



## **INTERNAL AUDIT CHARTER**

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## INTERNAL AUDIT CHARTER

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\* Only list is attached and not whole appendix as they are partly procedural in nature and confidential.



## INTRODUCTION

### 1.1 Purpose of Charter

This Charter describes the internal audit process of Jain Irrigation Systems Ltd. ("JISL"), covering various aspects such as audit charter, audit organization structure, objectives of internal audit, code of ethics for Internal Auditors, audit approach, the scope and extent of checking, documentation, issuance of reports, the follow-up of reports, and the system for ensuring compliance of internal audit observations.

Detailed guidelines in respect of all the areas to be covered by internal audit have also been included. The purpose of this Charter is to act as a quick reference guide for all internal auditors in relation to the internal audit methodology and to have uniformity in reporting.

### 1.2 Updates to the Charter

From time to time, there will be a necessity to update or revise the Charter. Any updates to this Charter should be duly approved by the Chairman of Audit Committee and circulated to all holders of the Charter.

However the **Appendices (Procedure Related only)** to this Charter can be updated with the approval from the Head of Internal Audit at Head Office in consultation with the Chairman of Audit Committee.

### 1.3 Organization Status

The Internal Audit Department should be an independent appraisal function within the organization for review of the systems of control and quality of performance as a service to the management. Internal Audit will assist the management in exercising overall supervision and control. It will help Jain Irrigation Systems Ltd. to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes.

**Internal Audit should be independent of the activities it audits.** The independence of Internal Audit is achieved through organizational status and its objectives. The organizational status of the Internal Audit Department should be sufficient to permit the accomplishment of its audit responsibilities.

The Internal Audit Department should have the support of Senior Management, the Board and the Audit Committee to gain the cooperation of the Auditee and perform the audit free from interference. This is proposed to be achieved by reporting of the Internal Audit Department directly to the Audit Committee on Internal Audit matters. All postings in and out of the internal audit department will be with the approval of Chairman of Audit Committee in consultation with Head (IA). All the appraisal reports of the Internal



Audit Staff at HeadQuarters will be approved by Chairman of Audit Committee as per the policy of the Company.

### 1.4 Audit Charter

Internal Audit will be an independent department functioning under the control and reporting to the Chairman of Audit Committee. The in-charge of each internal audit set-up will directly report to the Head (IA) at HeadQuarters. Internal Auditors shall not assume operational responsibilities. Persons transferred to or temporarily engaged by the Internal Audit department should not be assigned to audit those activities they previously performed until a reasonable period of time has elapsed.

**Appendix 1** shows an organization chart showing internal audit set-up and functional reporting and their locations.

All postings in the Internal Audit department will be based on suitable criteria of education and experience will be given due consideration to scope of work and level of responsibility. The Internal Audit department will have associates who are qualified in disciplines such as accounting, audit, economics; finance, statistics, information technology, engineering, taxation, law, environmental affairs, and such other areas as needed to meet the department's audit responsibilities.

Internal Audit set up will have a separate sitting arrangement and sufficient record room to keep the audit records and files safe and intact along with separate sets of computers and its peripherals and other communications facilities. Following key points should be kept in mind with respect to Audit Charter:

1. The Internal Auditor has full & free access to all departments and all the records. The Internal Audit is free to review and critically appraise any activity of the Departments/authorities, but their review and appraisal does not in any way relieve the Executives and Line supervisors of their responsibilities as internal audit is an advisory function.
2. The usefulness of the internal audit will depend much on the co-operation and working facilities provided to the department.
3. The Internal Audit department should not be involved in any sort of operational activities which it audits, like tendering, hiring, etc.
4. Due to the large size of JISL, it will not be possible to audit all the Departments/ Disciplines each year. Therefore, in selection of the Departments/ disciplines for audit, preference should be given to those Departments/disciplines which have been identified as high risk areas by any external consultants or which by nature of their activities and as revealed by past experience, are more sensitive. **The functions selected for this purpose should include those where lapses and inadequacy of internal control may result in considerable financial losses.**



## 2.1 Definition of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.

The importance of an effective internal audit system for JISL cannot be over-emphasized. Apart from covering routine financial transactions, it must also involve a review of policies and procedures in operation with a view to improving their effectiveness. Though ensuring the accuracy of the books of account and providing a check against fraud is certainly one of the objectives of internal audit, but efficient Internal Audit will locate the weakness in systems which have given rise to the errors rather than locating errors themselves.

