

# **Technical Guide on Internal Audit of Beverages Industry**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

# Technical Guide on Internal Audit of Beverages Industry

**DISCLAIMER:**

The views expressed in this Guide are those of author(s). The Institute of Chartered Accountants of India may not necessarily subscribe to the views expressed by the author(s).



**Internal Audit Standards Board**  
**The Institute of Chartered Accountants of India**  
(Set up by an Act of Parliament)  
New Delhi

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# Foreword

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Indian beverages industry is extremely competitive with specific challenges confronting the industry such as, ever changing consumer tastes, increasing power of global retailers, increasing emphasis on product safety and quality along with the pressure to keep prices low. To meet these challenges and capitalize on emerging opportunities, companies operating in beverages industry should focus on revenue protection and enhancement, cost reduction leading to margin improvement, improved asset utilization and maintaining brand reputation by achieving compliance with applicable laws and regulations.

Chartered accountants can play an important role by helping companies operating in the beverages industry to understand these challenges and turn them into opportunities in the form of improved internal controls and governance structure and enhanced growth and profitability. I am happy that the Internal Audit Standards Board is issuing *"Technical Guide on Internal Audit of Beverages Industry"* for providing guidance to the members on this crucial industry. This Technical Guide comprehensively deals with the peculiar aspects of beverages industry, including various regulatory aspects and is written in a very lucid and logically flowing manner. At this juncture, I wish to place my appreciation for CA. Shiwaji Bhikaji Zaware, Chairman, Internal Audit Standards Board for his proactive initiatives in bringing out guiding literature on internal audit for the benefit of the members.

I hope that this Guide would be warmly received and would benefit the members and other interested readers in efficiently discharging their responsibilities.

November 12, 2013  
New Delhi

**CA. Subodh K. Agrawal**  
President, ICAI

# Preface

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The Indian beverage industry is continuing to grow at a fast pace due to factors such as, changing lifestyles, growing middle-class, rapid urbanisation and increased disposable incomes. In this consumer-driven environment, the specific growth barriers faced by the beverage industry are pricing pressures, volatile input costs, ability to add new consumers and product innovations. These challenges expose companies operating in the beverage industry to new areas of risks and vulnerability. Internal auditors are well positioned to assist them in improving processes, enhancing rigor in financial management, strengthening governance and control structures thereby leading to value addition to all the stakeholders.

Considering the above, the Internal Audit Standards Board of the Institute has issued this "*Technical Guide on Internal Audit of Beverages Industry*" which deals with operational areas of entities operating in this industry, with emphasis on financial controls and compliance mandated as per various regulations applicable to the beverage industry. The Guide specifically covers non-alcoholic segment of the beverage industry. The Guide provides a brief scenario of the global and Indian beverage industry, market trends and also special features and challenges faced by the entities operating in this industry. The Guide explains in detail business process overview and risk assessment of bottling operations covering procurement process, production process, sales and accounts receivables, marketing expenses, fixed assets, inventory and general ledger and reporting. The Guide also includes a detailed internal audit checklist for beverages bottling operations for all the major processes. In every process covered in the checklist, emphasis has been given on controls to be verified for sub-processes and the specific test procedures to be conducted by the internal auditor in this regard. Legal and regulatory compliance related to beverages industry in India have also been briefly explained. The Guide also contains glossary of terms peculiar to beverages industry.

At this juncture, I am grateful to CA. Rajiv Gupta and his study group members viz. Mr. Jayraj T. Vyas and CA. Kapil Dev Soni for sharing their experience and knowledge with us and preparing the draft of the publication for the benefit of the members.

I wish to thank CA. Subodh Kumar Agrawal, President and CA. K. Raghu, Vice President for their continuous support and encouragement to the initiatives of the Board. I must also thank my colleagues from the Council at the Internal Audit Standards Board, viz., CA. Babu Abraham Kallivayalil, Vice-Chairman, IASB, CA. Rajkumar S. Adukia, CA. Jay Ajit Chhaira, CA. Tarun Jamnadas Ghia, CA. Pankaj Inderchand Jain, CA. Nihar Niranjana Jambusaria, CA. Dhinal Ashvinbhai Shah, CA. S. Santhanakrishnan, CA. J. Venkateswarlu, CA. Abhijit Bandyopadhyay, CA. Anuj Goyal, CA. Naveen N. D. Gupta, Shri Gautam Guha and Shri Manoj Kumar. I also wish to place on record my gratitude for the co-opted members on the Board viz., CA. Ashok Patil Pundlik, CA. Chandrakant Raghunath Karode, CA. Rakesh Dhody, CA. Saurabh Mukund Chitale and CA. Sanjeeb Kumar Agarwal and special Invitee, CA. Sanjay Arora for their invaluable guidance as also their dedication and support to the various initiatives of the Board. I would also like to place on record appreciation to CA. Jyoti Singh, Secretary, Internal Audit Standards Board and her team of officers for their inputs in giving final shape to the publication.

I am sure that this technical guide will be well received by the members and other interested readers.

November 21, 2013  
Pune

**CA. Shiwaji Bhikaji Zaware**  
Chairman  
Internal Audit Standards Board

# Glossary

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AP	Accounts Payable
AR	Accounts Receivable
CAGR	Compounded Annual Growth Rate
COA	Chart of Authority
CWIP	Capital Work-in-Progress
ER-M	Expense Requisition- Marketing
ESI	Employees State Insurance
FAR	Fixed Assets Register
GR	Goods Receipt
GRN/SRN	Good Receipt Note/ Service Receipt Note
GR/IR	Good Receipt/ Invoice Receipt
HR	Human Resource
IR	Installation Report
KL	Kilo Litre
LR	Load-out Requisition
MODVAT	Modified Value Added Tax
MRN	Material Requisition Note
MSR	Marketing Spend Requisition
OIF	Outlet Identification Form
PF	Provident Fund
PJV	Purchase Voucher
PO	Purchase Order
PR	Purchase Requisition
PRiA	Process Risk Assessment
QA	Quality Assurance

QSL	Quantitative Stock Ledger
RC	Registration Certificate
RFQ	Reference for Quote
SKU	Stock Keeping Unit
SOD	Segregation of Duties
VC	Visi Cooler
VMF	Vendor Master File



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# Chapter 1

## Introduction

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### Objective and Scope of Technical Guide

1.1 This Technical Guide is intended to assist internal auditors in carrying out internal audit of entities operating in the beverages industry. The Technical Guide deals with operational areas of entities operating in this industry with emphasis on financial controls and compliance mandated as per various regulations applicable to the specific industry.

Today, the scope of internal audit has increased from mere verification of financial transactions to reviewing of proper, efficient and economical usage of resources by the entity. Therefore, it is imperative that an internal auditor familiarizes with various operational and technical aspects of the beverages industry for performing internal audit in a more efficient and effective manner.

1.2 This Technical Guide covers the following aspects:

- (i) Glossary of terms peculiar to beverages industry;
- (ii) Scenario in the beverages industry, special features and challenges faced by entities operating in this industry;
- (iii) Discussion on Business Process Review and Risk Assessment in Bottling Operations;
- (iv) Major areas of internal audit significance and risks faced by an entity operating in this industry, procedures that an internal auditor can perform (including Regulatory Compliance);
- (v) Appendix.

This Technical Guide does not cover the following aspects:

- (i) Special audits
- (ii) Investigations.

## Chapter 2

# Overview of Beverages Industry

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2.1 The beverages industry consists of two major categories and eight sub-groups. The non-alcoholic category is comprised of soft drink syrup manufacture; soft drink and water bottling and canning; fruit juices bottling, canning and boxing; the coffee industry and the tea industry. Alcoholic beverages categories include distilled spirits, wine and brewing.

The beverages products industry, viewed as an aggregate group, is highly fragmented. This is evident by the number of manufacturers, methods of packaging, production processes and final products. The soft drink industry is the exception to the rule, as it is quite concentrated.

2.2 In most established markets around the world, soft drinks now rank first among manufactured beverages, surpassing even milk and coffee in terms of per capita consumption. Including ready-to-drink, packaged products and bulk mixes for fountain dispensing, soft drinks are available in almost every conceivable size and flavor and in virtually every channel of retail distribution.

Soft drinks are gradually overtaking hot drinks as the biggest beverages sector in the world, with consumption rising by around 5 percent a year according to a recent report from Zenith International. But while the US remains the biggest market for now, Asia is likely to be the main driver of sales growth in the future.

2.3 Growth drivers of the beverages industry in developed countries are different from those in the developing countries. While growing population, favorable demographics and rising income levels are expected to be key drivers in developing countries, rising health consciousness and increasing need for convenience foods are expected to drive growth in developed countries.

As early as the 1960s, most bottlers were producing beverages through machinery that ran at 150 bottles per minute. As product demand has continued to skyrocket, soft drink manufacturers have shifted to faster machinery. Due to advances in production technology, filling lines now are able to run in excess of 1,200 containers per minute, with minimal downtime except for product or flavor changes.

