



Internship Report on Internal Audit in a Manufacturing Company

Submitted to

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Letter of Transmittal

December 20, 2017

Md. Shamim Ahmed

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Subject: Submission of Internship Report.

Dear Sir,

This is to inform you that, I am Pankaj Bose (ID: 13304067), submitting my internship report on “Internal Audit in a Manufacturing Company” to you. I have done 12 weeks of internship with ACNABIN Chartered Accountants which provided me a great experience and also enhance my practical knowledge.

Main focus of the study is to find out the internal audit scopes for a manufacturing company and the changes in this sector to cope up with the versatile industry.

The report is prepared under your supervision and respectfully acknowledges your guidance and help. I used my at most caliber to make the report and accomplish the requirements. Hence, I am always prepared to welcome any further clarification that may require.

Sincerely yours,

Pankaj Bose

ID: 13304067

Department: BBS

BRAC Business School

BRAC University.

Letter of Approval

This is to certify that Pankaj Bose is the student of BRAC Business School, BRAC University, Dhaka, has successfully completed her internship report entitled

“Internal Audit in a Manufacturing Company”.

He has done the report according to my suggestion and guidance. He has done his best in order to complete the report. I think this program will help him in future in order to build his career.

I wish his success and prosperity.

Md. Shamim Ahmed

Lecturer

BRAC Business School

BRAC University

Acknowledgement

Firstly, I express my gratitude to the Almighty God who gave me the opportunity to complete the internship and the report successfully.

I would like to thank my supervisor Md. Shamim Ahmed, Lecturer, BRAC Business School, BRAC University, who has been a tremendous guide for me regarding the report. He gave me the right direction that helped me to prepare this report. His final retouch suggestion enhances the quality of the report.

I would honestly express my gratitude to Muhammad Aminul Haque, FCA, partner of ACNABIN as well as a respected faculty member of BRAC Business School, who encouraged me to enroll in ACNABIN for internship. I am sincerely grateful to Shif Al Mostakin (manager of ACNABIN), Roman Hossain (Assistant Manager), S M Fuad Hasan (Articled student), Md. Arifur Rahman (Articled student) and Tasnim Ara Tithy (Trainee).

Despite of my highest effort of making the report perfect, there might be unconscious errors. I expect pardon for my shortcomings and always ready to appreciate any further studies.

Finally I would like to express my gratitude to ACNABIN to arrange the scope for the students for internship. It was a great journey with wonderful experience. I hope that I have expressed my experience in this report.

Abstract

This report titled “Internal Audit in a Manufacturing Company” is an outcome of BBA internship program. This kind of internship program facilitates the students to relate theoretical knowledge with the practical apply. This report contains the detail of the special audit practice by ACNABIN Chartered Accountants in manufacturing companies in the context of Bangladesh.

ACNABIN is one of the top ten chartered accountant firms in Bangladesh, evaluated by Bangladesh Bank. This firm is in a good business relationship with many organizations and in practice of consultant of many organizations. This Firm has many renowned partners who are enriching the firm with their high caliber. ACNABIN is also a member of many reputed accounting organization which are enhancing the students’ value.

In these 12 weeks of internship period, I worked in audit department with the client for the special audit purpose which provides the reasonable assurance in its audit report.

In the report, introduction part consists of methodology, limitations and over view of ACNABIN. In the next part, scopes of special audit in manufacturing company are discussed. In this part, the sectors which need ginger concentration is needed. This part is mainly written in the light of Bangladesh context. Later part is about the job responsibility of an intern in ACNABIN.

At the end, numerous checklists are added for more clarification.

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1. Introduction

In order to complete the BBA programme students need to complete their internship in an organization respective of their field of expertise. This internship helps students to get accustomed to the professional world and connecting a bridge with the learnings acquired in academic levels. A student can understand the difference between the academic knowledge and its implications in practical work life.

