

INTERNAL AUDIT NEWSLETTER

ISSUE #RRCO-IA01

Understanding Key Terminologies in Internal Audit

Let's use an example to delve into this concept –

Let's say Sarah, our accountant, initiates an invoice entry as the maker. Subsequently, Emily, acting as the checker, meticulously verifies the details for precision and adherence to our guidelines. Finally, Mark, our approver, provides the final seal of approval before any transaction is completed. This methodical process not only ensures precision but also strengthens accountability across our financial endeavors.

The key principle behind the Maker-Checker and Approver mechanism is to introduce a separation of duties and a system of checks and balances to reduce the risk of errors, fraud, or malfeasance. By involving multiple individuals in the process, it adds layers of oversight and accountability, increasing the likelihood of detecting and preventing mistakes or misconduct.



Rathi Rathi and Co.

Chartered Accountants

Tuesday, September 10, 2024



MAKER-CHECKER AND APPROVER MECHANISM

The Maker-Checker and Approver mechanism is a control process which involves three roles the Maker, who initiates an action, the Checker who reviews the action and the approver who approves the action.

01/09

Quote of the day

"Initiative is doing the right thing without
being told"

–Victor Hugo

SEGREGATION OF DUTIES (SOD)

It is a fundamental concept in internal control systems that involves dividing critical tasks and responsibilities among different individuals or departments within an organization.

The primary purpose of SOD is to reduce the risk of errors, fraud, and inappropriate actions by ensuring that no single person or group has complete control over a key process or function.



EXAMPLE

ABC Company's accounts payable process involves purchasing materials, receiving invoices, approving payments, and recording transactions.

- A creates a purchase order for raw materials.
- B receives the materials, checks them against the PO, and updates inventory records.
- C verifies the invoice, matches it with the PO and goods receipt, and approves payment.
- D in Finance processes the payment.

SIGNIFICANCE

Fraud Prevention:

No single person controls the entire process, reducing fraud risk.

Error Detection:

Multiple individuals catch discrepancies, enhancing accuracy

Compliance:

SOD ensures adherence to internal policies and regulations.



AUTHORIZATION MATRIX

An authorization matrix, often called as "responsibility matrix," is a document that outlines who has the authority to make decisions, approve actions, or access specific resources within an organization. It typically lists roles or positions along one axis and types of permissions or actions along the other. Each intersection indicates the level of authority or responsibility associated with that role for a particular action or resource

It identifies various decision-making categories or types of actions that require authorization. These might include financial approvals, access to confidential information, or operational decisions.



EXAMPLE

For expense approvals, the CEO typically has the final authority on major expenses, the CFO manages operational expenses, and Department Managers handle their specific departmental expenses.

For data access, the CEO and CFO have comprehensive access to financial records, while Department Managers control access to departmental data, and Employees generally have access related to their individual tasks. This matrix ensures clear communication and proper delegation, preventing confusion and overlapping duties.

SIGNIFICANCE

Clarity:

Provides clear guidelines on who is responsible for what, reducing confusion and overlapping responsibilities.

Security:

Helps in managing access to sensitive information, ensuring that only authorized personnel can handle critical tasks.

Accountability:

Enhances accountability by linking specific roles to individual transactions, thus providing a clear record of responsibility.



AUTHORIZE

AUDIT OBSERVATION

Non Adherence to Share Of Business for Vendors

During our audit of the procurement process, we observed that orders for the majority of items are consistently placed with selected vendors.

The procurement team has not conducted an analysis of the distribution of business among all vendors, nor have they adhered to the percentage allocation determined by management for vendor business share.



RISK INVOLVED

1. Lack of diversification in vendor selection and failure to adhere to management's allocation percentages can lead to over-reliance on a few vendors.
2. This may also result in increased costs, limited competitive advantage, and potential supplier dependency issues.

RECOMMENDATION

1. Procurement team should establish a monthly evaluation process to monitor the share of business for each supplier.
2. Management should develop reporting mechanisms to track adherence to allocation directives.



SHARE OF BUSINESS

04/09

OUR SERVICE LINES



**Risk Management
& Corporate
Governance**



**Internal Audit
Process
& Operational Audit**



**Fraud Investigation
& Forensic
Accounting**



Fixed Asset Audit



**Internal Financial
Controls**



**Inventory
Management
Audit**



Due Diligence



**Financial Control
Audits**



**Cost Control
Management
& Saving Opportunity**

MEET OUR TEAM



CA Suraj Khandelwal
Senior Partner

With over 15 years of work experience, he is a specialist in process review, risk management services, and corporate governance.

He has a passion for helping businesses improve their performance, efficiency, and compliance through internal and forensic audits, fraud investigations, and business advisory.

Follow him -  [suraj-khandelwal1212](https://www.linkedin.com/in/suraj-khandelwal1212)

As an Internal Audit Manager, has been at the forefront of leading and executing internal audit processes within organizations.

His meticulous approach and keen attention to detail have helped organizations strengthen their internal controls and processes.

Follow him -  [someshinde](https://www.linkedin.com/in/someshinde)



CA Somesh Shinde
Audit Manager



Audit Team

We are thrilled to shine a spotlight on the powerhouse that is our Internal Audit Team!

With a dedicated team of 20 diligent professionals, our audit squad is the backbone of our commitment to excellence and integrity.

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" FOCUSED ON VALUE ADDITION "



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*Team Internal Audit
wishes you a
Happy Ganesh Utsav!*