## Market Trends and Industry Challenges\*

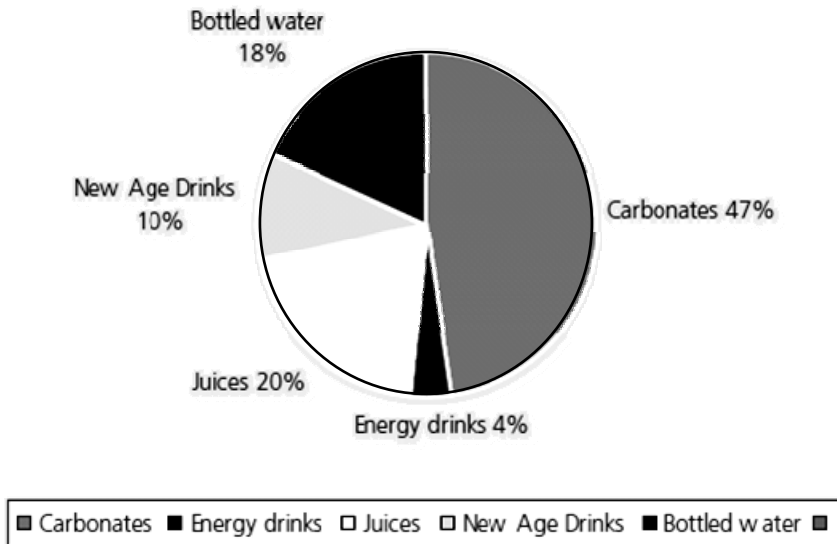
2.4 Market trends for the soft drink industry can be summarized by six fundamental themes:

- Changing consumer beverages preferences, featuring a shift toward health-oriented wellness drinks;
- Growing friction between bottlers and manufacturers in the distribution system;
- Continually increasing retailer strength;
- Fierce competition;
- Complex distribution system composed of multiple sales channels;
- Beverages safety concerns and more-stringent regulations.

While previously dominated by carbonated soft drinks, the industry is now more evenly balanced between carbonates, and product categories with a healthier image, such as bottled water, energy drinks and juice.

### Overview of global non-alcoholic beverage industry

Source: Datamat



\* Whitepaper on Soft Drinks Industry- Deloitte and SAP

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2.5 While carbonates are still the largest soft drink segment, bottled water is catching up fast, with an average of 58 liters consumed annually per capita. Among individual countries, Italy ranks number one in bottled water consumption, with the average Italian drinking 177 liters per year. Overall, bottled water represents the fastest growing soft drink segment, expanding at 9 percent annually. This growth is being partially driven by increasing awareness of the health benefits of proper hydration. The industry has responded to consumers' desire for healthier beverages by creating new categories, such as energy drinks, and by diversifying within existing ones. For example, the leading carbonated soft drink companies have recently introduced products with 50% less sugar that fall mid-way between regular and diet classifications. Similarly, a South African juice company has recently released a fruit-based drink that contains a full complement of vitamins and nutrients.

## Relationship of Beverages Companies and Bottlers

2.6 Globally, the soft drink market works on the relationship of beverages companies and the bottlers where the key ingredient (which is concentrate) are supplied to the bottlers by the beverages companies for packaging and distributing the products in market. This structure often causes conflicts of interest between beverages companies and bottlers. Many factors are contributing to the friction between bottlers and beverages companies:

- (i) Beverages companies often profit from increased concentrate sales at the expense of bottlers' margins.
  - Beverages companies have historically had higher returns and lower capital requirements
  - Bottlers have historically had lower returns and higher capital requirements for building and maintaining production and distribution networks.
- (ii) Bottlers continue to consolidate in an attempt to offset margin pressure through cost reduction. Specifically, size helps them to:
  - Spread fixed costs over greater volume
  - Make larger investments in automated production lines
  - Contain the costs of acquiring new customers
  - Increase customer loyalty.
- (iii) Declining prices have further reduced bottlers' margins.

- (iv) Soft drink manufacturers continue to develop new products and packaging, which increases operational complexity and, therefore, expenses for bottlers.
- More new soft drinks have been introduced in the last two years by the top beverages companies than were introduced in the entire decade of the 1990s.
  - While manufacturers view these new products as a way to build a portfolio of options to hedge against product successes or failures, bottlers see them as a burden since they often require additional capital expenditures

## Beverages Industry - Specific Processes

2.7 The following are specific process related to beverages industry.

(i) **Planned deliveries** – Effective solutions feature powerful tools that businesses can use to efficiently load, dispatch, and track any number of deliveries. Emphasis is placed on eliminating redundant trips and matching the appropriate vehicles and drivers to customers for each delivery. By extending route management into the order management system, companies reap cost savings of 25% to 50%.

(ii) **Monitor route business** – Beverages companies must be able to account for every item delivered, and take quick action to resolve item discrepancies. Best-in-class solutions provide powerful check-in and check-out functions that record all deliveries and returned goods. They also provide tools to monitor quickly and accurately the entire transportation operation, or that of a transportation supplier, from loading and delivery to accounting and settlement of returned goods. The system as a whole ensures complete loads, on-time deliveries, solid inventory control, and seamless invoicing.

(iii) **Keep track of empties** – Best-of-breed beverages industry solutions paint a detailed picture of the entire empties situation, showing the location and status of crates and pallets, and helping optimize return logistics. It also permits quick access of each customer's empties account as well as print delivery notes or invoices recording the empties involved in a delivery.

(iv) **Manage rebates and bonus agreements** – Rebate and bonus agreements are critical to enhancing relationships among beverages manufacturers, wholesalers and customers. Yet, the task of managing rebate programs is becoming increasingly difficult as current rebate arrangements often involve numerous parties, including many that are not directly involved in the

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initial transactions. Effective beverages solutions provide companies with the tools needed to manage easily and accurately large, complex partner constellations with any number of bonuses or rebate arrangements. They also provide coupon management. These functions apply both to direct and indirect customers.

**(v) Manage commissions** – In the beverages industry, complex commission structures are needed to motivate the sales force and to encourage them to push certain brands and to develop specific markets. Best-in-class solutions allow companies to complete commission based transactions, make payments both to internal and external sales forces, and track the payment of these commissions over time.

## Soft Drinks Industry in India

2.8 The beverage market has witnessed rapid growth over the past few years in India. Increasing middle class population, rapid urbanization and rising disposable income are some of the major factors fuelling this growth. The carbonated drinks market is close to ₹ 6,000 crores and is growing by 10-12 per cent annually.

The fruit-based beverages market stands at ₹ 5,000 crores and is growing at 35-40 per cent annually. The fruit-based beverages market is divided into three segments — fruit drinks, nectar and 100 per cent juice — and are currently dominated by Dabur, Parle Agro, PepsiCo and HUL.

The Functional drinks segment is dominated by energy drinks. The current market size of energy drinks in India is around ₹500 crores and it is expected to grow at a CAGR of 25 per cent.

2.9 Within the hot beverages category, India is the largest producer of tea with a total turnover of around ₹8,500 crores, growing at a rate of 1-2 per cent annually. India is the world's fifth largest producer of coffee, accounting for 4 per cent of the world's production.

Fruit/ vegetable juice segment is expected to grow at a CAGR of 30 per cent in value terms, followed by the energy drinks segment at a CAGR of around 25 per cent in value terms.



# Chapter 3

## Methodology for Internal Audit

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### Standards on Internal Audit

3.1 The Institute of Chartered Accountants of India (ICAI) has, till date, issued eighteen Standards on Internal Audit (SIAs), which aim to codify the best practices in the area of internal audit and also serve to provide a benchmark of the performance of the internal audit services. While formulating SIAs, the Internal Audit Standards Board of ICAI takes into consideration the applicable laws, customs, usages, business environment and generally accepted internal auditing practices in India. The list of Standards on Internal Audit (SIAs) is given below:

SIA 1 Planning an Internal Audit

SIA 2 Basic Principles Governing Internal Audit

SIA 3 Documentation

SIA 4 Reporting

SIA 5 Sampling

SIA 6 Analytical Procedures

SIA 7 Quality Assurance in Internal Audit

SIA 8 Terms of Internal Audit Engagement

SIA 9 Communication with Management

SIA 10 Internal Audit Evidence

SIA 11 Consideration of Fraud in an Internal Audit

SIA 12 Internal Control Evaluation

SIA 13 Enterprise Risk Management

SIA 14 Internal Audit in an Information Technology Environment

SIA 15 Knowledge of the Entity and its Environment

SIA 16 Using the Work of an Expert

SIA 17 Consideration of Laws and Regulations in an Internal Audit

SIA 18 Related Parties

The Framework for Standards on Internal Audit comprises four components

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*viz.*, the Code of Conduct, the Competence Framework, the Body of Standards and the Technical Guidance.

3.2 Internal audit is conducted in variant economic, legal, cultural and business environments. The organisations in which internal audit is performed differ widely in size, structure, nature of business, scale, purpose, objectives and geographical spread. Further, the internal audit activity may be performed by an entity's employees or by some external agency. Thus, the Framework for Standards on Internal Audit applies to all the persons performing internal audit activity, irrespective of whether the function is performed in-house or by an external agency.

3.3 The purpose of Standards on Internal Audit (SIAs) is:

- To provide standards for quality of services during an internal audit.
- To codify the best practices in internal audit services.

Some important aspects on internal audit have been discussed in the following paragraphs.

## Terms of Internal Audit Engagement

3.4 The client is expected to formally communicate the appointment to the internal auditor. Upon receiving the communication, the internal auditor should send an engagement letter, preferably before the commencement of engagement so as to avoid any misunderstandings. The internal auditor and the client/ auditee should record the terms of engagement in the letter or other suitable form of contract and it shall also confirm objective and scope of internal audit with the client.

The engagement letter should, generally, include reference to the following aspects:

- Objective of the internal audit
- Management's responsibilities
- Scope of internal audit (including reference to the applicable legislation, regulation and various pronouncement of ICAI).
- Access to records, documents and information required in connection with the internal audit
- Expectation to receive management's written confirmation in respect to representation made in connection with the audit.

- Basis on which fees shall be computed and the billing arrangements thereof.

Any changes in the terms of the appointment should be communicated in written form. Moreover, the internal audit may be on a continuous basis, monthly, quarterly or even annual. It is important for the internal auditor to ensure that the periodicity of the internal audit is sufficient in the light of overall business condition.

## Knowledge of the Entity and its Environment

3.5 Prior to accepting an engagement, the internal auditor should obtain preliminary knowledge of the beverages industry and of the nature of ownership, management, regulatory environment and operations of the entity subjected to internal audit, and should consider whether a level of knowledge of the beverages business adequate to perform the internal audit can be obtained.

