to be statistically evaluated.

AUDIT TECHNIQUE

13.1 The techniques normally employed in testing of transactions are vouching, physical verification, confirmation, scrutiny, recomputation, analytical review and other overall tests and personal judgement and expert's opinion.

Vouching is the most extensively used audit technique. The auditors examine the documents which form the basis of quantitative accounting and the process by which the documents were generated/raised and thereby satisfy themselves as to the authorisation, authenticity and propriety of the various transactions.

Physical verification technique, by its very nature, is restricted to tangible assets like cash, stores and fixed assets whose existence can be confirmed on inspection and tallied with the representation in the books and records. Confirmation from outsiders is a reliable, independent evidence and is useful for validating debtors, creditors, bank balances, etc.

Scrutiny is the auditors' attempt to discover and isolate the exception from the mass. The exceptional transactions are then followed up.

Much of accounting information are derived through the process of arithmetic. Such items are to be checked by recomputation of the calculation.

Analytical review and other overall checks are largely based on correlating and comparing figures e.g. interest on loan with the loan amount, movement of stock items with the stock turnover ratio and past records.

Judgement has to be exercised in testing qualitative assertions like reliability of debts, etc. Exercise of judgement will be at the senior levels.

AUDIT FINDINGS

- 14.1 All audit findings will be recorded in the working papers. In course of the audit if the Internal Audit Staff requires clarification, he will first discuss with the departmental officers; if not satisfied he will issue an Audit Memo in duplicate to the departmental head. These audit Memos will be sequentially numbered and the copy will be countersigned by the recipient. The departmental heads will forward the reply with the reference of supporting documents at the earliest and the same will be kept in audit file.
- 14.2 Irregularities of serious nature will be brought to the notice of the Head of Internal Audit immediately who may discuss these with the Head of the Unit/Department and bring it to the notice of the Managing Director wherever necessary.

WORKING PAPERS

- 15.1 Internal Audit will maintain working papers. These will carry details of the transactions tested, the tests which were carried out and the discrepant or exceptional findings therein and the tests which could not be carried out with the reasons thereof. The working papers help to determine the adequacy or otherwise of the work performed. These also show whether or not the evidence gathered in the audit process is sufficient to support the opinions expressed in the various internal audit reports.
- 15.2 Some of the working papers to be maintained will be the internal control questionnaires duly answered, internal control evaluation papers, statement of the extent of checking as a percentage of the population where non-statistical test checks have been prescribed by the Head of Internal Audit, specific instructions on the sample size, the mode of selecting the sample specifying the key characteristics by which the transactions to be selected shall be identified. Where checklists specified in the Manual are used, a reference shall be made to the checklist no. in the working papers. For special assignments, checklists will be prepared by Head of Internal Audit and these will be retained in the file.
- 15.3 The disposal of every outstanding observation as also any suggestions or recommendations will also be recorded in the working papers.
- 15.4 The working papers on the field audit will form the basis for the report to be submitted by the auditor in charge to the Head of Internal Audit.
- 15.5 It is possible that some suggestions for improvement may not be acceptable at the operational level. In such cases, both the suggestions and the observations of the concerned department are to be recorded and brought to the knowledge of higher authority to arrive at a decision. In certain cases, the

observations may be admitted and the suggestions also accepted in toto.

INTERNAL AUDIT REPORT

- 18.1 The Internal Audit report will specify the area/system/ location under audit and the period covered by the audit, the extent of checking including the limitations, if any, under which the audit was carried out, the observations (set out in order of their relative importance) being lapses, lacunae and discrepancies observed and noted in the course of the audit, reasoned conclusions, suggestions for improvement as formulated after discussion with the departmental managers and the points raised in the earlier reports and the suggestions made therein which have not been implemented. The report will be prepared on the basis of the audit notes and the replies thereto. Minor discrepancies/lacunae will be brought to the notice of the departmental managers through Audit Memos. Only material discrepancies will be incorporated in the Audit Report.
- 18.2 In cases where the department has not agreed with the audit observation the report will contain the views of the department along with Internal Audit views and its further observations.
- 18.3 The format of audit report will be :
- An introductory part containing a review of the working of Department/Unit covered, the scope and period covered by audit and general state of affairs.
 - Major irregularities like cases of fraud, financial irregularities, lack or disregard of internal controls, non-implementation of established system and procedures, absence of controls etc.
 - Minor irregularities of non-recurring nature and failure to adhere to approved procedures not likely to have serious results.
 - Suggestions for improvements.
- 18.4 The report will be submitted to the departmental head within 15 days of the completion of audit for necessary action with a copy to Unit Head. The departmental head will give the comments on the audit findings. The copy of the Report will also be submitted to the Chief Manager (F&A) who will in turn bring important audit observations to the knowledge of the Managing Director. In addition to the usual reporting, the Internal Audit will submit Memos, highlighting important lacunae which shall require immediate management attention, as and when such lacunae are discovered.