I joined ACNABIN Chartered Accountants, a chartered accountancy firm for my internship programme. I was appointed there for 12 weeks as a member of audit and consultancy team. As a major of Finance, this professional firm has helped me to understand real life accounting and finance operations of a company. As a part of the audit team, I came to know how a manufacturing company operates core financial and accounting operations and ensures strong and tight internal control across the organization.

2. ACNABIN at a Glance

ACNABIN Chartered Accountants is one of the top ranked CA Firms in Bangladesh according to the Bangladesh Bank for auditing Banks and Non-Bank Financial Institutions approval. From the very beginning, ACNABIN has been successfully providing market survey, consultancy services to clients actively involved in various industries, for example, management review, microfinance, health, education, agriculture in private, NGO sectors in Bangladesh and UN agencies. ACNABIN is hired by various governmental and non-governmental organizations to provide consultancy services for donor aided development projects.

2.1 History

ACNABIN was formed in February 1985. Its mission is to continuously adding value through helping the clients succeed. The then largest partnership firm was founded with a vision to build an institution which would foster an environment for leadership, continuous growth, learning, and collaborations. The firm is now one of the leading and most reputable chartered accountancy firms in Bangladesh with various global

affiliations. ACNABIN has ten partners with extensive expertise in the field of auditing, accounting, reviewing, business consulting, business process outsourcing, technology solutions, training and taxation. It enables this firm to become a firm of multidisciplinary organization. The partners have many years of experience of working both at home and abroad and with international consultants.

ACNABIN is providing market survey, management, review and consultancy services to clients actively involved in various industries. It is also providing services to UN agencies and other development partners. ACNABIN is also appointed by various governmental and non- governmental organizations to carry out consultancy services. ACNABIN has sufficient depth in conducting market survey expertise as well as adequate logistics facilities to carrying out research.

ACNABIN is affiliated with various global organizations. The global affiliations of ACNABIN have enabled it and its people to obtain training overseas and acquire up-to-date information and knowledge in the profession. ACNABIN is an independent member firm of Baker Tilly International.

2.2 Profile of ACNABIN

Name of the firm: ACNABIN Chartered Accountants

Date of registration: 15 February 1985

Mailing Address: BDBL Bhaban (Level-13) 12 Kawran Bazar C/A, Dhaka-1215 Bangladesh

Phones: (88 02) 8144347 to 52 **Fax #:** (88 02) 8144353

E-mail: acnabin@bangla.net **Web:** <http://www.acnabin-bd.com>

2.3 Vision

We go beyond the traditional auditor and client relationship by becoming your Trusted

Business Advisor.

2.4 Mission

We adhere to the strictest principles of client confidentiality. The sensitive and competitive nature of proprietary information-and the maintenance of trust-demands it. We have built our success on such principles. We do our utmost to earn-and keep-client trust.

2.5 Strategic Intent

We want to become trusted leader in the market ensuring highest level of professional ethics and competencies. While securing safe & trusted position in the market for financial institutions, telecommunications, foreign branch & liaison offices and NGOs/NPOs, we still see wider space for us to get involved in other sectors in the country and in the region.

2.6 Affiliation

ACNABIN is an independent member of Baker Tilly International which is the 8th largest network in the world with 145 independent member firms in 110 countries.

ACNABIN has relationship with International Accounting Firm. Since 18 February 2003 to 2010, it was associated with ASNAF-ASEAN Accounting Firms, Singapore. Until July, 2002, ACNABIN was also an authorized representative firm of former Andersen SC.

They have been enlisted by the United States Office of Regional Inspector General/Audit, Singapore to perform financial audits of USAID fund recipients in Bangladesh in 1993. To conduct financial audit of the recipients of their fund, ACNABIN have been enlisted by the European Commission and Canadian International

Development Agency.

ACNABIN has alliance with other consulting firms which enable them to establish close working relationship with many national and international consulting firms in Bangladesh to provide efficient and dedicated services. So, various affiliations, ACNABIN has thus enriched its professional base to provide services to the clients.

2.7 Memberships

ACNABIN is the member of Metropolitan Chamber of Commerce and Industries, The Dhaka Chamber of Commerce & Industries and American Chamber of Commerce in Bangladesh.