Following the acceptance of the engagement, further and more detailed information should be obtained. To the extent practicable, the internal auditor should obtain the required knowledge at the commencement of the engagement. As the internal audit progresses, that information should be assessed, enhanced, updated, refined and validated as the internal auditor and the engagement team obtain more knowledge about the beverages business.

3.6 In case of continuing engagements, internal auditor should update and re-evaluate information gathered previously, including information in the prior year's working papers. The internal auditor should also perform procedures designed to identify significant changes that have taken place in the operations, control environment, technology and strategic processes since the last internal audit.

An understanding of business risks facing the entity increases the likelihood of identifying risks of material misstatement in the information subject to internal audit.

3.7 Knowledge of the beverages business is a frame of reference within which the internal auditor exercises professional judgment in reviewing the processes, controls and risk management procedures of the entity

It should be ensured that the internal audit engagement team assigned to an internal audit engagement obtains sufficient knowledge of the business to

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enable them to carry out internal audit work delegated to them. The internal auditor should also ensure that the audit team appreciates and understands the need to be alert for additional information and the need to share that information with the internal auditor and other members of internal audit team.

In order to make effective use of knowledge about the business, internal auditor should consider how this knowledge acquired, affects his review of internal controls and systems taken as a whole and whether his overall entity-wide assessment of systems, procedures, controls and risk management principles are consistent with his knowledge of the entity's business

The information and knowledge obtained by the internal auditor on the entity and its environment should be adequately documented in the engagement working papers

### Audit Planning, Materiality and Sampling

3.8 After acquiring the knowledge of business and various laws and regulation applicable to the beverages industry, the internal auditor should plan out the internal audit activity. Planning helps in achieving the objectives of internal audit function.

Adequate planning ensures that:

- Appropriate attention is devoted to significant areas of audit.
- Potential problems are identified.
- Skills and time of the staff are appropriately utilised
- Work is carried out in accordance with the applicable pronouncements of ICAI.
- Work is carried out in conformity with the applicable laws and regulation.

In preparing an internal audit program, the internal auditor should obtain an understanding of the accounting and internal control system prevalent within the entity, exercise preliminary judgment regarding the critical areas to be considered during the internal audit. It also helps the internal auditor in determining the audit materiality, nature and extent of audit procedures to be adopted. While designing an audit sample the internal auditor should consider the specific audit objectives, materiality, population from which the internal auditor wishes to select the sample, area of audit significance and

the sample size.

### Internal Control

3.9 Internal controls are a system consisting of specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met.

"Internal Control System" means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The internal audit function constitutes a separate component of internal control with the objective of determining whether other internal controls are well designed and properly operated.

3.10 Internal control system consists of following inter-related components:

- Control (Or Operating) Environment
- Risk Assessment
- Control Objectivity Setting
- Event Identification
- Control Activities
- Information and Communication
- Monitoring
- Risk Response.

The system of internal control must be under continuous supervision by management to determine that it is functioning as prescribed and is modified, as appropriate, for changes in environment. The internal control system extends beyond those matters which relate directly to the functions of the accounting system. The internal auditor should obtain an understanding of the significant processes and internal control systems sufficient to plan the internal audit engagement and develop an effective internal audit approach. The internal auditor should use professional judgment to assess and evaluate the maturity of the entity's internal control. The auditor should obtain an understanding of the control environment sufficient to assess

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management's attitudes, awareness and actions regarding internal controls and their importance in the entity. The internal auditor should examine the continued effectiveness of the internal control system through evaluation and make recommendations, if any, for improving that effectiveness.

The importance of internal controls in a beverages entity need not be over-emphasized. Internal audit plays a major role in determining the effectiveness of internal controls and highlights areas for improvement. The Internal auditor may also refer to Standard on Internal Audit (SIA) 12, "Internal Control Evaluation" for a detailed discussion on internal control.

## Internal Audit in an Information Technology Environment

3.11 Computer Information System (CIS) environment exists when one or more computer(s) of any type or size is (are) involved in the processing of financial information, including quantitative data and the significance in relation to the audit, whether those computers are operated by the entity or third party.

The overall objective and scope of internal audit does not change in a CIS environment. However, the use of computer changes the processing, storage, retrieval and communication of financial information and may affect the accounting and internal control systems employed by the entity. Moreover, the risks involved in an internal audit may too undergo a change. The internal auditor should have sufficient knowledge of the CIS environment to plan, direct, supervise, control and review the work performed.

3.12 The data in an entity operating in CIS environment is, generally, voluminous. The CIS automatically generates material transaction or entries and exchanges transaction automatically with other organisation as in electronic data interface (EDI) systems. Source documents, computer files and other evidential matter exist only for short period and in machine readable form. The use of the Computer Assisted Audit Technique (CAAT) shall increase the efficiency in the performance and enable the internal auditor to economically apply certain procedures to the entire population or accounts transaction.

The internal auditor should understand the CIS Environment in designing audit procedures to reduce the audit risk to an acceptable low level. The internal auditor should also document the audit plan, the nature, the timing and the extent of audit procedures performed and the conclusions drawn

from the evidence obtained which may be in the electronic form. The internal auditor should ensure that such electronic evidence is adequately and safely stored and is retrievable in its entirety, as and when required.

The internal auditor may refer to Standard on Internal Audit (SIA) 14, "Internal Audit in an Information Technology Environment" for guidance on procedures to be followed when an audit is conducted in a computer information systems (CIS) environment.

## Internal Audit Documentation

3.13 Internal audit documentation should be designed and properly organized to meet the requirements and circumstances of each audit. It should be sufficiently complete and detailed for an internal auditor to obtain an overall understanding of the audit. All significant matters which require exercise of judgment, together with internal auditor's conclusion thereon should be included in the internal audit documentation. Documentation prepared by internal auditor should enable reviewer to understand:

- The nature, timing and extent of audit procedures performed to comply with SIAs and applicable legal and regulatory requirements;
- The results of audit procedures and audit evidence obtained;
- Significant matters arising during the audit and conclusions reached thereon; and
- Terms and conditions of an internal audit engagement/ requirements of internal audit charter, scope of work, reporting requirements, any other special conditions, affecting the internal audit.

3.14 It should cover all the important aspects of an engagement *viz.*, engagement acceptance, engagement planning, risk assessment and assessment of internal controls, evidence obtained and examination/ evaluation carried out, review of the findings, communication and reporting and follow up.

## Overview of Compliance

3.15 Compliance means ensuring conformity and adherence to regulatory acts, rules, procedures, laws, regulation, directives and circulars. Standard on Internal Audit (SIA) 17 issued by the ICAI relating to "Consideration of Laws and Regulations in an Internal Audit" states that when planning and performing audit procedures and in evaluating and reporting the results thereof, the internal auditor should recognize that non-compliance by the

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entity with laws and regulation that may materially affect the financial statements. However, an audit cannot be expected to detect non-compliance with all laws and regulations. Detection of non-compliance, regardless of materiality, requires consideration of the implications for the integrity of management or employees and the possible effect on the other aspect of the audit.

Non-compliance with laws and regulations could result in financial consequences for the entity such as, fines, litigation, etc. Internal auditor cannot be expected to detect noncompliance with all laws and regulations; however this argument shall not apply to engagements where the internal auditor is specifically engaged to test and report separately on compliance with specific law and regulations.

3.16 The management is responsible to ensure that the entity's operations are conducted in accordance with laws and regulations. The responsibility for prevention and detection of non-compliance shall be that of the management; however the internal auditor should plan and perform the internal audit recognising that the internal audit may reveal conditions or events that would lead to questioning whether an entity is complying with laws and regulations.

The term "Non-compliance "refers to acts of omission or commission by the entity being audited, either intentional or unintentional, which are contrary to the prevailing laws and regulations. Such acts include transactions entered into by, or in name of the entity or on its behalf by the management or employees. However, non-compliance does not include personal misconduct (unrelated to the business activity of the entity) by the entity's management or employees.

### Understanding of Laws and Regulations

3.17 Laws and regulation vary considerably in their relation to the financial statements. Some laws or regulations determine the form or content of an entity's financial statement or the amounts to be recorded or disclosures to be made in financial statements. Other laws or regulation are to be complied with by management or prescribed by the provisions under which the entity is allowed to conduct its business. Non-compliance with laws and regulation could result in financial consequences for the entity such as, fines, litigation, etc. It also has a potential effect on going concern as an entity.



The internal auditor should plan and perform the audit recognizing that the audit may reveal conditions or events that would lead to questioning whether an entity is complying with laws and regulations. In order to plan the internal audit, the internal auditor should obtain understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.

3.18 To obtain this understanding, the internal auditor would particularly recognize that non-compliance of some laws and regulations may have a fundamental effect on the operations of the entity and may even cause the entity to cease operation, or call into question the entity's continuance as going concern. To obtain the understanding of laws and regulations, the internal auditor would ordinarily:

- Use the existing knowledge of the entity's industry and business.
- Inquire with management as to the laws or regulations that may be expected to have a fundamental effect on the operations of the entity.
- Inquire with management concerning the entity's policies and procedures regarding compliance with laws and regulations.
- Discuss with management the policies or procedures adopted for identifying, evaluating and accounting for litigation claims and assessments.

After obtaining the understanding, the internal auditor should perform procedures to identify instances of non-compliance with those laws and regulations where non-compliance should be considered while preparing financial statements, specifically:

- Inquiring with management as to whether the entity is in compliance with such laws and regulations.
- Inspecting correspondence with the relevant licensing or regulatory authorities.

### Significance of Compliance

3.19 The significance of compliance is:

(a) The benefits to the Industry are:

- Helps in compliance with legal terms and covenants and thereby reduces penalties and charges
- Increased Internal Control

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- Reduction of internal frauds and losses
- More time available for other core activities
- Increases efficiency in operations
- Customer satisfaction.

