

Proposal for Internal Audit

1. Background

- 1.1 **HCAS** ("The College"). Managed by a Society headquartered in Chennai. The College imparts education in various facets of Engineering and Technology.
- 1.2 "The College" has approached **R.Viswanathan, Chartered Accountant, (CA)** for Internal Audit of its operation at the Padur Campus and the Scope of the Services would be defined on which the CA would be able to render to the said College.

2. Terms of reference

I propose to render the following services:

2.1 Verification and Preparation of Timely Internal Audit Report

Scope of Work

A description of the envisaged scope is enumerated as under. However, the College reserves its right to change the scope which should to be informed in advance to CA which will be considering the size and variety of the requirements and the changing business conditions.

The audit will be carried out in accordance with Standards of Internal Audit (Internal Auditing Standards Board) issued by the Institute of Chartered Accountants of India in this regard. The auditor should accordingly consider materiality when planning and performing the audit to reduce the risk to an acceptable level that is consistent with the objective of the audit.

The indicative scope of the internal audit services covering the operational and support functions would be as follows:

Cash payment verification

Bank Payment verification

Verification of Bank reconciliation Verification

Verification of Purchases

Verification of Fixed Asset purchases

Verification of Payroll processing

Verification of TDS Payment

Verification of Vehicle running expenses

R.VISWANATHAN
Chartered Accountant
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Proposal for Internal Audit

Verification of Vendor payments

Further detailed approach is enclosed herewith

On the basis of the above areas I would render the Internal Auditing services to your College. Report will be submitted on monthly basis. Scope is indicative and areas will be visited based on HCAS request upon requirement

Approach:

I believe that of equal importance to the quality, expertise and experience of my Associates, Manager and Staff, is that these resources are deployed effectively and that the services are conducted to yield maximum benefit to **HCAS**

Communications and reporting

- ◆ I attach a great deal of importance to establish an effective basis for communication, both formal and informal;
- ◆ I approach to informal reporting will bring the following benefits to **HCAS**:
 - regular contact with the management of “The College” to discuss key issues;
 - early identification of issues to ensure there are no surprises at any point of time; and
 - Periodic updates of the status of the assignment.

3. Fees

The CA sets its fee proposals at levels that enable it to provide quality service that its clients are entitled to expect at all times. The CA pays considerable attention to controlling time and expenses on all work for its clients. The CA believes that controlling fees and giving quality service are not mutually exclusive.

In an assignment such as this, it is difficult to estimate the actual time cost. However, the CA has estimated the time cost based on its previous experience in similar assignments

Based on the similar assignments in past, I shall charge fees to **HCAS** as under:

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| <i>Particulars</i> | <i>Amount</i> |
|--|-------------------|
| Fees as services mentioned in Para 2.1 | Rs.30,000 monthly |

In addition to the above, the out-of-pocket expenses based on actuals. Outlays, consisting of travel and hotel accommodation, if any, word processing, courier and telecommunications and other expenses necessarily incurred while engaged on this assignment, will be billed separately. I am extremely conscious of these expenses and shall endeavour to keep the same to the minimum.

Other taxes

All applicable taxes, including GST (currently 18%), if applicable shall be levied on the total invoice amount. Any other tax, duty, cess or other Government instituted levies that may become applicable to any or all of the transactions underlying the proposed engagement shall be payable by **HCAS** in addition to fees charged by us and the amount of service tax mentioned herein above.

4. Managing the engagement

4.1 Effectiveness

Of equal importance to the quality, expertise and experience of my profession will be the effective deployment so that the advisory service itself yields maximum benefit to the Company.

4.2 approach

My approach continually evolves to take account of changing tax laws and regulations in India, and development in technology. The philosophy which underpins my approach is based on five key attributes: sound professional advice; value for money; central management and control; personal commitment; and timely advice.