## 2.2 Objectives of Internal Audit

The broad objectives of Internal Audit shall be as under:-

- ✓ To ensure that the accounting and financial management systems are reliable and effective in design and to assess the extent to which they are being followed;
- ✓ To review the efficacy, adequacy and application of accounting, financial and operating controls and thereby ensuring the accuracy of the books.
- ✓ To verify that the system of internal check is effective in design and operation in order to ensure the prevention of and early detection of embezzlement, frauds, misappropriations and misapplications
- ✓ To identify areas of significant inefficiencies in existing systems and to suggest necessary remedial measures;
- ✓ To confirm the existence of financial propriety in all decisions and verify compliance to Government and statutory requirements.
- ✓ To review the performance of various functions in the light of performance budgeting and to suggest cost reduction measures, if any.
- ✓ To report compliance of guidelines issued by corporate finance from time to time.
- ✓ To review the compliances of guidelines relating to assessment, realization and received fund remittances etc.
- ✓ To ensure compliance of all the points mentioned in the scope of audit and extent of audit.



### **3. Roles & Responsibilities of key personnel**

The Duties and responsibilities of various functionaries in the internal audit department are as under:

#### **Head (IA)**

- ✓ To update the Internal Audit Charters and Internal Audit Department's organization chart from time to time after the same is approved by the competent authority.
- ✓ To inform the Chairman of Audit Committee the findings of all the Internal Audit Reports submitted by internal auditors and compliance given by Auditees and compile the compliance report received from various offices.
- ✓ To investigate the matters assigned by the Audit Committee from time to time.
- ✓ Finalize the Audit plan for the Company as a whole and obtain the approval from the Chairman of Audit Committee.
- ✓ Arrange to submit the Internal Audit Department work schedule, staffing plan and financial budget annually to Chairman of Audit Committee for approval.
- ✓ Design appropriate training programmes for the executives in internal audit.
- ✓ To arrange the special audit program of the units as approved by the Director (Finance).
- ✓ To ensure prompt disposal of audit objections.
- ✓ To update the checklist for audit at regular intervals based on the experience gained during audit.

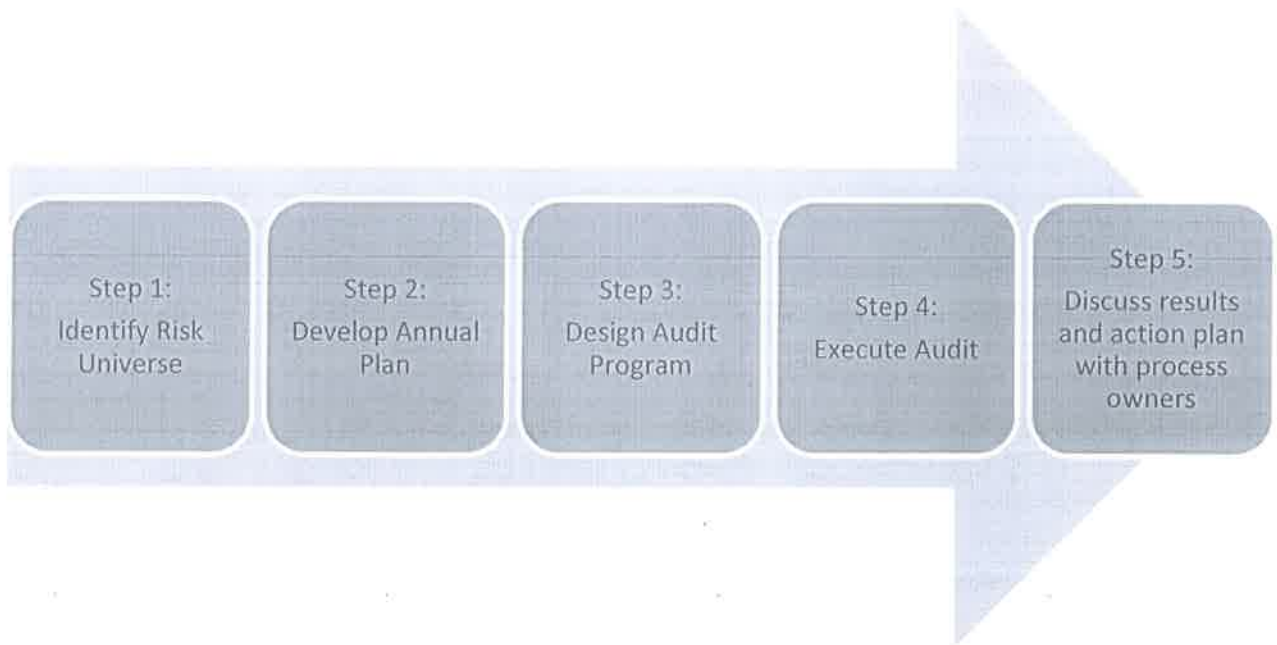
#### **TL/Audit Officer/Associate Audit Officer**