(b) The benefits to the stakeholder are:

- Ensures risk containment and safer market place
- Better investor confidence
- Uniform practices
- Better image, hence, better value for the investor.

# Chapter 4

## Business Process Overview and Risk Assessment

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4.1 Process Risk Assessment (PRIA) is used to perform a risk assessment for each Business Process. There should be one form created for every process that could potentially be audited. This risk assessment form should be updated year after year for any new risk assessment information. The risk evaluation helps to determine the risk level for each process. Risk levels can be high, medium or low depending on each evaluation. The risk level will determine what detail of testing should be performed on the processes.

### Procurement Process

4.2 The purpose of the procurement procedures is to ensure that purchases are made judiciously, and that goods of acceptable quality are purchased from reputable vendors, at competitive terms and in a timely manner. Further, to ensure that timely disbursements are made.

These procedures cover goods and services, but exclude purchases from inter-unit locations and capital purchases for projects, etc.

The various types of goods and services purchased are:

- (i) Raw and packaging materials (excluding concentrate)
- (ii) Concentrate
- (iii) Beverages cooler and sales assets which are generating sales volume.
- (iv) Capital goods
- (v) Stores and spares
- (vi) Professional and other services
- (vii) Utilities e.g., electricity, telephone, etc.
- (viii) Marketing materials, e.g., premier items, etc.

4.3 Requesting or User department is required to:

- (i) Check availability of material on hand with stores;

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- (ii) Prepare PRs in a timely manner;
  - (iii) Obtain appropriate (budgetary and other) approval on PR;
  - (iv) Allocate applicable department, location and budget codes.
- 4.4 Purchase function is required to:
- (i) Review PR for completeness, approval, etc.;
  - (ii) Plan purchases of regular raw and packing material and consumables;
  - (iii) Obtain and evaluate quotations from vendors;
  - (iv) Document new vendor evaluation and selection on vendor master form (VMF);
  - (v) Negotiate price and other terms of purchase;
  - (vi) Prepare purchase order and obtain approvals per COA;
  - (vii) Circulate copies of PO;
  - (viii) Co-ordinate with vendors for logistics, including for return of rejected goods;
  - (ix) Monitor items dispatched on returnable basis;
  - (x) Monitor vendor performance over time.
- 4.5 Finance department is required to:
- (i) Approve POs and update budget commitment;
  - (ii) Verify vendor invoice and check for arithmetical accuracy etc.;
  - (iii) Perform three-way match, matching invoice, GRN and PO;
  - (iv) Update excise records on receipt of vendor's excise invoice (also rejections);
  - (v) Record the payable to vendor and withhold taxes, as applicable;
  - (vi) Disburse to vendors on a timely basis and deposit taxes withheld;
  - (vii) Reconcile with the vendors' statement of account periodically;
  - (viii) Undertake cut-off procedures periodically.
- 4.6 Stores department is required to:
- (i) Receive goods and prepare GRN, on the basis of supplier's delivery challan/ packing list and physical verification;
  - (ii) Provide excise invoice, where applicable, to the excise duty section;

## Business Process Overview and Risk Assessment

- (iii) Update stock ledger, after quality approval of goods;
- (iv) Separately store rejected goods in a marked area and co-ordinate their return;
- (v) Prepare list of obsolete or unusable items, periodically.

4.7 Quality assurance department is required to:

- (i) Check quality and approve or reject material for acceptance;
- (ii) Approve GRNs for goods accepted, and rejection reports for others.

4.8 The requesting or user department is to initiate purchases of goods or services on a Purchase Requisition (PRs). These PRs are to be authorized by the department head as per COA, after verifying the availability of budget and the validity of the need to purchase.

For more regularly consumed raw and other materials (e.g., concentrate, sugar, crowns, CO<sub>2</sub>, HSD, LDO, activated carbon, filters, etc.), a PR need not be prepared. Procurement for these items is to be monitored by the Supply Chain department, based on the store's inventory status on the Daily Stock Movement Report. The procurement decision is to take into account the production plan (including maintenance schedule), delivery lead-time and contingencies. For certain utility related expenses e.g., telephone, electricity, courier charges, etc., a PR is not necessary.

4.9 All purchases are to be made from approved vendors only. Where expenses are incurred by third parties, and reimbursed by the Company, a prior vendor approval is recommended.

Based on approved VMF received, the working capital section in Finance department is to update the vendor master file. This is to be arranged alphabetically, and include details of vendor name, code, address, telephone number, bank account and the date of activation, and is to be circulated to purchase section and finance. Changes to the vendor master file should be made on the basis of approved VMFs. Requests for changes in basic vendor information (e.g., address, bank account and payee name) should be made by the vendor in writing. The alphabetic list of vendors is to be reviewed before a new vendor is added to check that multiple vendor numbers are not issued to the same vendor.

4.10 When goods are received, the gate security should guide the vehicle to the designated receiving area, preferably separated from the stores. The storekeeper is to carry out a preliminary visual inspection of goods, and compare the items received and quantities, to the vendor's packing

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list/delivery note and PO. The storekeeper is to prepare a Goods Receipt Note on the receipt of goods. In case of services, the user department is responsible for confirming the receipt of services, and is to evidence it on the invoice at the point of its approval. The receipt of smaller transactions (say below INR 1,000) may be assumed, as the cost of verification etc., may exceed the exposure.

Where an order is delivered in part, the stores department is to record the partial receipt on the reverse of the PO, to ensure receipts do not exceed the ordered quantity.

4.11 For sugar (and some other items purchased in bulk quantities), weight of the entire load is to be taken on a weighbridge at the time of receipt, where possible. Further, each bag of sugar is to be weighed by production before it is poured into the hopper, and recorded on a Sugar Weight Register. This identifies the shortages by supplier. The differences, if substantial, are to be recovered from the supplier, and recorded on a Materials Returned to Stores Note and provided to stores who in turn are to take it up with the Supply Chain Department.

The AP section is to maintain a GRN Register to track the receipt of invoices, excise copy of invoice, lorry receipt, and to control freight payments. This also facilitates making month-end accruals. For freight payments, the receiver is to record the GRN reference on the reverse of the (transporter's) Lorry Receipt (LR), to be submitted to AP with the freight invoice. The AP section is to link the LR, GRN and the PO, verify the claim and to update the GRN register for freight payment. Emergency freight payments may be made at the time of the receipt of goods from the petty cash. In such cases, the AP section is to update the GRN register next day to prevent duplicate freight payments.

4.12 The Quality Assurance department (QA) is to inspect goods received, and document the quantity approved on the GRN. QA is to track the rejection record of vendors, and take-up potential quality issues with the purchase function. The purchase function is to monitor overall vendor performance, including timeliness, quality, etc. The storekeeper is to update the stock ledger on the basis of the quality approved GRN. The accrual for the payable is to also correspond to this quantity. Thus, rejected quantities are not taken as receipts in the system.

For rejections, QA is to prepare a Quality Control Rejection Report and is to be routed through excise function to enable reversing of the Modvat credit, and the copy for accounting purposes. Where replacement for goods rejected

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and returned is received, a fresh GRN is to be prepared and the GRN labeled as "replacements", to facilitate the AP function to perform the three-way match. The AP section is to ensure that invoices against which materials have been rejected are not recorded. Where this has happened, a debit note is to be promptly made. Similarly, for partial rejections, the vendor's invoice is to be recorded at full, and a debit note raised for the value of the rejection.

The AP section is to perform a three-way match between PO, GRN and the invoice. The AP section is not to alter the invoice (e.g., invoice number, date, quantity, amount etc.). A separate debit note is to be issued where deductions are to be made from the invoice. After three-way-match, a pre-numbered Purchase Journal Voucher is to be prepared.

4.13 At month-end, open GRNs are to be accrued for at standard cost (where units use standard costing), based on the vendor's excise invoice or at the PO rate. Accrual is to be reversed at the beginning of the next month.

The AP section is to ensure timely payments to suppliers, and to process invoices by their due date. The disbursement team is to consider early payment discounts and manage cash flows optimally. Access to unused checks is to be restricted to authorized personnel only. Further, a record of checkbooks obtained from the bank, and those issued for use, is to be made on a checkbooks Issue Control Log. All checkbooks are to be stamped "Account Payee only" on receipt from the bank, except one checkbooks, which is to be used for petty cash withdrawals.

4.14 Periodically, a statement of account or confirmation of balance is to be obtained from vendors, to reconcile the payable balance as per books with the records of the vendors. This is especially important for vendors with running accounts. The AP staff involved in preparing (or approving) PJVs or disbursement staff involved in checks preparation should not carry out the reconciliation.

Certain items are classified as central purchase items and it is mandatory for all locations to 'pool purchase' those items. These include all ingredient and packing materials, and certain chemicals, stores and spares and capital goods. The detailed list of central purchase items is available with the Region Offices. The benefit of central/ pool purchasing is better leverage on prices and terms, based on the combined volume for all locations.

4.15 Central purchases are to be similar to regular purchases, except for:

- Corporate office to receive procurement plans for the central purchase items from each Unit;

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- Based on the combined volumes planned, corporate office to negotiate prices with central vendors;
- Corporate office to raise POs on the central vendor, with a copy to the Unit;
- Units to indicate the dispatch instructions to the central vendor;
- Unit to receive goods, perform three-way match and process payment to vendor under intimation to Corporate office.