4.3 Communications

I attach great importance to establishing an effective basis for communication, both formal and informal. The key issues will be mutually

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Proposal for Internal Audit

discussed in developing its advice strategy well before the start of fieldwork.

In order to build on our knowledge of the College and its operations, I shall invest the requisite number of hours in developing our relationship.

4.4 Access to information

You shall ensure that any information, which the I may require for the purpose of providing the services set out in this letter, is made available, as and when the firm may require it. You will appreciate that I cannot be held responsible or liable if information material to the firm's task is withheld or concealed from it, or not furnished in time.

4.5 Confidentiality

I seek to assure you in general as to the confidentiality of information relating to you generally and more specifically as follows:

- ◆ The College shall take all due care to ensure that the staff at all levels will respect the confidentiality of information obtained in the rendering of services.
- ◆ All information maintained by the firm relating to **HCAS** will be kept secure at all times and will not be made available to any person within the firm other than the staff assigned for the work.

4.6 Responsibility of the Management – HCAS

The responsibility for the preparation of the Financials Statements and other Documents is that of the management of the enterprise. Management's responsibilities include the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies and the safeguarding of the assets of the enterprise. The audit of the financial statements does not relieve management of its responsibilities. The College is responsible for the Maintenance of Books of Account and the same has to be produced for verification and the responsibility of the CA is to give the report on an agreed timely basis. Scope of the Internal Audit the management has to suggest the areas to be done apart from the above services mentioned in Para 2.1.

Proposal for Internal Audit

5. Termination of the assignment

HCAS and I shall each have the right to terminate this assignment by notice in writing at any time, although termination will not affect our rights of remuneration and indemnification as set out hereunder unless terminated by the firm or any other accrued rights which we may have upon termination.

I accept the benefit of this agreement as agent and trustee for each of my employees and employees of my associates.

6. Jurisdiction

This proposal shall be governed by and construed in accordance with Indian law and all disputes and claims arising hereunder shall be subject to the non-exclusive jurisdiction of the Indian Courts.

I shall be grateful if you will kindly confirm your acceptance of the terms of this proposal by signing a copy of the same in the space provided below. If the contents are not in accordance with your understanding of our agreement, I shall be pleased to receive your further observations and based upon mutual discussions we can amend the Proposal.


R. Viswanathan
Chartered Accountant

- (a) High Risk Areas
- (b) Critical Areas
- (c) Regulatory Compliances

(2) A quarter wise Audit Plan is given in Annexure II

III Audit Process:

- (1) A kick off meeting should be held by the Internal Auditors with the Functional / Divisional / Branch Head prior to the commencement of the audit of respective area. The discussion should cover :
 - (a) The Audit Plan & Scope
 - (b) Information required for the audit
 - (c) Time lines of the audit
 - (d) Extent of check
 - (e) Any new developments in the business
- (2) If needed the, the Functional/Department/ Branch Head should ensure that other staff members, who would be required to provide the required information, also attend the meeting. This would ensure better understanding of the Audit Scope and proper assessment of work by all concerned. All information to be provided to Internal Auditors within the agreed time schedule
- (3) The Internal Auditors should provide queries on a daily basis and discuss the points with the relevant officers. The relevant officer should provide replies and explanations to the satisfaction of the auditors at the earliest so that the issues are closed before the completion of the audit
- (4) Unresolved queries should be escalated by the auditors to the Functional / Department / Branch Head for their attention. These should also be addressed immediately
- (5) On completion of the audit, the auditor should submit a discussion draft to the concerned Functional / Department/ Branch Head giving the major issues
- (6) After discussion the Internal Auditor should discuss the draft report with CFO/CEO taking into account any revision or modifications resulting from discussion with Functional / Department/ Branch Head. After the changes have been jointly reviewed by the Internal Auditor and the Management, the final report should be issued
- (7) The Final Internal Audit Report should be submitted in the existing risk based format as per Annexure-III within 21 days of completion of the audit
- (8) The Audit Report should also specify the coverage and error percentage