FOLLOW-UP

- 19.1 It will be the responsibility of Internal Audit to verify particularly whether or not the departments have implemented its suggestions and generally whether any follow-up action has at all been taken. If some follow-up action has been taken, though not on the lines suggested, Internal Audit will examine the adequacy thereof.
- 19.2 At half-yearly intervals i.e. at the end of September and March, Internal Auditor will prepare a report on the follow-up action taken by the Units/Departments on the basis of internal audit reports submitted during the six months ending March and September respectively. This report will indicate areas on which follow-up action has been taken on the lines suggested by it, areas wherein its recommendations have not been accepted but adequate alternative action has been taken and areas where no follow-up action has been taken by the Units/Departments. Internal Audit will take up with Head of Units for the unreplied items of the reports as a follow-up action.

AUDIT FILES

20.0 The Internal Audit will retain appropriate information relating to the audit, subjectwise in two main classes of files viz :

- a) Permanent audit file containing information which shall remain relevant over a long term period like organisation structure, delegation of financial powers, the Accounts Manual, Stores Manual and other similar documents on the prescribed systems and procedures, system flow charts, circulars on rules/procedures issued by the appropriate authority.
- b) Current audit file containing checklists, schedules, and other working papers which are relevant for the particular assignment.

REPORT TO BOARD OF DIRECTORS

21.1 The Chief Manager (F&A) will at the internal of every six months, submit a summarised report to the Board highlighting the work done by Internal Audit and the important points brought out in the reports submitted by them. In the summarised report the views of the Head of Units/ Departments concerned will also be incorporated.

CHECKLISTS

22.1 The field work will be carried out on the basis of checklists which give in detail the tests to be carried out for each audit item.

22.2 Checklists on the following main areas are included in Part-II of the Manual :

- 1) Fixed Assets
- 2) Inventory
- 3) Cash and Bank
- 4) Billing and Sundry Debtors
- 5) Purchases
- 6) Sundry Creditors
- 7) Employees Remuneration
- 8) Utilisation of Equipment
- 9) Utilisation of Manpower
- 10) Branch Operations
- 12) Capital Expenditure, Renewals and Replacements
- 13) Personnel Department
- 14) Administration Department
- 15) Accounts

22.3 Checklists for special assignments/audits will be prepared by the Head of Internal Audit appropriately.

22.4 The checklists are related to the systems and procedures, controls and documents described by the stock exchanges and SEBI.

PART – II

CHECKLIST NO. 1

FIXED ASSETS

1. Checks by Internal Audit will cover the ownership, physical availability, proper utilisation, valuation and disposal of fixed assets. Specifically, Internal Audit will ensure :

- that all capitalisation has been done as per the Company's capitalisation policy.
- that a Capital Budget has been duly approved by the Board of Directors and all items are included in the Capital Budget,
- verify that the expenditure is duly authorised by the competent authority based on delegation of financial powers.
- that costs incurred for acquisition/installation etc. are properly accounted for.
- ascertain that there has been no undue delay in putting to use the assets received during the year or earlier years,
- that Fixed Asset Registers have been maintained,
- check that all additions and deletions have been made in the Fixed Assets Register to ascertain correctness.

2. Internal Audit will select items of equipment, furniture, etc. from Fixed Assets Register. Following checks will be exercised for all assets purchased directly from outside during the year :

- Verify every addition to Fixed Assets from Fixed Assets Register/General Ledger.
- Scrutinise commission/completion/possession/forming basis of capitalisation of such assets.
- Check journal entry with Capital Work-in-Progress to verify the amount to be capitalised.
- Check the posting to General Ledger.