2.8 Partners of the Firm

The partners of ACNABIN are: ABM Azizuddin FCA, Iftekhar Hossain FCA, A.S.M Nayeem FCCA, FCA, Mohammad Nurun Nabi FCA, ATMA Bari, FCA FCEA, MD. Rokonuzzam FCA, MD. Moniruzzaman FCA, MD. Mominul Karim FCA, MD. Reajul Karim FCA and Muhammad Aminul Hoque FCA.

The partners of ACNABIN came from different background to ensure high-quality service through unique and proven execution process map. They made partnership with today's innovators and leaders to meet short term needs. Besides, they remain focused on their long term financial goals.

ACNABIN Partners are different as they offer clients the expertise of Big 4 in a friendly service environment. They made their structure and design in such a way that enables their engagements to ensure and facilitate communications between the service team and the client. This is strategy that helps them to quickly and effectively address their client concerns and thus smoothly running from start to finish.

2.9 Services

ACNABIN offers a wide range of services which are discussed below:

2.9.1 Audit and Assurance Services

The expert professionals of ACNABIN provide a range of audit services. They have a strong base on understanding the accounting principles of the Bangladesh Standards on Auditing and International Standards on Auditing along with appropriate knowledge of business systems. They are committed to deliver a personalized and focused service to their clients. They provide solution based advice to give their clients and stakeholders. Their risk based audit approach ensures to focus on significant business issues affecting their client's.

Their Audit services includes, Statutory audit, Internal audit, Special audit, Cost audit, Compliance audit, Forensic audit, Management audit, Performance audit, Forensic audit, Interim audit, Review engagement, NGOAB audit and Donor audit.

2.9.2 Tax and legal advice

ACNABIN provide services of Tax & Legal advices. These are designed to help their clients to apply the most effective business strategies to increase its efficiency and effectiveness. ACNABIN'S wide-range of industry knowledge and experience helps them to deliver their clients service efficiently and meet their highest expectations. They work closely with clients to deliver timely, high quality tax services to maximize tax planning opportunities and help them to find the right way to handle new tax challenges in their respective industries. They offer tax advice based on client's needs and circumstances.

Their tax services includes, Corporate & individual tax planning, Personal Income Tax, Deferred tax computation and application, Indirect tax, Tax investigations, Capital gain tax, Designing VAT Management System and Compliance Audit, Tax compliance and

preparation of various tax returns, Assistance in handling queries & requests for information from tax authorities, Tax assessments and appeals, Preparation of income tax returns, Import Duty and Customs cases, Inheritance tax planning, International tax services, Tax effective remuneration planning and Tax investigations.

2.9.3 Advisory

ACNABIN provides various types of advisory services. They are, Formation, incorporation, liquidation and winding up of companies, Preparation and filing of Annual Return, Preparation of AGM minutes, Preparation of Directors' minutes, Formation and registration of companies and close corporations, Maintenance of statutory records, Conversions of companies and close corporations, Amendments to and registration of statutory details, Increase of share capital, Change of company name, Change of Articles & Memorandum, Preparation of Special resolutions, Advice on secretarial matters relating to the Companies Act., Management of Litigation, Management of Legal Disputes, License Issues, Legal Opinion on Laws, Licenses, AOA etc., Compliance with Relevant Laws & Regulations, IP Rights (Logo, Trademarks, Copyrights), Correspondence with Corporate Regulatory Bodies, Drafting, Reviewing & Providing Opinion on: Agreement, MoU, NDA, Undertaking etc

2.9.4 Consultancy

The consultancy services of ACNABIN includes, Management Accounting Services, Management Consultancy, Structured financing advisory, Business planning and project feasibility studies, Standard operating procedures (SOP), Fixed assets management, Accounts receivables management, Payroll management, Project appraisal, Inventory Management, Performance measurement, Business Valuation, Process Improvement Services and Cost Management Services.