- (9) Management Responses should state the time frame for compliance with outstanding issues
- (10) The Internal Auditor should submit a separate Management Letter covering issues such as low risk items, items having low financial impact, etc which, nevertheless need to be brought to the attention of the Management
- (11) The Final Audit Report should identify the nature of risk associated with each observation. The risk can be categorized as :
 - (a) Statutory / Regulatory
 - (b) Contractual
 - (c) Operational
 - (d) Financial
- (12) This Audit Plan has been prepared based on the business framework as it stands today. As the business framework and the processes evolve during the year, the Audit Plan may need to be revised

IV **Action Taken Report** :Action Taken Report giving the current status on the open issues highlighted in the earlier Internal Audit Reports to be submitted to the Audit Committee by the Management

Annexure-I

Scope of Internal Audit

I **Accounts:**

- (1) Accounts are maintained as per the Accounting Standards and TN Societies Act
- (2) Accounting Standard and Accounting Policies as updated from time to time are consistently followed
- (3) Income recognition as per the Accounting Policy of the Company
- (4) Cash:
 - (a) Verification of Cash in hand.
 - (b) Review the internal controls with regard to cash receipts and payments.
 - (c) Cash in hand is within the limits mentioned in the insurance policy.
- (5) Bank:
 - (a) Review the internal controls with regard to bank payments

(b) Review the process and controls with regard to Bank Reconciliation

(c) System of Safe custody of cheque books and keys to the vaults & safe

(d) Review the process of payments of interest on bank borrowings

(e) Check the process of payment of commission for bank guarantees

(6) Employee Advances:

(a) Review the approval process, accounting and monitoring

(b) Tour Advance, Staff Advance etc are reviewed regularly and long outstanding cases are reported to the Competent Authority.

(7) Fixed Asset:

(a) Maintenance of Fixed Asset Register (FAR)

(b) Review the process of physical verification of Fixed Assets by respective departments and Periodic reconciliation of Fixed Assets with Books of Accounts by respective departments

(c) Review the process of payments, adequacy of the follow-up of advances and capitalisation of Fixed Assets

(d) Write off are authorised by the Competent Authority

(e) Review process of sale of scrap, applicable taxes

(8) Sundry Debtors/ Student Fee :

(a) Whether Fees from the students are collected

(b) ge-wise analysis of the outstanding and system of reporting.
Review of the system of follow-up for recovery

(c) Write –offs are authorised by the Competent Authority

(9) Creditors:

- (a) Review the process and controls with regard to booking the expenses including purchase of capital assets and payment including retention payments
 - (b) Age-wise analysis and process of periodic review old outstanding amount
- (11) System of review of old outstanding balances in Ledger
- (13) Housekeeping: Accounting records for earlier periods are properly maintained and indexed for easy retrieval
- (14) Budget & Analysis, MIS
- (a) Budgets for Income & Expenditure and prepared and approved by Trustees/ committee
 - (b) Review the process of analyzing the actuals and system of reporting the variances to the Competent Authority / Board. Approvals for the amount exceeding the Budget are on record

II Pay Roll System:

- (1) Review the controls with regard to salary computation, payments, deductions; adequacy of the documents submitted by employees
- (2) Check the compliances on payment of statutory dues like Provident Fund, Gratuity, Professional Tax, etc. Filing of returns; review the process of modification/ changes arising out of due to change in laws
- (3) TDS on Salary/ Contract payments :
 - (a) Review the process of tax computation on salary paid including calculation of perquisites
 - (b) Rebates / deductions given to employees against supporting
 - (c) Certificates (Form 16/ 16A) have been issued to employees within the prescribed time
- (4) Reimbursement to employees as per approvals; proper computation of Full & Final settlement and Transfer in/out cases based on approvals received including tax liability thereon

- (1) Non Compliances are reported correctly in the Monthly Compliance Reports
- (2) Review the compliance on issues pointed out by Secretarial Auditor