3. For Buildings, Internal Audit will :

- Verify from (and executed by the Vendor the terms of the acquisition and description/details of the building),
- Scrutinise correspondence on the negotiation, where applicable,
- In case of buildings constructed by the company, verify the cost,

4. DEPRECIATION

- Ensure that all assets except land are depreciated annually.
- Check the correctness of depreciation provided,
- Ensure that depreciation for the purpose of annual accounts as well as of Income Tax has been correctly calculated,
- Ensure that on depreciation has been charged on assets disposed off or Scrapped during the year.

5. DISPOSAL AND SCRAPPING OF ASSETS

Here, the checks will be :

- Check the system of review of fixed assets to determine unusable assets.
Check whether all the required formalities for disposal / condemnation / scrapping of assets have been

complied with.

- Check journal entry passed for writing off such assets from Fixed Asset Register.
- Verify profit/loss on sale of assets and its accounting by referring to written down value and sale proceeds.
- Refer to Cash Book/Bank Book and Bank Statement and relevant receipts issued to parties to ensure receipt of sale proceeds.

6. VERIFICATION AND FOLLOW -UP

- The checks in this regard will be :
- Internal Audit will verify that physical verification of assets has been carried out in accordance with the corporate policy.
- Review action taken on the items where discrepancies were found on the last verification as regards the physical existence.
- Follow-up on the managements' action to establish the physical existence of the asset or if non-existence is established, to pinpoint responsibility for the loss and to ensure write off of the assets from the books and removal from the Fixed Asset Register on due authorisation.
- Follow-up on all assets disclosed as damaged, obsolete or surplus by physical verification reports to ensure that damaged items were subsequently repaired and put to use and that steps have been taken to dispose off obsolete or surplus items after necessary survey.

CHECKLIST NO. 2

CASH AND BANK

The internal control on cash must be thorough as cash is the most liquid of all assets. It will be the primary function of internal audit to trace each item to its source and to see that adequate arrangements exist for recording each transaction and for protecting it against fraud and misappropriation. The internal Audit will ensure the existence of internal control by verifying the following :

- The Cash Book/bank Book is currently posted and kept update and supporting documents are checked daily by the Accounts Executive.
- That there are no unauthorised corrections in the cash and bank books and the entries have been attested wherever required.
- That cash in hand is not excessive having regard to daily cash requirements of the Unit/Corporate Office.
- That strict control is exercised over the custody of unused receipt forms/cneque books and issue of receipt forms/ cheque books That physical counting of cash at the end of each day and its reconciliation with the book balance is done on daily basis by a responsible officer, that surprise verifications are done as prescribed.
- Management of cash in hand particularly cases of holding cash much in excess of requirements.
- That there is no unreasonable delay in depositing receipts with the Bank.
- That the cheque signing procedures are followed; bank transfers and requisitions for issue of demand drafts are signed by the officers who are authorised to sign the cheques.
- That vouchers are suitably numbered defaced to prevent the same being used again.

3. CHEQUES :

Following, checks will be exercised for receipts :

- Samples to be selected from the checks received record.
- Note Cheque No., amount, payer's name
- Trace to the receipt issued by Cash Section
- Verify posting in the Bank Book for actual receipt
- For other miscellaneous receipts - check relevant documents and posting in the Bank Book.

Following checks will be exercise for payment :

- Samples to be selected from the Bank Vouchers.
- payment, trace to Payment Advice and Payslip, Payment Voucher.
- Trace to Payment Advice and note Invoice No.
- Tally amount in invoice/payslip with the counterfoil of cheque.
- Verify posting to Bank Book for actual payment.

4. CASH

- Checks for receipts will be :
- Samples to be selected.
- Note Receipt No. and amount.
- Tally amount with receipt counterfoil,
- Verify posting in Cash Book.

For payments, checks will be :

- Samples to be selected from Cash Vouchers.
- Note voucher no. and amount
- Ensure that voucher has proper authorization
- Check acknowledgement by receipt of party.
- Verify posting in Cash Book.

Following checks will be exercised on cash advances :

- Samples should be selected from cash advances.
- Trace to payment advice
- Verify posting in Cash Book
- Ensure that advance is duly authorised.