2.9.5 Outsourcing

ACNABIN offers wide range of business outsourcing solution. Their main outsourcing services includes, Accounts payable processing, Payroll and payroll tax processing, General ledger and financial statement processing, Accounting services, Human resource support, Preparation of management accounts and management information systems,

Preparation & Maintenance of books of accounts, Support in day to day Transaction Processing, Book keeping and preparation of final accounts and Fixed Assets verification and completion of records

2.9.6 Others

The others services of ACNABIN are:

- Accountancy and management training
- Data processing with computers
- Privatization consultancy (includes pre-privatization review, restructuring, valuation in particular and privatization assistance in general)
- Other accounting ancillary services including investigation, internal and management audit
- Micro-finance consulting
- Human Resource Development Issues

2.10 Why ACNABIN?

ACNABIN has their very own mission and vision thinking for the future require and consequences. They always tries to make sure that their staffs and employees are getting proper training, support, guidance and latest updates. This enables the employees to provide the latest services wanted by the clients in this dynamic working environment. The administration of ACNABIN makes sure that all the staffs getting proper training and environment for doing their duties efficiently. Throughout the journey with ACNABIN will be able to meet and gain knowledge and insight. They ensure their trainees get utmost care to get the best work experience by increasing own versatility.

3.0 Objective of the Study

The objective of the study can be classified in to three main strata: Primary objective, secondary objective and tertiary objective

Primary Objective of the report is to complete the internship program. Being a student of B.B.A, a student has to work in any organization for three months to acquire pragmatic knowledge about the job field and career choice.

Secondary Objective of the study is to have a detail insight on the audit process in a manufacturing company specially when there is a scope of embezzlement of fund and mis- accounting.

Tertiary Objectives of the study are:

- ❖ To know the audit process in Bangladesh perspective
- ❖ To increase adaptability in an organization
- ❖ To know about the manufacturing companies work procedures

4.0 Methodology

It is a descriptive study which mainly focuses in qualitative data rather than quantitative data. Some quantitative data were also collected which was for ensuring the qualitative information. However, the data was collected from two sources: Primary source and secondary source.

Primary Source:

- ❖ Client office staying
- ❖ Client's factory visit
- ❖ Interview the employee of the client company
- ❖ Discussion with the engagement partner, audit managers and

senior students of ACNABIN

Secondary Sources:

- ❖ Financial statement of the company
- ❖ File and documents of the client company
- ❖ Official website of ACNABIN

5.0 Limitations of the study

The audit was conducted under much facilities and the client company was always ready to serve as far as possible. Nevertheless, still we face lack of proper authenticated and authorized data as the client company was not maintaining back data and the trail of transactions are sometimes not preserved. Some more limitations were:

- Sometimes instant industry visit was required which was not always possible.
- Previous year's financial data was created by a chartered accountant firm, but those data was not accepted as authentic data source since those data was not supported by the source documents.
- Sometimes the client's employees are not ready to co-operate as auditors' adverse report may hamper their job.
- The organization was observed for a limited time which was not enough to understand the business practice properly.
- 12 week duration is not ample time to understand and get the idea of practical work life.

6.0 Internal Audit

Internal audit is an activity designed to add value and improve an organization's operations. It is an appraisal or monitoring activity established within an entity as a service to the entity.

Its functions include, amongst other things examining, evaluating and reporting to the management and the directors on the adequacy and effectiveness of components of the accounting and internal control systems.

In principle, all companies will want good management and internal audit is a recognized way of ensuring good corporate governance.

Internal audit activity usually involves:

- Monitoring internal controls
- Examining financial and operating information
- Reviewing the economy, effectiveness and efficiency of operations
- Review of compliance with laws, regulations and other external requirements
- Special investigations such as, suspected fraud

6.1 Risk

The internal audit department has a two-fold role in relation to risk management. They are:

1. Monitoring the company's overall risk management policy to ensure it operates effectively
2. Monitoring the strategies implemented to ensure that they continue to operate effectively

6.2 Internal Controls

Internal audit is unlikely to assist in the development of systems because its key role will be in monitoring the overall process and in providing assurance that the systems which the departments have designed meet objectives and operate effectively.