TDS other than Salary:

- (i) Whether checklist is available and updated regularly for deductions of tax on payments
- (ii) Deduction are made at the correct rates and payment of taxes within due dates
- (iii) Check the system up-dation of KYC details
- (iv) TDS certificates are issued and returns filed within prescribed time period
- (v) Review the process of reconciliation of TDS Account before payment of TDS
- (vi) Review the process for revising TDS returns and its approvals
- (vii) Review the escalation mechanism with regard to differences identified by Income Tax Dept

TDS / TCS Assets:

- (i) TDS on receivable – check adequacy of the follow-up for TDS certificates for earlier financial years
- (ii) Review the process followed for reconciliation of TDS Account with 26AS
- (e) Review the system laid down for maintaining and monitoring the information on assessment / appeals and filing of appeals. Appeals filed before Appellate Authorities within prescribed time limit
- (f) Assessment / appellate orders including demands, fines & penalties levied/relief granted - have been reported to the Management / Monthly Compliance Reports
- (g) Review the reporting system to the management on the status for cases under dispute which have been referred to External Legal Counsel

VI Human Resources:

- (1) Review the process of new recruitment, receipt of MRN, approvals, tracking with the budget, collection of documents from candidate as per the policy, Process of Empanelment of recruitment agencies, approvals, documentation and payment
- (2) Review the system of maintenance of attendance and leave records and compliance with statutory provisions. Review the system of approvals
- (3) Implementation of EHB rules and regulations – approvals for deviations & reporting thereof; Changes in EHB area duly approved
- (4)
- (5) Review the Appraisal process and compliances with internal guidelines
- (6) Exit formalities - Non disclosure agreements, exit interviews, terminal dues etc
- (7) Review the Compliance with the applicable Labour Laws eg.:- Contract Labour Act, Minimum Wages Act, Employees Compensation Act, Payment of Bonus Act etc
- (8) Review the controls with regard to protection of Employee Database
- (9) Review the system of maintenance of Statutory Registers and filing of Statutory Returns
- (10) Insurance :
 - (a) Insurance of employees have been taken as per the EHB
 - (b) Additions and deletions have been sent to Insurers in time. Review the controls to ensure that all employees are covered adequately as per EHB(Term Cover, Personal Accident, Medclaim etc)
 - (c) Review the process of placement of insurance – obtaining the quotes and preparation of comparative charts and approvals for placement
 - (d) Review the terms and conditions (T&C) mentioned in the policy to ensure adequacy of the coverage and compliance with the T&C

- (e) MIS Reporting of premium paid and claims to the Management, status on outstanding claims.
- (10) Appointment of consultants / out-source agencies – Legal Compliances, approvals and documentation
- (11) Legal approval on record for the agreements entered by department
- (12) Training: Review the system of providing training to the employees; approvals for expenses are on record, receipt of the feedback and actions initiated by HR (13) Compliance with Sexual Harassment Policy and SHWW Act 2013

VII **Staff Loans:**

- (1) Verify whether disbursements are in conformity with the loan policy and approvals are on record
- (2) Review the status of Document deficiency – process of follow up made – escalation of defaults
- (3) Review the action taken in respect of employees on a sabbatical / LWP etc
- (4) Reconciliation of ledger balances with Loan Management System
- (5) Annual balance confirmations on record
- (6) Safe Custody of the documents executed

VIII **Administration:**

- (1) Review that purchase of capital goods and consumables are made as per the approved Policy and required approvals are on record. All completed capital expenditure have been promptly reported to the accounts for the purpose of capitalization
- (2) All procurements are made for the required quality and quantity and at correct prices
- (3) Review the process for payment of utility bills (telephone, electricity etc), property dues, travel agencies and airline corporate deals