5. BANK RECONCILIATION STATEMENT

Checks to be exercised are :

- Ensure that Bank Account is reconciled every month.
- Trace the cheques issued but not cleared to bank statement of the succeeding period.
- Follow-up cheques deposited in Bank but not credited by the bank.
- Obtain periodically a certificate from the banks confirming the balance with the bank and tally the same in the Bank Statement.
- Test check computation of interest, commission and other charges debited by bank to ensure its correct ness.

6. To ensure proper utilisation of cash credit facilities sanctioned by Bank, the Internal Audit will make periodical checks of all relevant papers, documents, stock returns submitted to Bank to verify the compliance of banking rules and procedures.

7. To ensure that the rules regarding the safe custody of cash, cash chest are followed, policies for insurance of cash in transit and cash in chest are kept current and the employees handling the cash have furnished the required security and the fidelity bonds executed are kept current.

CHECKLIST HO. 3

CONTRACT NOTE AND SUNDRY DEBOTRS

Sample selected for testing contract notes will also be the sample for testing Sundry Debtors Account. Following checks will be exercised :

- Check that the contract notes are prepared in accordance with the provisions of the SEBI,

- Check the correctness of accounting entries.
- Check whether the payments are received from clients within 5 days.
- Check entry in subsidiary ledger for debtors.
- Check/scrutinise the subsidiary ledger for debtors to identify the old debts outstanding but recent amount being paid and balance static for a period longer than average collection period.
- Scrutinise party files to determine disputed claims and the adequacy of follow-up actions initiated.
- Check the reasons for debts, if any, becoming unrealisable and action taken for realisation of the same/ check adequacy of provision for doubtful debts.

CHECKLIST NO. 4

SUNDRY CREDITORS

1. Samples selected for checking Purchases shall be selected for checking Sundry Creditors :

- Tally the amount as per creditor subsidiary ledger with payment advice.
- Check posting to Cash/Bank Book for actual payment.
- Scrutinise party files in respect of disputed claims of the creditors to ascertain nature of disputes and validity of the Company's contentions.
- Check whether the total balance of individual creditors as per the creditors' subsidiary ledger tallies with control account in General Ledger and the differences, if any, were analysed; check whether bills are lying unpaid for long and ascertain reasons therefore.
- Check postings to general ledger.
- Check that the advances paid to sundry creditors are correctly adjusted as per terms of the contract.
- Scrutinise cases of irregular balances in sundry creditors' ledger.
- Verify that advances made to various suppliers are duly adjusted and accounted for in proper heads of account.
- Check whether advances are lying unadjusted for any inordinately long time.

2. Sundry Creditors for Contracts

- Study the contract including the terms of agreement, terms of, payment and ensure that initial security deposit is as per agreement.
- Ensure that bills submitted by contractors are in conformity with the measurement book and with the agreement.
- Ensure that deductions allowed on account of running bills including statutory deductions like income tax, are as per specifications in the agreement.
- Ensure that advances to contractors are adjusted against running bills and such advances have been duly booked in
- For long outstanding payments, analyse reasons for non-payment.
- Check whether part of the value is paid in advance and whether adequate arrangements have been made for security of the amount before advance was released.

CHECKLIST NO. 5

EMPLOYEES' REMUNERATION AND OTHER PAYMENTS

The objective of this checklist is to ensure that correct amount of salaries and allowances has been paid, all statutory and other deductions have been made, payment is made to the right person, payment is made for services actually rendered and receipt of salaries and allowance is duly evidenced.

1. Following checks will be exercised :

- Samples to be selected.
- Ensure that gross salary is computed in accordance with the rules of the company. and terms of employment
- Check the fixed deduction statement and variable deduction statement with the basic records of Time Office to ascertain the correctness of the deductions made through payroll. Check attendance as shown in the Attendance Data Statement with the records maintained by Time Office.
- Check the absentee statement prepared by various departments with variable attendance data statement.
- Tally net amount payable in Paybill Summary with amount in payment voucher.
- Ensure that the statutory deductions on salary have been deposited with the appropriate authority within the stipulated time limits.
- Ensure that payslip receipts are returned with due acknowledgements.

2. Other Checks

- Check sanction for posts operated.
- Check regulation of salaries and wages in accordance with the rules framed by the management.

3. Accounting and Remittances

- Verify the correctness of pay orders and cheque or bank advice.
- Check the various schedules prepared along with the pay bills for their correctness.
- Verify remittances to outside agencies for correctness and payment within due dates.
- Check up the subsidiary records maintained for the purpose.