### Process Risk Assessment (PRiA)

4.16 The following table gives in detail Process Risk Assessment (PRiA):

Risk Q No.	Sub-Process	Risk Question	Remarks
1	Vendor Master File	Have there been any significant vendor additions during the period at this location?	Higher the number of addition to the vendor master, higher the risk rating to this sub-process.
2	Vendor Master File	Have there been any changes to the VMF during the period (i.e., vendor deleted, vendor information changed, etc.)?	Significant changes in the vendor master file leads to higher risk rating to this sub-process.
3	Vendor Master File	How frequently is the VMF reviewed and maintained at this location?	Periodic review of VMF or audit trail helps in ensuring that no unauthorised change has been made. Higher the frequency, lower the risk.
4	Vendor Master File	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
5	Vendor Selection	Have there been any significant vendor additions during the period at this location?	Higher the number of addition to the vendor master, higher the risk rating to this sub-process.



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Risk Q No.	Sub-Process	Risk Question	Remarks
6	Vendor Selection	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
7	Purchase Orders	Were there any purchase orders issued outside of the ERP System at this location during the period? What was the value of purchase orders issued outside of ERP during the period?	Higher the number of manual purchase orders, higher is the weightage or risk ranking of the sub-process.
8	Purchase Orders	Have there been any changes in the location's COA during the period?	Significant changes in the COA leads to higher risk rating to this sub-process.
9	Purchase Orders	Are purchase price and quantity tolerances defined in the system?	If tolerance limits are not defined then 3-way match in procurement process cannot be ensured. Absence of tolerance indicates higher risk rating to this sub-process.
10	Purchase Orders	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher is the weightage or risk ranking of the sub-process.
11	Goods & Services Receipts	Does this location have a significant amount of open PO's or aged 3-way match exceptions?	Higher the number of open purchase orders/ 3-way exceptions, higher is the weightage or risk ranking of the sub-process.

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Risk Q No.	Sub-Process	Risk Question	Remarks
12	Goods & Services Receipts	What is the value of goods received but not invoiced at this location?	Higher the value of open GRIR, higher is the weightage or risk ranking of the sub-process.
13	Goods & Services Receipts	Has there been any fraud noted at this location in regards to procurement process? Specify the number of cases?	Higher the number of fraud cases, higher the weightage or risk ranking of this sub-process.
14	Goods & Services Receipts	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher is the weightage or risk ranking of the sub-process.
15	Verification & Approval	Have there been any changes in the location's COA during the period?	Significant changes in the COA leads to higher risk rating to this sub-process.
16	Verification & Approval	Have any new significant recurring payments been set up at this location during the period?	Significant recurring payments lead to higher risk rating to this sub-process.
17	Verification & Approval	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher is the weightage or risk ranking of the sub-process.
18	Debit Notes	Was there a significant amount of debit/credit memos issued at this location?	Higher the number of debit/credit memos, higher is the risk rating to this sub-process.

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Risk Q No.	Sub-Process	Risk Question	Remarks
19	Debit Notes	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher is the weightage or risk ranking of the sub-process.
20	Freight Expense	Is there significant increase in the freight expense?	Significant increase in the freight expense leads to higher risk rating to this sub-process.
21	Freight Expense	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher is the weightage or risk ranking of the sub-process.
22	SOD	Has there been any turnover in personnel that perform key AP duties that could result in an employee performing incompatible tasks?	Frequent/ Major Change in function for Procurement role may lead to higher risk rating for this sub-process.
23	SOD	Has there been any fraud noted at this location in regard to AP during the past 3 years?	Higher the number of fraud cases, higher the weightage or risk ranking of this sub-process.
24	SOD	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher is the weightage or risk ranking of the sub-process.

## Production Process

4.17 The procedures cover the requisition and receiving of raw, packing and other materials, including empties for production, as per plan. This

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includes returning any excess quantities of material to the stores and the transferring of completed production to the warehouse.

### **(i) Production Department**

- (a) Prepare planned and a firm next day's production plan.
- (b) Requisition for raw, packing and other materials for production.
- (c) Prepare production report for each shift and line.
- (d) Record breakage during production.
- (e) Transfer product to shipping.
- (f) Return excess raw and packing material to stores and empties to shipping.
- (g) Secure material, if any, on the production floor.

### **(ii) Sales Department**

Provide detailed sales forecast.

### **(iii) Stores Department**

- (a) Issue raw, packing and other materials.
- (b) Receive any returns from the production department.

### **(iv) Procurement Department**

Ensures availability of materials as per the production plan.

### **(v) Warehousing Department**

- (a) Prepare status of empties and fills to facilitate production planning.
- (b) Provide empties for production and receive fills from production.
- (c) Secure the fills and the empties storage area.
- (d) Update excise records, as applicable.

### **(vi) Quality Department**

- (a) Perform on-line quality checks during production.
- (b) Compute raw material yields

### **(vii) Finance Department**

- (a) Record accounting entries for production and consumption of materials.

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(b) Determine and account for other manufacturing costs.

4.18 The sales department prepares sales forecast by brand and pack, broadly in line with the annual business plan, latest sales estimate, specific promotions and the expected market requirements.

Other key factors relevant for this plan are:

- product already available at the plant and distribution warehouses;
- availability of raw and packaging material;
- availability of empties (including new glass);
- production capacity;
- length of time for changing/ cleaning the equipment;
- size of available warehouse space;
- beverages product shelf life; and
- outsource options or requests from other locations.

Based on the Daily Production Plan, the production and QA departments are to requisition and obtain raw, packing, and other material from the stores on a Material Requisition-cum-Issue Note. Upon receipt, the material issue note is to be signed to acknowledge receipt.

The shipping copy of the Daily Production Plan serves as a requisition for empties. The stack from which empties are to be issued for production is to be identified and counted. The empties received from shipping are to be acknowledged by production on an Empties Transfer to Production Form. In case empties are received more than once in the same shift, this form is to be prepared for each such issue by shipping and acknowledged by production.

After each shift, excess inventory on the shop floor is to be returned to stores on a pre-printed and pre-numbered Material Return Note. This is to be prepared in duplicate: the original for stores and the book copy for production. Less preferably, where a secure shop floor store exists and where the quantities are small (and likely to be consumed in the next day or so), the production department may hold unutilized material. This is to be recorded on a Shop Floor Stock Register along with the consumption.

Unused bottles and cases, along with the dirty, scuffed, foreign, other brand or chip neck bottles are to be returned to shipping, on the Empties Transfer to/ from Production.

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4.19 High or low fills, cases of incorrect packing or those otherwise identified as unfit by production must be uncorked immediately, to prevent mix-up with good product. These bottles are to be excluded from the day's production count and drained with the empties being handed over to shipping.

Similarly, samples collected by QA are to be excluded from production. Upon completion of quality tests, the empties are to be returned to shipping on the Empties Transfer to/ from Production Form.

Product put-on-hold or otherwise rejected by QA is to be separately identified on the Empties Transfer to/ from Production Form. Further, "Reject" stickers are to be pasted by QA on each case, and stacked separately by shipping to prevent distribution. Further, draining is to be carried out by shipping, upon receipt of Operation's Head approval.

A line-wise count of the finished product is to be recorded by production on a Production Count Sheet. This is prepared in original only and where automated counters exist, these are to be cross verified with the counters. Where automated counters are used, they should be zeroed before the start of the shift. Further, adjustments are to be made to the counter reading for any empty bottles which pass the counter. Based on counts, the production department is to prepare a Daily Shift and Line-Wise Production Report.

Production department is to prepare a Glass Reconciliation for each shift, taking into account any dirty, scuffed, chip neck, foreign or unsorted bottles returned to shipping, determining the breakage during the production process. Bins are to be placed at specific areas around the line to collect broken bottles. These are to be weighed at the end of the shift to determine (and possibly corroborate) the breakage arrived in Glass Reconciliation, by location.

Daily raw material usage is to be recorded by QA/ production, to determine 'yields'. For this purpose, based on the finished production transferred to shipping, the raw and other materials theoretical consumption is computed. This compared with the actual consumption provides the yield. Similarly, these are to be prepared on a monthly and year-to-date basis. Line utilization levels are also to be calculated, representing the percentage of finished product produced, in comparison to the rated speed for the line.

Production is to transfer fulls to shipping on the Fulls Transfer Form. Shipping is to count the fulls received and match with the production reported on this form, and sign to acknowledge the receipt. Any difference is to be investigated and resolved promptly.

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Fulls identified as 'on-hold' by QA is to be recorded in the remarks column of the Fulls Transfer Form, and excluded for updating the excise records. Once approved these are to be corrected on the excise and shipping records. The rejected stock is to be corrected in the shipping records and drained.

Typically, finished products may be moved to the shipping area while production continues. Accordingly, these are to be stored in a separate area within shipping and counted at the end of the shift to determine the production and the quantity transferred. Less preferably, in certain cases product may also have to be dispatched from the day's production. In such cases, production is to be determined taking into account dispatches from current production.

4.20 At month end, the finance and the production departments are to record the work-in-progress, if any. Typically, this may be in the form of unused raw or final syrup. The syrup levels in mixing tanks are to be recorded along with the breakdown of equivalent raw materials (at standard conversion factor) on a Month-end Report.

The finance department is to carry out the following activities and periodically process accounting entries as follows:

(i) Daily:

- (a) Ensure excise record is updated for production reported.

[Note: Excise duty is also payable for captive consumption and breakage of fulls in the shipping area. However, no duty is payable on rejected goods, identified prior to their moving into the bonded warehouse, and samples picked up by QA.]

- (b) Further, that the quantities dispatched per shipping records, agree with the excise records (therefore the finished stock in the shipping area agrees with the excise records).
- (c) In the accounting system (ERP), record the quantity of finished goods produced by brand and pack to trigger the automated entries for cost of goods sold, etc.

(ii) Monthly:

- (a) Perform physical verification of WIP. Based on Month End WIP Report, value equivalent raw material components and record entry.

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- (b) Record the month's production entry based on the month's glass reconciliation record breakage.

## Sales and Accounts Receivables

4.21 The process pertaining to sales and accounts receivables are explained as per following paragraph.:

### Check-in Check-out Process

4.22 The purpose of Stock-out and Stock-in procedures is to establish controls over inventory in the direct route selling process. These procedures describe the manner in which the hand over or takeover of Company products is to occur between functions and to establish the responsibility (for custody).