The works that internal auditors carry out on controls can be termed as operational audits. The prime objective of this concept is to monitor the management's performance.

6.3 Other Functions

Internal audit may also carry out other functions for the directors in a company. The key issue to remember with regard to internal audit is the necessity for the department to retain objectivity in order to carry out its important monitoring role in respect of risk and controls. Therefore, internal auditors will not become involved in the operational activities of the company.

The scope of my job as an internal auditor in the manufacturing company was:

1. Purchases System
2. Employee Costs
3. Physical Cash Counting

As part of the internal audit team, the scope and details of them are discussed in the later chapters.

7.0 Purchases System

The purchases system is an important system in a business. It is important for companies to ensure that they have an uninterrupted supply of the goods and services they need order to run their business to function. Key issues are therefore choosing the right suppliers and negotiating good items, credit terms and then managing payments so as to create the correct balance between keeping suppliers happy and making the most of the credit available.

In a standard purchase system, we will see the following process:

1. Ordering
2. Goods inward and recording of invoices
3. Payments

7.1 Ordering

Key risks are that purchases might be trade for personal use or not made on the most advantageous terms. Authorization is therefore an important internal control.

7.1.1 Risks and Control Objectives

Here, controls put into place will be designed to mitigate risks. Hence the objective of the controls will be to prevent these risks from occurring. Here are the control objectives which might arise from the risks stated above:

- All orders for goods and services are properly authorized and duly processed. All orders are required by the company
- Orders are only made with authorized suppliers
- Orders are made at competitive prices

7.1.2 Controls

Once the company has identified the risks which exists in purchase system, it will try and create controls which mitigate those risks. Most used controls mechanisms are stated below:

- Segregation of duties, requisition and ordering
- Central policy for choice of suppliers
- Evidence required of requirements for purchase before purchase authorization
- Order forms prepared only when a pre-numbered purchase requisition has been received
- Authorization of order forms
- Pre-numbered order forms
- Safeguarding of blank order forms
- Review for outstanding orders
- Monitoring of suppliers terms and conditions

7.1.3 Tests of Controls

The tests that the assurance providers carry out over such controls will obviously also depend on the exact nature of the control and the business. However, some general ideas are:

- Review list of suppliers and check a sample to orders made
- Check sequence of pre-numbered order forms
- Check orders are supported by a purchase requisition
- Review security arrangements over blank orders

7.2 Goods Inward and Recording of Invoices

7.2.1 Risks and Control Objectives

When considering goods inward and recording of invoices, a company might recognize all or some of the following risks:

- Goods may be misappropriated for private use
- Goods may be accepted that have not been ordered
- Invoices may not be recorded resulting in non-payment
- Company may not take advantage of the full period of credit extended
- Company may not record credit notes resulting in paying invoices unnecessarily

Above stated risks lead to following control objectives:

- All goods and services are only accepted if they have been ordered with authorization
- All goods are ordered for the use of business purpose
- All goods and services are accurately recorded
- Liabilities are recognized for all goods and services that have been received
- All credits to which the company is entitled are claimed and received
- Receipt of goods and services is necessary for a liability to be recorded
- All credit notes that are received are recorded in the nominal and payable ledgers
- All entries in the payable ledgers are made to the correct payables ledger accounts

7.2.2 Controls

The following are types of controls which could be put in place to fulfill the above objectives:

- Examination of goods inwards
- Recording arrival and acceptance of goods
- Comparison of goods received notes with purchase orders
- Referencing of supplier invoices, numerical sequence and supplier reference
- Checking of suppliers invoices
- Recording return of goods
- Procedures for obtaining credit notes from suppliers
- Segregation of duties, accounting and checking functions
- Prompt recording of purchases and purchases returns in day books and ledgers
- Regular maintenance of payables ledger
- Comparison of monthly statements of account balances from suppliers with payables ledger balances
- Review of classification of expenditure
- Reconciliation of payables ledger control account to total of payables ledger balances