They shall be allotted work in accordance with the audit programme. The utilities and responsibilities of subordinates should be communicated to the Head of Internal Audit.

### **4.1 Risk Based Approach**

Risk based methodology shall be followed to conduct Internal Audit effectively. First step should be to identify all the risks to develop the risk universe. These risks should be prioritized based on the implications. Second step should be to develop an annual audit plan to cover at least all the high risk areas and other medium and low risk areas based on sensitivity. It might not be possible to cover all the medium and low risk areas in a single year. In such a case all efforts should be made to cover all the areas within a span of 3 to 4 years. Once the annual plan is finalized, an audit program should be designed, specifying the steps to be performed to execute the audit. Audit program should cover but not be restricted to the Appendices provided in this Charter for the major areas. Post finalization of the audit program, Internal Auditors should carry out Test of Design and Test of Effectiveness of controls as per audit program. All the findings should be reported to management.





## 4.2 Scope & Prioritization of Areas

The Scope of the proposed internal audit system can be broadly divided into the following:

- 1) Review of Systems
- 2) Review of Transactions
- 3) Review of Sanctions
- 4) Review of Internal Control
- 5) Review of Operations

### Review of Systems

A systems' audit is a means for verifying the efficiency of a system by performing end to end walkthrough for sample transactions of completely / partially automated processes. For instance in auditing the system of purchases the audit procedure would be to follow the purchase indent from its origin in the indenting department through to the payment of the particular supplier's bill and the corresponding postings in the books of account as well as stock records. Such an audit provides a means of verifying whether the system, laid down in the Charters or by other means is actually being followed or not. It also provides a better understanding of the system and helps to disclose errors, incompleteness or irregularities in the systems of accounting or in the system of internal check. It also does not mean that Charters cannot be updated. Internal Audit in consultation with concerned departments can advise on the update of Charters and systems.

### Review of Transactions

An audit of transactions involves an examination of supporting documents and accuracy of the transactions. The primary purpose of an audit of transactions is to verify the effectiveness of internal control. The objectives of such an audit are listed below:-

- 1) Transactions carried out are valid.
- 2) Recording of the transactions are proper.
- 3) Transactions are properly verified before recording.



- 4) Transactions are properly classified and recorded in the correct Accounts Head.
- 5) Transactions are recorded without delay.
- 6) Transactions are properly included in the records and correctly summarized.

**Review of Sanctions**

Sanctions consist of:

- a) Administrative Sanction
- b) Financial Sanction
- c) Technical Sanction

An audit of sanctions means verifying the followings:

- 1) All transactions are covered by sanctions.
- 2) The Authority sanctioning is competent to do so by virtue of the powers delegated to her/him by the provisions of any rules, regulations or orders framed or passed by the management.
- 3) The sanction accorded must be definite and must need no reference to the sanctioning authority itself or to any higher authority.

**Review of Internal Control**

A review of the internal control is a means by which audit can determine areas where opportunities for error or fraud exist in the system as a whole. It would be an appraisal into the organization to determine whether the management information is distributed to the appropriate level of management so that necessary action is taken by the right man at the right time. Audit must ensure that no one person should be in a position to control all phases of processing chances of error or defalcation. As far as practicable the work of an individual should be independent of, or checked by, the work of others. Similarly procedures must also be checked so as to ensure that one aspect of the control is automatically checked by a subsequent step. Audit must ensure that independent controls by management are functioning satisfactorily.