4. Travelling Allowance, Advances Select sample.

- Check delays in payment of claims, sanction by controlling authorities after proper checks, admissibility under the rules, adjustment of advances etc.

5. Bill for Loans/Advances

- Select the sample
- Verify that loans and advances have been sanctioned in accordance with the rules and by the authorities competent to do so, payments have been duly recorded in the concerned registers of advance recoveries are effected promptly and correctly, agreement bond, surety bonds have been obtained wherever required.
- Check mortgages wherever required under the rules.
- Check interest calculation.

6. Encashment of Earned Leave

- Select the sample
- Check correctness of encashment allowed with reference to leave records and also pay bills rules etc.
- Check recording of encashment suitably.

7. Bonus Payments

- Select the sample. Check correctness of the total earnings for the year and the rates.

CHECKLIST NO. 6

UTILISATION OF MANPOWER

Following checks will be exercised :

- Check the organisation structure and compare the actual manpower to sanctioned manpower.
- Check the overtime hours against normal hours; review the trend of OT payment/verify that overtime payment is within the approved limits.
- Examine record of workers' absenteeism and whether it is normal or abnormal.
- Examine the accuracy of records in respect of attendance, leave, time keeping etc.

CHECKLIST NO. 7

PERSONNEL DEPARTMENT

The checklist for internal audit of personnel department aims to ensure that management policies for recruitment, promotion, etc. are carried out as per rules and procedures and policies of the company and as per statutory regulations.

The checks are :

- Check that all rules and regulations for recruitment of all categories of employees are strictly followed and that all records in this regard are properly maintained.
- Check that promotions are as per policy and procedures of the company.
- Check that leave records are maintained properly and test check certain entries in leave record with supporting documents.
- Check correctness of final settlement for retrenched/ terminated employees.
- Check whether the prescribed records of employees are maintained.
- Review the sanctions for various posts.
- Ensure that personnel files of the employees are properly maintained and are complete.
- Review cases of pay fixation and grant of special pay/ allowances.

CHECKLIST NO. 8

ADMINISTRATION DEPARTMENT

1. Internal audit will cover mainly the repairs and maintenance of vehicles/office equipments, airconditioners etc. and aircraft and purchase of vehicles, furnitures, printing and stationery etc.

2. Internal Audit will select samples from various registers/ records maintained by the Department and :

- Ensure that all quotations are obtained in sealed covers before awarding any job/contract.
- Ensure that job/contract is awarded to lowest tenderer on various jobs; check whether deviations from this policy are approved by competent authority.
- Ensure that proper internal control is there for, maintenance of records of various jobs and financial concurrence is obtained wherever required before awarding any contract or placement of order.
- Check whether all repairs and maintenance are entered in log books/registers maintained for office equipments, air-conditioners etc.
- Check all purchases (furniture, office equipments, printing and stationery) have been made in accordance with the prescribed procedure.
- Verify physically the stocks of printing and stationery

- Check that issues of printing and stationery are properly authenticated and are based on norms.
- Check that recovery of charges for private use of vehicles is being made in accordance with the rules.
- Check that emergency/local purchase were justified, not excessive and were made according to the prescribed procedure.
- Check that proper records are maintained for electricity and water bills, telephone and telex bills etc. and are correctly certified for payment with reference to consumption/use.
- Check that proper control is exercised on the assets in the custody of the department.

CHECK LIST NO.9

ACCOUNTS

- Check the journal vouchers prepared by the various sections with reference to the supporting documents and the narration furnished on the journal vouchers and link them with entries in the journal and ledger.
- Check the correctness of inputs to the system
- Check the summaries of cash receipt journal vouchers, cash disbursement journal vouchers, sales journal vouchers and accounts payable journal vouchers and also Day Book for cash receipts and payment.
- Check the journal entries for the main journal prepared on the basis of summaries.
- Check the correctness of outputs from the system.
- Review the trial balance to see that :
 - i) adverse or unorthodox balances are not appearing under any account code and action taken to rectify such balances.
 - ii) there are no misclassifications or wrong codes used. ensure that all subsidiary ledgers are properly maintained and reviewed and balances reconciled with the control totals in the Ledger.