7.2.3 Tests of Controls

- The following tests of controls are used in companies:
- Check invoices for goods
- Check invoices of all types

- Checking of credit notes
- Check for returns that credit notes are duly received from the suppliers
- Test of numerical sequence and enquire into missing numbers
- Obtain explanations for items which have been outstanding for a long time
- Check additions
- Check posting to nominal ledger accounts and control account
- Check posting of entries to payable ledger
- Confirm control account reconciliation has been regularly carried out during the year
- Examine control account for unusual entries

7.3 Payment

7.3.1 Risk and Control Objectives

The following risk arises at this stage of proceedings:

- False invoices are paid in error
- Invoices are paid to soon
- Payment is not correctly recorded
- Credits are not correctly recorded
- Payments are not recorded in the right period

The key risk is that money might be paid out by the business inappropriately. The following objectives arise out of the risks:

- All expenditure is for goods that are received and authorized

- All expenditure made is recorded correctly in the nominal and payable ledgers
- Payments are not made twice for the same liability

7.3.2 Controls

The arrangements for controlling payments will depend to a great extent on the nature of business transacted, the volume and size of the company.

Cheque and cash payments generally: The cashier should generally not be concerned with keeping or writing up books of account other than those recording payments, nor should he have access to or be responsible for the custody of. On the other hand, the person responsible for preparing cheques should not himself be a cheque signatory. Cheque signatories in turn should not be responsible for recording payments.

Cheque and bank transfer payments:

- Cheque and bank transfer requisitions
- Authority to sign cheques is well defined
- Prompt dispatch of signed cheques
- Obtaining of paid cheques from banks
- Payments recorded promptly in cash book, nominal and payable ledgers

Cash payments:

- Authorization of expenditure
- Cancellation of vouchers to ensure they cannot be paid twice
- Limits on cash payments

- Rules on cash advances and cashing

7.3.3 Tests of Controls

For authorization of payments, the control tests are:

- Compare with paid cheques to ensure payee agrees
- Check that cheques are signed by the person authorized to do so within their authority limits
- Check to suppliers statements
- Check the other documentary evidence available such as agreements, vouchers, books etc.

For authorization of recording the control tests are as follows:

- Check the sequence of cheque numbers and enquire into missing numbers
- Trace transfer to other bank accounts, petty cash books or other records
- Check additions, including extensions and balances forward at the beginning and end of months within the period
- Check posting to nominal and payable ledgers

8.0 Employee Costs

Payroll can be an area that is subject to frauds, for example, fictitious employees may be inserted into the payroll. It is important to understand the key aspects of a payroll system and are able to identify weaknesses in a given system.

8.1 Calculating Wages and Salaries

8.1.1 Risks and Control Objectives

When calculating wages and salaries, a company experiences the following risks:

- Company may pay employees too much money
- Company may employees who have not been at work
- Company may pay employees who have left

Hence the objectives of the controls will be to prevent these risks from occurring. The control objectives which might arise from the above stated risks are:

- Employees are only paid for work that they have done
- Gross pay has been calculated correctly and authorized
- Net pay has been calculated correctly

8.1.2 Controls

The following controls may be put into place to mitigate the risks:

- Staffing and segregation of duties
- Maintenance of personal records
- Recording of changes in personnel and pay rates
- Review of hours worked
- Recording of advances and pay
- Holiday pay engagements

- Answering queries
- Review of wages against budget

8.1.3 Tests of Controls

- Check that wages and salary summary is approved for payment
- Confirm that procedures are operating for authorizing changes in rates of pay, overtime and holiday pay
- Obtain evidence that staff only start being paid when they join the company and are removed from the payroll when they leave
- Check that engagement of wages and salaries are being checked

8.2 Recording of Wages and Salaries and Deductions

8.2.1 Risks and Control Objectives

- When considering recording wages and salaries, the company might recognize the following risks:
- The various elements of pay might not be recorded correctly in the payroll
- Amounts paid to employees might not be reflected in the cash books
- Pay might not be recorded correctly in the nominal ledger

In addition, the company has a duty to pay over to NBR the correct amounts in respect of tax deducted at source. If these are calculated wrongly, the company might face a large tax bill in the future of arrears and penalties. The company also has a duty to pay other deductions on behalf of the employees. Again, errors might mean future liabilities.