Typically, a direct route sale is undertaken from a distribution warehouse/depot, or in certain cases, the plant warehouse. All vehicles on which product is loaded, must be subject to Stock-out and Stock-in procedures, including non-company owned vehicles.

Stock-out and Stock-in duties are performed by checkers. They are required to:

- Check physical stock of fulls, empties and cases given/ received to/ from salesmen;
- Check and report empties for damages and chip necks at Stock-In;
- Prepare Load-out summary.

Salesman is required to:

- Count quantity loaded/ unloaded and sign-off on load sheet;
- Secure vehicle and promptly leave location upon signing of load sheet;
- Sort empties by brand and pack before Stock-In.

Warehouse supervisor is required to:

- Oversee the entire Stock-out and Stock-in process;
- Ensure stocks are loaded on a first-in-first-out (FIFO) basis;
- Ensure physical security controls over Stock-Out and Stock-In area;
- Organize periodic spot checks of vehicles, just outside the warehouse;
- Ensure timely updating of warehouse stock records.



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Each salesman on his return from a route is to provide the quantity and product-mix (including premia and other items) for the next day's route. This is to be recorded centrally, either on an assigned board or on a preprinted Direct Load-out Requisition (LR), prepared in original. Telephonic requests received directly at the warehouse are also to be recorded on the LR.

Considering factors like reasonableness, availability of product and sales target planned, the sales supervisor is to appropriately amend and authorize the LR for various routes. The approved LR is to be handed over to the shipping in-charge, to organize the loading of vehicles.

For second or subsequent loads, quantities may be provided to salesmen, based on their requests. In some cases, it may be logistically more convenient to operate feeder vehicles to deliver the product to the route salesman, for subsequent loads.

The loaders are to load vehicles with product in accordance with the LR. Quantities loaded on route vehicles are to be recorded on a preprinted and pre-numbered Load Sheet. Where more than one load is dispatched on the same day, a separate load sheet is to be prepared for the second or subsequent loads, after completing Stock-In procedures for the earlier load. Also a reference is to be given of the earlier load sheet, so as to facilitate settlement. Quantities loaded on feeder vehicles are to be recorded on a pre-printed and pre-numbered Feeder Load Sheet.

The checkers are to supervise the loading, including for non-company vehicles, ensuring no product is concealed in the route truck cabin or other areas. At the time of handing over stock, the salesman is to perform an independent and blind count of stocks on the vehicle assigned to him, and call out his count to the checker. Upon agreeing the count, the salesman and the checker are to both sign the load sheet.

From the point of signing the load sheet, the accountability for the stock passes on to the salesmen, who are to promptly leave the facility. Using the salesman's load sheet, the gate security is to check the paperwork and inspect the vehicle for any concealed stocks, and then allow the vehicle to exit.

When route (or feeder) vehicles return to the warehouse, products are to be unloaded in the presence of both the checker and the salesman. The checker should take a count independent of the salesman, of the unsold fulls and empties, i.e., bottles, canisters and crates collected.

When the salesman and the checker agree on the count, it is to be recorded on the load sheet (the last load sheet, if more than one has been issued).

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The original load sheet (after check in) is to go to the settlement clerk, and the second copy is to remain as book copy and used for updating stock records.

The warehouse supervisor is to update the stock register on the basis of the net load on load sheets, and prepare a Net Load Summary. Further, the warehouse supervisor is to prepare a Route Breakage Report for the bursts (liquid and bottle lost), leakage (only liquid lost) and breakage (only bottle lost) and obtain approval of the sales supervisor.

### Direct Sales On-Route Procedures

4.23 On-route, a salesman is to visit each outlet on the route map. The salesman is to complete the cash or credit invoice for the sale of product, less return of empties, collect cash and obtain the signatures of the customer.

The on-route procedures describe the controls applicable to salesmen, in recording sales, monitoring the inventory of fulls and empties, and handling the cash and checks collected.

Route salesmen are responsible for all items loaded on their vehicles, as well as for cash, checks and credit memos collected, along with the paperwork associated with the daily sales.

Salesmen are required to:

- Secure the product and cash on-route;
- Make credit sale only to approved credit parties;
- Ensure billings are at correct rates;
- Extend discounts per approved schemes only;
- Account for pre numbered documents;
- Complete paperwork prescribed on-route.

On-route sales are to be recorded by salesmen on a preprinted and pre-numbered Cash Sales Invoice or Credit Sales Invoice, depending on whether sales are for cash or credit. Further, the receivable or payable on account of bottles and cases is to be recorded on a pre-printed pre-numbered Deposit Slip.

All invoices are to be signed by the salesman. Further, each credit sale invoice and where a trade scheme is in force, each cash invoice is to be signed by the customer or his representative also. For a credit invoice this

acknowledges the liability to pay. In other cases, the signature confirms the receipt of free goods or scheme. Where sales is partly on credit and partly on cash, a credit sales invoice is to be used, with the cash collected being recorded through a Collection Receipt.

For all the fulls sold, equal empties are to be collected. Where a difference arises, the deposit for the differential is to be collected/ refunded recording it on the deposit slip. Salesman should bring back empties sorted by brand, and check for any chip necks, breakage/ damage, which is recoverable from the customer.

On-route, salesmen are to also collect debtor dues for credit sales made earlier. For this, salesmen are to issue a pre-printed and pre-numbered Collection Receipt.

All cases given on loan have to be pre-approved by the Sales department. Further, the total value of cases given on credit should not exceed the credit policy limits, unless appropriately approved.

### Direct Route Cash Collection Procedures

4.24 The purpose of the route cash collection procedures is to establish controls over cash and check collections for cash sales made on routes by salesmen and collections from debtors. The procedures describe the manner in which cash collections are to be reported by salesmen and handed over to cashiers. Further, how cash collections are to be consolidated and banked. At each stage when cash is accessed or transferred, accountability and responsibility is to be fixed, building in adequate segregation in processes.

Salesmen are required to:

- Secure cash on-route and in-depot (before deposit with cashier);
- Report cash and check collections from customers;
- Deposit day's cash and check collections before leaving the location;
- Reconcile promptly any discrepancies in cash collection and deposit.

Cashiers are required to:

- Count cash and check receipts in the presence of the salesman;
- Perform a preliminary review of the validity of checks accepted;
- Verify the cash detail form prepared by the salesman;
- Ensure safety of cash, and hand over for deposit with bank;

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- Ensure timely deposit of cash in the bank;

Head Cashier is required to:

- Summarize cash and check collection by cashiers and prepare bank pay-in-slip;
- Reconcile cash collections with that deposited;

Depot Accountant is required to:

- Perform a physical cash count;
- Maintain details of post-dated checks in order of due date;
- Update the bounced check register;
- Prepare a list of parties with check facility withdrawn.

### Direct Sales Route Settlement Procedures

4.25 The settlement procedure considers the net load taken out and cash, check and credit memos brought back by a salesman. Each salesman is responsible to account for the value of product taken out by him, and account for it with credit invoices for credit sales, and check and cash for cash sales. Typically, this process must be completed before a salesman leaves with the next day's load.

The purpose of settlement is to safeguard company assets, as also to protect staff involved, by defining clear areas of responsibility and accountability, while ensuring a good control environment. These procedures cover reporting of the net load based on load reports, sales invoices, cash and checks collected and credit sale invoices.

A salesman is to obtain authorization for any free products provided on route (does not include scheme frees). Also the bursts, leakage and breakage identified on the load sheet are to be authorized by the sales department. Until approved, these are to be charged to the salesman.

The settlement clerk is to check that the relevant supports are received, the rates used are current and no unauthorized changes have been made on invoices. Further that frees and discounts are in line with the applicable and approved schemes, and credit provided is authorized. Also that bursts, leakage and breakage are authorized.

In certain cases, to reduce the settlement time, only a quick settlement may be carried out immediately on the return of the salesmen, and the final settlement may follow on to the next morning. In quick settlement, the net

load would be accounted for on the same day. However, the individual sale invoices that make-up the net load would be accounted for subsequently (before the salesman departs with the next day's load), as part of the final settlement process. Accordingly, in a quick settlement, only the credit sale invoices are to be recorded (and the cash sale invoices recorded subsequently). At this stage any unauthorized credit is to be identified and recorded as a salesman shortage. However, where a final settlement takes place immediately, the cash sale invoices would also be recorded.

Based on the above, the system is to compute the settlement, identifying any salesman shortage, and printing the entire information on a Settlement Sheet. The signatures of the salesman are to be obtained. When all sale invoices are recorded, a load variance may arise where the net load reduced by bursts, leakage and breakage does not add up to the quantities per the individual cash and credit invoices. Such difference is to be investigated and recorded as sales made to the salesman. These are to be tracked in an exception report and minimized.

Upon completion of all settlements for the day, the settlement clerk is to summarize these on a Summary Settlement Sheet. The total net load for all settlements should be reconciled with the warehouse inventory records. Further, the net load should be reconciled to the sales recorded and frees and breakages etc. charged-off. The credit sales are to be separately compared with the accounts receivable balance updated and cash sales to the collections.

### Indirect Sales

4.26 Indirect sales comprise sales to distributors for onwards sale to outlets. These procedures define the recommended controls over indirect sales, specifically pertaining to:

- The handing over of product to distributors and the collection of empties;
- Receivables collection and credit control; and
- Other aspects like, compliance with agreements.

Indirect sales could be made both from the plant and distribution warehouses. Typically, dispatches are made against an order received from a distributor after credit approval by finance.

Sales to distributors are recorded as (end-customer) sale. However, it is useful to have further details of the distributor's customer base, network, etc.

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Also, the company may often support the indirect distribution process by monitoring (and supervising) important distributor routes, and assist in various marketing and other programs in the distributor's market.