**Review of Operations**

A review of the operations means an audit of day to day functioning of any of the departments of the JISL. It would be a check on the efficiency of processes followed in the department and an assessment of process design and control gaps. Audit must ensure that the documented procedures have been updated from time to time, based on any changes in technology, environment or regulatory changes.

**4.3 Annual Audit Plan**

The annual plan should be drafted by the Head of Internal Audit for presentation to the Chairman of Audit Committee and the same should be duly approved by Chairman of Audit Committee. Any changes to the plan must be explained and brought to the notice of Chairman of Audit Committee. This plan should be used as a basis for reporting the status of audit progress to the Chairman of Audit Committee. Following sources should be referred to in preparation of Annual Audit plan:

Source	Key Risk Areas
Policy & Procedures	Areas identified on the basis of risk priority





Previous internal audit plans	High risk areas from previous years Issues held over from previous years
Management feedback	Specific issues of concern that different process owners may have identified either formally or informally in the past Areas of known control problems
Minutes of the Audit Committee	Matters of concern to the Board and senior management New business initiatives or operational changes that should be taken into account Emerging Legislative, operational or financing changes that should be considered in the plan
Experts' reports	Indication of problem areas Indication of future change areas Control problems
Corporate plan	Areas of significant change Emerging areas
Annual report and recent management reports	Matters of concern to the Directors

## 4.4 Types of Audit

### Compliance Audits

These are reviews carried out to gauge the level of understanding of and compliance with policies, procedures or legislative requirements. The relevant items to consider will depend upon the area being examined. When a compliance focus is required in the audit, then the methodology requires an explicit statement of the basic items against which compliance will be gauged i.e. the law, policy or procedure must be specified in the plan or programme. Wherever possible, compliance is measured against a predetermined acceptable benchmark level, dependent on the nature of compliance requirements.

### Performance, Operational & Efficiency Audit

Performance of any department should be compared to departmental objectives set up for the department. Many of these objectives may be explicit and even written down, others may be implied. One of the most common implied objectives is that the achievement of a program or target should be carried out cost effectively and without the wastage of valuable resources. As the organization is constantly striving to improve the performance of its organizational objectives, there is a need for measures of performance, in order to be able to gauge the degree of improvement.

'Performance auditing is an independent review of the information relating to performance, the measurements which are used, the resources utilized including the efficiency with which they are used, and the achievement of objectives. The purpose of such reviews is to form opinions as to the relevance and accuracy of measures and reporting and to assess the cost effectiveness and efficiency with which inputs are used.'

Reviewing economy and efficiency is clearly a major component of performance auditing. The term economy refers to acquiring the appropriate quality and quantity of financial, human and physical resources at the appropriate time and place and at the lowest cost.



The term efficiency refers to the use of financial, human and physical resources to maximize the output for a given input; or to minimize input for any given quantity of output. The method in which inputs are used and outputs are produced can be termed "operation". These definitions should form a framework for assessing the economy and efficiency of most activities or functions.

### **Financial & Probity Reviews**

These are reviews, which are designed to gain assurance that financial control objectives are being met. These control objectives are:

- ✓ Authorization of transactions
- ✓ Ethical soundness of transactions
- ✓ Completeness and accuracy of recording transactions
- ✓ Timeliness of recording
- ✓ Appropriateness of reporting
- ✓ Integrity of standing information

Where a financial review is carried out it is assumed that these objectives are being met. If any of these objectives are excluded from the review, then the reasons for the same should be appropriately documented.

### **Concurrent Audit**

Concurrent audit is a systematic and timely examination of financial transactions on a regular basis to ensure accuracy, compliance with procedure and guidelines, etc. As and when required, the Internal Audit Department will do concurrent audits, to have assurance over the transactions. List of such activities to be undertaken as Concurrent Audit is annexed in **Appendix -2**.