- (4) Review service contracts (Office & Residential) – regard to selection of vendors, approvals, documentation of agreements, supervision and authorization of payments
- (5) Insurance of all assets (IT and other Assets) :
 - (a) Check that all assets are adequately insured and premiums have been paid in time and review the controls
 - (b) Review the process of placement of insurance – obtaining the quotes and preparation of comparative charts. Approvals for placement are on record. Review the terms and conditions mentioned in the policy to ensure adequacy of the coverage and also Compliance with policy conditions
 - (c) Review the controls in place to ensure that assets of the Company are adequately and exhaustively covered
 - (d) Status of Updation of Insurance Manual
- (6) Review local law compliances like Shops & Establishment Act etc for HO and all Branches – all original licenses are on record and kept in safe custody
- (7) Security Arrangements :
 - (a) Review the process of appointment of Security agencies, Compliances with the agreements and Labour laws
 - (b) Check the arrangement for Safety equipments like firefighting system etc with regard to their functioning and regular inspection
- (8) Fixed Assets :
 - (a) Physical verification conducted as per the Policy & reconciliation with the FAR
 - (b) Transfer of assets between the companies and / or locations are recorded in FAR. Review procedure followed for transfer between locations along with review and payment of taxes, if any
 - (c) Procedures followed for assets written - off

(9) Owned Property :

- (a) Purchase / sale of the property have been approved by Competent Authority
- (b) Verify documentation for the purchase of property and safe custody of the original documents in fire resistant cabinets
- (c) Review the compliances with regard to payment of stamp duty, registration and other statutory dues
- (d) Legal clearance on documentation are on record
- (e) Compliance with applicable statutory regulations

(10) Leased Property :

- (a) Approvals as per EHB and by the Competent Authority and required documents are on the record
- (b) Compliances with the terms of agreement and local laws
- (c) Agreements approved by Legal Department
- (e) Review the process of managing disputes with the Lessors and escalation mechanism

(11) Legal approval on record for the agreements entered with vendors

(12) Vehicles – Owned by the Company (In case you have owned vehicles in the name of the Company)

- i. Purchases are duly approved by the Competent Authority
- ii. Review the compliance with registration, insurance and payment of taxes
- iii. Review the status on claims lodged if any
- iv. Maintenance of the vehicles are carried out a periodical intervals

IX Risk & Compliance:

(1) Check the process and correctness of Compliance Reporting:

- (a) Accounts
- (b) Direct Taxation
- (c) Indirect Taxation
- (d) Secretarial
- (e) Administration

- (f) PF / SA / Gratuity Fund
- (g) Investment
- (h) Borrowings
- (i) Operations
- (j) Information & Technology

Reporting of the exceptions to Audit committee and Board

Review the Risk Management Framework, if approved by the Board and the check the controls mentioned therein

The indicative scope of the internal audit services covering the operational and support functions for M/s Hindustan College of Arts and Science would be as follows:

| S.No | Areas of Internal Audit |
|-------------|--|
| 1 | Collection of Fees from Students at the University |
| 2 | Verification of inward of Fixed Assets at the College Campus |
| 3 | Collection of Bus Fees from the Students |
| 4 | Collection of Hostel Fees from the Students |
| | On Expenditure |
| 5 | Salary Payment Recovery of Loss of pay Recovery of Salary Advance/ Loan |
| 6 | Payment of Examination fees recovered from Students |
| 7 | Contract Expenditure Payments verification with Contracts |
| 8 | Statutory Payments Whether cash payment is less than Rs 20000/- Whether TDS has been recovered and paid Whether TDS returns has been filed |
| 9 | Receipt of grants and its utilisation |
| 10 | Fixed Deposit reconciliation with Interest income |

- 11 Verification of Bank Reconciliation
- 12 Study on Internal control on quarterly basis
- 13 Verification of Physical cash

Internal Audit program for Business entity

- 1. Verification of the Vouchers
 - a) Bank Payment
 - b) Cash Payment
 - c) Journal Vouchers with Bills
- 2. Verification of Stocks on quarterly basis