Distribution department is required to:

- Appoint distributors and establish a distributor network;
- Process approved sale orders and prepare invoices;
- Arrange logistics and ship product;
- Co-ordinate with distributors for collections;
- Monitor distributor stocks and their set-up.

Finance department is required to:

- Check credit limits and approve sale orders in compliance with credit policy;
- Record collections from distributors;
- Periodically reconcile outstanding balances from distributors;
- Identify and follow-up on outstanding balances.

Shipping or warehouse supervisor is required to:

- Dispatch goods as per approved order form;
- Ensure stocks are dispatched on a first-in-first-out (FIFO) basis;
- Ensure physical security controls over load-out area;
- Update warehouse stock records in a timely manner.

To undertake indirect sales, distributors are appointed by the distribution/sales department. For this purpose, the Distribution/ Sales Manager is to identify potential parties and carry out various evaluation procedures to determine their financial stability, warehouse space, distribution background, etc. Where selected, a Distributor Master Form is to be completed and a standard agreement may be entered into defining the commercial terms, including accounting for breakage, freight costs, reimbursement of expenses, etc. In case where credit is to be extended, a credit evaluation is to be carried out.

The distribution department is to identify and enter into contracts with transport companies for dispatches. Agreements should cover transit insurance, breakage, and the procedure for the recovery of breakage in excess of the established norms.

## **Business Process Overview and Risk Assessment**

Distributors are to provide their product requirements in an Order Form or a designated person of the distributor may be authorized to place orders by phone or fax, for more urgent requirements. Where such an order is received over phone, the distribution department is to note the requirement of the distributor on the order form. The finance department is to evaluate each order on the Order Form to check that credit limits established for individual distributors are not exceeded, unless written approval for the additional credit is obtained. Upon finance approval, orders are to be processed by shipping.

Dispatch vehicles are to be loaded with product in accordance with approved sales orders only. Quantity dispatched is to be recorded on the Fulls Dispatch Note and signed by the checkers supervising the loading. Where goods are to be dispatched from the plant warehouse, the distribution department is to prepare the Excise/ Tax Invoice. The gate security is to check the physical load with the load sheet, and inspect the vehicle for any concealed stocks, and then allow the vehicle to exit.

The warehouse department is to update the warehouse fulls stock ledger based on the book. The distribution department is to keep a track of the stock of fulls and empties with each distributor. A weekly report is to be obtained from the distributors of stocks with them, to monitor the movement of empties and fulls.

For product received, distributors are to return empties, in the return trip of vehicles. In certain cases, empties may also be provided in advance. Loaders are to unload empties under the supervision of a checker. Checkers are to record the count of empties and breakage.

Account receivables section should maintain a separate account for sale of liquids and glass on credit for each distributor. Receivables are to be recorded for liquid based on the sales invoice and the entry for the glass on credit is to be recorded periodically from the Party Ledger. The distribution department is responsible for the timely realization of receivables. Further, to monitor compliance with the credit policy, the finance department is to prepare a weekly listing of distributor wise outstanding with ageing analysis.

### **Accounts Receivables and Collections**

4.27 The procedures for Accounting of Sales, Receivables and Collections are aimed at ensuring that sales, receivables and collections are correctly recorded and that adequate controls can be exercised over trade receivables. Further, that credit to customers is extended per policy and with

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authorization, to enable management to monitor and control receivables and promptly identify and follow-up on sticky debts, and if necessary, provide for doubtful ones.

Accounts Receivable clerk is required to:

- Record cash and credit sales in sales journal;
- Maintain invoice-wise customer ledger;
- Ensure prompt deposit of collections;
- Reconcile sub-ledger balances with general ledger;
- Prepare debtors ageing report/ overdue debtors listing.

Salesmen are required to:

- Effect sales and collect dues from customers;
- Submit collections to cashier and clear shortages;
- Inform sales supervisor of customer disputes.

Sales Manager is required to:

- Follow-up on overdue balances;
- Collect outstanding;
- Review compliance with individual customer credit limits;
- Obtain appropriate credit approval for increase in limits.

Finance Manager is required to:

- Review necessity for provision for doubtful debts;
- Review debtors ageing report and overdue listing on a weekly basis;
- Obtain approval as per certain approvals for write-off of balances;
- Review dispatches to credit customers against established limits.

All sales are to be recorded on a Sales Journal - Liquid or Cases on Credit Journal. This is to be consolidated for all salesmen and a single entry is to be processed for all cash and credit sales on the credit side, with the consolidated cash and individual party receivables being recorded on the debit side. Further, collections are to be recorded after matching with the invoice settled. For on account collections, the A/R clerk is to ascertain the invoices settled from the customer.



## Business Process Overview and Risk Assessment

Based on the debtors' ageing report, salesmen are to collect the receivable amounts from customers. The route salesmen are to carry their invoice copy to support and provide reference of the amounts collected. Any short collections on-route is to be backed up by an explanation. For collections against bounced checks, in the case of dispute, the bank communication may be provided to the customer to indicate the reasons for the dishonor. Bank charges on dishonored checks are to be recovered from the customer. Further, if the customer disputes any invoice, the route salesman is to record the reasons for the dispute on the invoice copy and forwarded it to the accounts receivable supervisor for investigation and resolution. The specific invoices against which monies have been collected are to be recorded on the Collection Receipt. Partial payments of invoices are to be recorded on the invoice copy (salesman book) and signed by both the customer and the salesman. Any adjustments to the invoice amount are to be approved by both the Sales and Finance Managers. The salesman is to communicate such changes to the customer on the next visit and collect any amounts due.

The A/R section of the finance department is to prepare an Overdue Debtors Listing on periodic basis, indicating customer-wise overdue invoices. A Debtor's Ageing Report is to be similarly prepared and distributed on periodic basis. All invoices are to be aged based on invoice date.

Where warranted, an allowance for doubtful debts is to be created for suspected unrecoverable trade receivables. These allowances are to be reviewed by the Finance Manager to identify bad debts. All write-offs are to be approved with an approval, to be approved in accordance with the certain approvals. However, sales and finance departments are to continue to follow-up for amounts, which have been written off.

### Process Risk Assessment (PRIA)

4.28 The following table gives in detail Process Risk Assessment (PRIA) for Sales and Accounts Receivable:

Risk Q No.	Sub-Process	Risk Question	Remarks
1	Sales Ordering	What was the value of credit sales at this location?	Higher the value or proportion of credit sales, higher is the risk at the location in terms of collectability and liquidity.

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Risk Q No.	Sub-Process	Risk Question	Remarks
2	Sales Ordering	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
3	Shipping of goods	What was the value of total sales at this location? What is the increase of percentage to last year?	Higher the value or change in percentage of sales from previous year, higher the weightage or risk ranking of the sub-process.
4	Shipping of goods	Has there been any turnover in the preparer or reviewer of shipping information in this location?	Shipping is one of the important functions in Sales process. If there is any significant change in this function, it increases the risk around this sub-process and needs more attention in the year of transition.
5	Shipping of goods	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
6	Revenue Recognition	What was the value of new contracts at this location?	In case high value contracts have been entered into, it needs auditor's attention to ensure that compliance with company policies has been ensured and due diligence has been performed.
7	Revenue Recognition	Were there any adjustments to existing arrangements where prices are not fixed in functional or local	Volatile and non-standard prices leads to higher weightage of risk to this sub-process.

## Business Process Overview and Risk Assessment

Risk Q No.	Sub-Process	Risk Question	Remarks
		currency at this location?	
8	Pricing of SKU	Were there any changes to the Price Master File at this location?	Higher the number of changes in price master, higher is the weightage of the risk to this sub-process.
9	Pricing of SKU	Has there been any turnover in the personnel responsible for the Price Master File at this location?	Pricing is critical function in the sales process. If there is any significant change in this function, it increases the risk around this sub-process and needs more attention in the year of transition.
10	Pricing of SKU	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
11	Invoicing	What was the value of total sales at this location during the audit period?	Higher the value or change in percentage of sales from previous year, higher the weightage or risk ranking of that sub-process.
12	Invoicing	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
13	Daily Sales Settlement	What is the percentage of Direct Sales in this location?	Higher the percentage of Direct Sales, higher the weightage or risk ranking of this sub-process.
14	Daily Sales Settlement	Has there been any fraud related to the daily sales settlement process? If yes, please	Higher the number of fraud cases, higher the weightage or risk ranking of this sub-process.