## **5.1 Selection and Recruitment for IA Department**

The Company needs to have a well-defined recruitment and selection policy for the Internal Audit Department. The following features need to be considered for the same:

### **Qualification and Experience Profile of the Internal Auditor**

The qualification and experience requirements of the internal auditors for the department should be well defined. At least 80% of the Internal Audit Department should be professionally qualified and/or experienced from Accounts and Finance Department. Given below are the required qualifications:

<b>Professionally Qualified Persons Or</b>	Chartered Accountant/Cost Accountant/ MBA (Finance)
<b>Experienced Persons from the Department Or</b>	Person with technical qualifications and having field experience.
<b>Support Staff</b>	B.Com

### **Age Profile**

A conscious effort needs to be made to maintain a proper mix of people in the department. A constant review should be done of the age profile of the internal auditors to ensure that there are adequate numbers of fresh and young people willing to undertake intensive travel supported by a team of experienced individuals.



### **Discretion to select**

The transferring authority i.e. presently Chairman of Audit Committee, should involve the Head of Internal Audit in the selection and transfer of associates in the department. The departments need to provide their best people to the Internal Audit Department to enable it to function effectively. Thus all transfers/selection of people into or out of the Internal Audit Department should be done by Chairman of Audit Committee with consultation of Head of Internal Audit. Further, a policy should be formulated by the Company to ensure that only people having a "high" rating in the Annual Review Report of the previous 2-3 years should be transferred to the Internal Audit Department.

### **Rotation**

The permanent staff within the Internal Audit Department need to be rotated on a regular basis as per the policy of the Company (not more than 3 years).

However, some of the senior positions in internal audit should not be rotated too much to give the department a sense of stability (approximately within 5 years).

## **5.2 Manpower Planning in Internal Audit**

The manpower is decided as per the workload. The department calculates the budgeted requirement of man days at the start of the year while planning the audit assignments. The scope of the audit assignments i.e. checklists are referred for each activity and also the time taken for completion of such activity is calculated. The man days to be spent in each activity also depend on the sample size to be considered while planning the internal audit. The deployment of this manpower is mainly divided into the following 5 categories.

<b>Sr.no</b>	<b>% of total available manpower</b>	<b>Audit of activities.</b>
1.	30 % of total available manpower	Audit of Processes and Systems
2.	30 % of total available manpower	Concurrent audit of transactions and expenses control
3.	20 % of total available manpower	Audit of corporate offices & special studies to be undertaken.
4.	08 % of total available manpower	To be in office for report preparation, discussion of various observations and for running various ERP reports.
5.	07 % of total available manpower	On account of leave / holidays taken by the associates.
6.	05 % of total available manpower	On account of training like on the job training and various in house training sessions.

## **5.3 Departmental Cost to the Company**

The department prepares its annual expense budget also at the start of the year. The exercise is carried out very minutely and the overall budget is divided into following 4 categories.



Sr.no	Particulars	% of total budget
1.	Salary & other expenses related to salary.	72 % of the total budget
2.	Travelling expenses related to audit assignments	15 % of the total budget
3.	Training expense and other study material	07 % of the total budget.
4.	Other administrative expenses	06 % of the total budget.

Apart from above, the capital budget is also approved at the start of the year. The budget includes various expenses to be incurred on the procurement of capital items.

#### 5.4 Code of Ethics for Internal Auditor

There are certain moral principles which the Internal Auditors should follow. These are recommendatory in nature and provide the basic guidelines to the Internal Auditors with regard to the moral issues and conflicts which they may face while carrying out Internal Audit Assignments.

##### **Integrity, Objectivity & Independence of Internal Auditor**

- ✓ Internal Auditors shall have an obligation to exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities.
- ✓ Internal Auditors holding the trust of the Company, shall exhibit loyalty in all matters pertaining to the affairs of the Company.
- ✓ Internal Auditors shall refrain from entering into any activity which may be in conflict with the interest of JISL.
- ✓ Internal Auditors shall not accept a fee or a gift from an employee, a client or a supplier. The Internal Auditor must be fair and must not allow prejudice or bias to override his objectivity. She/he should maintain an impartial attitude. The internal auditor should not, therefore, to the extent possible, undertake activities, which are or might appear to be incompatible with her/his independence and objectivity. For example, to avoid any conflict of interest, the internal auditor should not review an activity for which she/he was previously responsible.
- ✓ Internal Auditor should immediately bring any actual or apparent conflict of interest to the attention of the appropriate level of management so that necessary corrective action may be taken.
- ✓ Certain standard facilities with cap on expenditure, which should be within the budget, are specified for administrative needs / expenditure in hands, etc.