These lead to following control objectives:

- Gross and net pay and deductions are accurately recorded on the payroll
- Wages and salaries paid are recorded correctly in the bank and cash records
- Wages and salaries are correctly recorded in the nominal ledger
- All deductions have been calculated correctly and are authorized
- The correct amounts are paid to NBR

8.2.2 Controls

Responsibility for the preparation of payroll should be delegated to a suitable person and adequate staff appointed to assist him. The extent to which the staff responsible for preparing wages and salaries may perform other duties should be clearly defined. In addition, there should be:

- Bases for compilation of payroll for example, clock cards, overtime records, agreed hours
- Arrangements for the preparation, checking and approval of payroll
- Procedures for dealing with non-routine matters
- Maintenance of separate employees' previous records
- One for one checking of payroll details back to independently maintained personal records
- Reconciliation of total pay and deduction between one pay day and the next
- Comparison of actual pay totals with budget estimates or standard costs and the investigation of differences between them
- Agreement of gross earnings and total tax deducted with taxation returns

8.2.3 Tests of Controls

A key control assurance providers will be concerned with will be the reconciliation of wages and salaries. For wages, there should have been reconciliations with:

- The previous week's payroll
- Clock card/time sheets/job cards
- Costing analysis, production budgets

In addition, assurance providers should confirm that important calculations have been checked by the clients and re-perform those calculations.

Auditors should check the calculations of taxation and non-statutory deductions. For withholding taxes they should carry out the following tests:

- Scrutinize the control accounts maintained to see appropriate deductions have been made
- Check that the payments to Govt. Treasury are correct

8.3 Payment of Wages and Salaries

8.3.1 Risks and Control Objectives

The key risks here are that people who are not employees are paid and those that are employees are not paid. Therefore, the overriding control objective is that the correct employees are paid.

8.3.2 Controls

Payment of Cash Wages:

- Segregation of duties
- Authorization of wage cheque cashed
- Custody of cash

- Verification of identity
- Recording of distributions

Payment of Salaries:

- Preparation and authorization of cheques and bank transfer lists
- Comparison of cheques and bank transfer list with payroll
- Maintenance and reconciliation of wages and salaries control account

8.3.3 Tests of Controls

If wages are paid in cash then controls tests are:

- Arrange to attend the pay-out of wages to confirm that the official procedures are being followed
- Check entries in the unclaimed wages book with the entries on the payroll
- Check that unclaimed wages are banked regularly
- Check pattern of unclaimed wages
- For salaries, check that comparisons are being made between each month's payroll net pay summary and examine paid cheques or a certified copy of the bank list for employees paid by cheque or bank transfer

9.0 Physical Cash Counting

Planning is an essential element of cash counts, for it is an important principle that all cash balances are counted at the same time as far as possible. Cash in this context may include unbanked cheques received, IOU's and credit card slips, in addition to notes and coins. Often such cash balances are unlikely to be material, but in certain businesses they may be.

As part of the planning procedures, the assurance providers will need to determine the locations where cash is held and which of these locations warrant a count.

Planning decisions will need to be recorded on the current audit file including:

- The precise time of the count and location
- The names of the audit staff conducting the counts
- The names of the client staff intending to be present at each location

The following matters apply to the count itself.

- All cash or petty cash books should be written up to date in ink at the time of the count. Alternative process of keeping records are also acceptable, depending on the system
- All balances must be counted at the same time
- At no time should the assurance providers be left alone with the cash and negotiable securities
- All cash counted must be recorded on working papers subsequently filed on the current audit file. Reconciliation should be prepared where applicable.