##### **Confidentiality**

- ✓ Internal Auditor shall be prudent in the use of information acquired in the course of their duties. She/he shall not use confidential information for any personal reason or in a manner which would be detrimental to the interest of the JISL.
- ✓ Internal Auditor should not disclose any such information to a third party, including the employees of the entity, without the specific authority of the management or unless there is a legal or a professional responsibility to do so.



### **Proficiency and Due Professional Care**

- ✓ Internal Auditor should exercise due professional care in carrying out the work entrusted to him in terms of deciding on aspects such as the extent of work required to achieve the objectives of the engagement, relative complexity and materiality of the matters subjected to internal audit, assessment of risk management, control and governance processes and cost benefit analysis.
- ✓ Internal Auditor should have obtained required skills and competence through general education, technical knowledge obtained through study and formal courses, as are necessary for the purpose of discharging his responsibilities.
- ✓ Internal Auditor shall also have a continuing responsibility to maintain professional knowledge and skills at a level required to ensure that the Company receives the advantage of competent professional service based on the latest developments in the profession, the economy, the relevant industry and legislation.

### **6. Maintenance of Working Papers**

As per normal practice working papers are developed during the period when an assignment is carried out. It may include checklists filled during the currency of audit, list of main areas covered, various data collected for analysis purposes and also replies of the auditee to the observations. All such working papers are very important records for future references.

The audit team after conducting the audit shall file all working papers in the proper file. Full details shall be mentioned on the files i.e. working papers related to the location, internal audit report number & names of the team members who had conducted internal audit etc. As per policy, we preserve the same for the period up to 3 years.



**Appendix-1**

**Organization chart showing internal audit set-up, their locations and area of activities.**

**A. Functional Reporting Chart**

**B. Location Set-up Chart**



**Appendix-2**

**List of activities undertaken as a part of Concurrent Audit**

Sr No	Particulars
A	Order to Cash Cycle
B	Procurement to Payment Cycle
C	Finance & Taxation
D	Human Resources
E	Others



### **Appendix-3**

#### **List of Other Activities undertaken by IA**

<b>Sr No</b>	<b>Particulars</b>
1	Preparing & updating the Internal Control Risk Matrices
2	Conducting IFC Walkthrough on behalf of the management
3	SOPs - revision and development basis the walkthrough
4	Coordinating with the Auditors - IFC Testing
5	Coordinating with the Process Auditors - Ernst & Young
6	Any other assignments as directed by the management from time to time





### **Appendix-4A**

- Appendix-4\_A1 - Verification of Dealer Files**
- Appendix-4\_A2 Verification of Customer Master Templates**
- Appendix-4\_A3 Verification of Price Lists Templates**
- Appendix 4\_A4 Special Rate Sales Quotation Release**
- Appendix-4\_A5 Verification of Customer Debit / Credit Notes**
- Appendix-4\_A6 Sales Return**
- Appendix-4\_A7 Verification of Turnover Discounts and Schemes**
  
- Appendix-4\_A8 Verification of Cheque Bounce Charges**

### **Appendix -4B**

- Appendix-4\_B1 Verification of Vendor Code Creation Template**
- Appendix-4\_B2 Verification of Purchase Orders**
- Appendix-4\_B3 Verification of Purchase Vouchers**
  
- Appendix-4\_B4 Verification of Vendor Credit Notes / Debit Notes**
- Appendix-4\_B5 Verification of Vendor Payments**

### **Appendix -4C**

- Appendix-4\_C1 Verification of Statutory Liabilities for Periodical Return**

### **Appendix -4D**

- Appendix-4\_D1 Verification of Associate Time Cards & Attendance**
- Appendix-4\_D2 Verification of Full & Final Settlement Payments of Associates**



## CONCLUSION

### Internal Audit helps in implementation of:

- a) Policies and processes adopted for orderly & efficient conduct of business
- b) Safeguarding of assets
- c) Prevention and detection of fraud and errors
- d) Accuracy and completeness of accounting records
- e) Facilitating external as well as statutory auditors.