10.0 Responsibilities as an Intern

In ACNABIN Chartered Accountants, there was no specific job description for an intern. After I joined the firm, I was placed in an internal audit team in a manufacturing company as a Junior Auditor.

As a part of the team I was responsible to look into the various aspects of internal control of the company, the areas were, expenses, cash and wages and salaries as discussed in the previous part of this report.

I was supposed to test whether each and every purchase that the company made whether done in due process or not. Whether adequate supporting documents such as requisition forms, delivery challans, cash memos and material received reports were attached or not with proper authorization were the main aspects to look into.

In terms of wages and salaries, I inspected personal records of the employees to make sure they were maintained timely and properly, calculations and salary sheets are prepared and authorized and exact tax amount were deposited to NBR.

In terms of cash verification, I verified that the balance of cash according to the cash book and physical amount of cash are equal on a certain date.

All the available checklists that I had to follow are added in the Appendix part.

11.0 Conclusion

In order to keep pace with the ever changing dynamic business world, companies need to make sure that they are operating with hundred percent integrity and flawless business system. As a result, each and every organization need to ensure that they have a very strong and tight internal control system. If it is not ensured, threat of fraudulent activity, unnecessary expenses and other possible economic and ethical practice within the organization can harm the bottom line of the business. That is why, internal auditors play a vital role to ensure that this internal control system exists as it should be. Internal audit process is at present, has become a vital part of business.

Appendix

Checklist of Procurement

1. Voucher number & date.
2. Approved by management.
3. Accuracy of values posted
4. Requisition (Date, item, approval, pre-printed requisition number and department).
5. IOU (Advanced received and Adjustment).
6. Invoice by vendor/supplier (Date, vendor logo, IAD approval, approval, and seal for cash payment).
7. Material received report (Date, location, item details, quantity, and acknowledgement of store & user custodian).
8. Relevant conveyance bills (Date, conveyance forms, approval, entry in conveyance register, amount of claim).
9. VDS/TDS deductible & amount actually deducted & deposited.

Expenses Checklist

1. Voucher number and date.
2. Approved by management.
3. Accuracy of values posted.
4. Requisition (date, items, approval, and department)
5. Invoice by vendor/supplier (Date, Vendor log, IAD approval, Management approval, and value of invoice, "PAID" seal for cash payment.
6. Material Received report (Date, location, item details, quantity, acknowledgement of store user custodian)
7. Relevant conveyance bills (Date, Conveyance forms, approval, entry in conveyance register, amount of claim)
8. VDS/TDS deductible & amount actually deducted & deposited.

Back-to-Back Letter of Credit

Back-to-Back Letter of Credit is a credit facility extended by exporter's Bank for purpose of payment to Suppliers. Every Back-to-Back LC is guaranteed by an Export LC of the same exporter entered into with the same Bank. Back-to Back LCs are used to pay both local foreign suppliers of exporters.

Journal entries for a Back-to-Back LC:

1. *Opening of Back-to-Back LC:*

Dr. Store in Transit (Contingent Asset)

Cr. BTB LC No..... (Contingent Liability)

2. *Products delivered by supplier to Company premises:*

Dr. Purchase (P/L Account)

Cr. Store-in-Transit

3. *Back-to-Back LC Liability is derecognized and Back-to-Back LC Acceptance liability is recognized:*

Dr. BTB LC No.....

Cr. LC Acceptance Liability

[This stage occurs after the supplier submits evidence of product delivery and the Company accepts Bill of exchange issued by supplier]

4. *Payment is made to Bank for the BTB LC Liability*

Dr. LC Acceptance Liability

Cr. Bank

[N.B. Stage 3 does not occur at for international BTB LCs and Intercompany LCs]

Back-to-Back LC Checklist

1. Proforma Invoice (approved by **supplier, Merchandiser, Internal Audit**),
2. Back-to-Back LC copy,
3. Delivery Challan (s), (approved by **store manager, Factory Security**),
4. Bill of exchange (available only after Stage 3 as mentioned above).