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Risk Q No.	Sub-Process	Risk Question	Remarks
		specify the number of fraud cases identified.	
15	Daily Sales Settlement	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
16	Sales Return	Were any goods returned during the year at this location? What was the value of goods returned during the year at this location?	Higher sales return indicates higher risk in the sub-process.
17	Sales Return	Has there been any turnover in the returns department at this location?	Approval for sales return is significant process to ensure the quality compliance. If there is any significant change in this function, it increases the risk around this sub-process and needs more attention in the year of transition.
18	Sales Return	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
19	Accounts Receivable Monitoring	Was there any turnover in the revenue accounting personnel at this location?	Monitoring of Accounts Receivable is critical to control the bad-debts. If there is any significant change in this function, it increases the risk around this sub-process and needs more attention in the year of

## Business Process Overview and Risk Assessment

Risk Q No.	Sub-Process	Risk Question	Remarks
			transition.
20	Accounts Receivable Monitoring	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
21	Volume Reporting	What is the value of unit case sales at this location? What is the percentage of change compared to previous period?	Higher the value or change in percentage of sales from previous year, higher the weightage or risk ranking of that sub-process.
22	Volume Reporting	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
23	Master Data Maintenance	Have there been any risk significant customer master file changes at this location?	Higher the number of changes in price master, higher is the weightage of the risk to this sub-process.
24	Master Data Maintenance	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
25	Sales Analysis	Was there any turnover in the revenue accounting personnel at this location?	Frequent/Major Change in function for sales analysis role may lead to higher risk rating for this sub-process.
26	Sales Analysis	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
27	Allowance	Were there any	Significant change in

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Risk Q No.	Sub-Process	Risk Question	Remarks
	for Doubtful and Bad Debts	changes to the methodology for calculating allowance for doubtful accounts?	doubtful debts calculation methodology can affect the bottom line. This leads to the higher weightage of risk rating for this sub-process.
28	Allowance for Doubtful and Bad Debts	What is the value of accounts over 30 days?	Higher value of old outstanding increases the risk of recoverability and hence is assigned higher weightage of risk rating for this sub-process.
29	Allowance for Doubtful and Bad Debts	Was there any turnover in the personnel who calculate or review the Allowance for Doubtful Accounts calculation at this location?	Frequent/ Major Change in function for Working Capital Management role may lead to higher risk rating for this sub-process.
30	Allowance for Doubtful and Bad Debts	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
31	Segregation of Duties	Has there been any turnover in personnel that perform key Sales and AR duties that could result in an employee performing incompatible tasks?	Frequent/ Major Change in function for Sales and AR Role may lead to higher risk rating for this sub-process.
32	Segregation of Duties	Has there been any fraud noted at this location in regards	Higher the number of fraud cases, higher the weightage or risk ranking of this sub-

## Business Process Overview and Risk Assessment

Risk Q No.	Sub-Process	Risk Question	Remarks
		to Sales and AR during the past 3 years?	process.
33	Segregation of Duties	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.

## Direct Marketing Expenses

4.29 The objective of marketing expense control procedures is to monitor marketing related commitments and the corresponding actual spend against budgets. The procedure covers the preparation of annual budget by marketing spend category; the recording of commitments; the subsequent recording of actual expenditure for approved schemes and programs, by brand, marketing spend category; and the reporting of marketing expenditure on the sales curve basis. The procedures also describe the process of recording and evaluating the actual results achieved and those expected at the start of the activity.

The marketing and finance departments are to jointly prepare the annual marketing budget and obtain appropriate approvals. Typically, this is based on the expected annual sales.

The broad marketing spends categories are:

### (i) Visi Cooler

This comprises of the cost of Visi Cooler that are written-off upon purchase, the depreciation of those that are capitalized, and the placement and repairs and maintenance costs.

### (ii) Outdoor & Merchandising Budget

This comprises of signage costs e.g., wall painting, pole advertisement, banners, painting of truck, dealer boards, hoarding, point of purchase, etc. This also includes other promotion costs e.g., consumer promotions (*viz.* premier items, local sponsorships, etc.), retail promotions (*viz.* coupon schemes, etc.) and special account costs (*viz.* up-front payments, specific promotion with outlets, etc.). This does not include product discounting.

### **(iii) Trade Discounts**

This comprises of trade discounts e.g. special account discount, free bottle schemes, sampling, specific brand promotions, etc.

### **(iv) Divisional or Corporate Consumer Marketing**

This comprises of centrally administered and supported consumer promotions. Typically, these are nationwide promotions.

### **(v) Corporate Retail Marketing**

This comprises of centrally administered channel development and support costs, e.g., for transportation, eateries, institutional sales, etc.

### **(vi) National Brand Promotion**

This comprises of brand development and equity creation costs through national media, administered by Corporate e.g., commercials on television, newspapers, etc.

### **(vii) Salesmen Incentive**

This comprises of incentives to sales employees for achieving volume targets, etc.

Where possible, the budget is to be broken down into specific activities under each of the broad categories by the Unit for better monitoring of the marketing spends. Upon approval, the detailed marketing budget is to be recorded on the Annual Budget Plan.

For carrying out market promotions or related activities, the marketing department is to prepare a Expense Requisition- Marketing (ER-M) and obtain approval. Expenditure related to trade schemes, event sponsorships, outdoor signage, etc. is to be recorded in the respective expense.

Typically, purchases are to be carried out by the Supply Chain department or a designated marketing person, in accordance with the Purchase Procedures. An approved expense is to serve as the purchase requisition for materials or services (e.g., glow signs, banners, hoarding rentals, wall paintings, event management contracts, etc.).

Purchase orders (POs) are to record the expenses reference and are placed on approved vendors after comparing quotations. Alternatively, POs may be placed on centrally approved vendor at pre-determined prices.



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Receipt of materials is to be recorded on the goods receipt note, including direct receipt of materials in the field (e.g., dealer boards at the outlet), etc. Prior to approval, the Accounts Payable section should additionally verify:

- (i) For outdoor activities, sponsorship and merchandising
  - Authorization for free products (where agreed).
  - Receipts for up-front advances, if any.
  - Completion of activity, as certified by the Area Sales person/ executive.
  - Photographs/ proof of the outdoor activities.
- (ii) Signage
  - Installation report with outlet and Area Sales Executive signatures.
  - Photographs/ Proof.
- (iii) Trade schemes & sampling
  - Free product authorization.
  - Summary settlement sheet for direct sales.
  - Distributor's Debit Note & settlement sheet for sales.
- (iv) Key account discounts
  - Key Account Agreement (to be maintained by finance).
  - Copy of the invoices raised on the key account.
- (v) Sales incentives
  - Approval of the incentive scheme per COA.
  - Quantum of sales achieved per finance records for incentive calculation.

The actual payments made along with month-end accruals and debit/credit notes relating to marketing spend are to be recorded by the finance department against the original commitment (i.e., expenses and the corresponding PO).

Where the actual spend exceeds the commitment per expenses, the finance department is to immediately inform the marketing department and preferably hold the disbursement or issue of Credit Note to the vendor, or to the distributors and key accounts. A supplementary expense is to be prepared and upon approval the actual spend should not exceed the Expense amount.

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Distributor claims are to be received promptly and periodically. The date of receipt is to be recorded and delays are to be followed-up for by finance, by tabulating the period-wise receipt of claims from each distributor. For schemes, the amount claimed is to be supported by the distributor's invoices. Each claim is to be verified and approved by the Sales department. Subsequently, finance is to independently verify the claim, determining it is raised for the correct period, is adequately supported, approved and in accordance with policy.

Premier items are to be charged to the respective marketing expense code, upon purchase. A detailed quantitative record is to be maintained of the receipts and issues and the physical count periodically compared with the inventory records. Collections from the sale of premier items are also to be recorded in the marketing expense account code under the credit sub-account. Premier items may also be provided to redemption centers, which are to be tracked as temporary issues. On the subsequent final accounting with the redemption center, the final issue is to be recorded in the inventory records.

### Deductions from Revenue

4.30 This process is designed to monitor marketing related commitments and the corresponding actual spend against budgets with control procedures. Further, it broadly evaluates the effectiveness of the marketing related spend.

The procedures cover the preparation of annual budget by marketing spend category and month; the recording of commitments; the subsequent recording of actual expenditure for approved schemes and programs, by brand, marketing spend category; and the reporting of marketing expenditure on the sales curve basis. The procedure also describes the process of recording and evaluating the actual results achieved and those expected at the start of the activity.

The marketing and finance departments jointly prepare the annual marketing budget and obtain approval as per COA. Typically, this is based on the expected annual sales volume and often stated as cost per case of sales. This budget is to be further detailed by month and marketing spend category.

The broad marketing spends categories are:

- (i) Visi Coolers, etc.

This comprises of the cost VCs that are written-off upon purchase, the

## Business Process Overview and Risk Assessment

depreciation of those that are capitalized, and the placement and repairs and maintenance costs.

Note: Ice-chests push carts and other non-electric BRs are to be expensed in the month of purchase.

### (ii) Outdoor and Retail Merchandising Budget

This comprises signage costs (e.g., wall painting, pole advertisement, banners, painting of truck back, dealer boards, hoarding, point of purchase - POP material etc.). This also includes other promotion costs e.g., consumer promotions (e.g., premia items, local sponsorships etc.), retail promotions (e.g., premia items, coupon schemes etc.) and key account costs (e.g., up-front payments, specific promotion with outlets, etc.). This does not include product discounting.

### (iii) Trade Discounts

This comprises trade discounts (e.g., key account discount, free schemes, sampling, brand promotions, etc.).

### (iv) Divisional Consumer Marketing

This comprises of centrally administered and supported consumer promotions. Typically these are nation-wide promotions (e.g., Cricket, Hockey, Football, Bottle opener, various schemes and promotions, etc.).

### (v) Division Retail Marketing

This comprises of centrally administered channel development and support costs (e.g., for transportation, eateries, institutional sales, etc.).

### (vi) National Brand Promotion

This comprises of brand development and equity creation costs through national media, administered by corporate (e.g., commercials on television, newspapers, etc.).

### (vii) Salesmen Incentive

This comprises incentives to sales employees (for achieving volume targets, etc.).

Where possible, the budget is to be broken down into specific activities under each of the broad categories by the Unit for better monitoring of the marketing spends.

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For carrying out market promotions or related activities, the marketing department prepares a Marketing Spend Requisition (MSR) and obtains appropriate approvals. This is to be pre-printed and prepared in triplicate: the original and the first copy are for the finance and the marketing departments, the second copy being the book copy.

Typically, purchases are to be carried out by the Supply chain management or a designated marketing person, in accordance with the Purchase Procedures. An approved MS is to serve as the purchase requisition for materials or services (e.g., glow signs, banners, hoarding rentals, wall paintings, event management contracts, etc.).

Receipt of materials is to be recorded on the goods receipt note (GRN – separate series for marketing), including for direct receipts in the field (e.g., dealer boards at the outlet) etc., which are based on information provided by the receiver. Dispatches are to be on a Material Requisition cum Issue Note.

4.31 The Purchase Voucher (PJV) should contain the MS reference. Also, prior to approval, the Account Payable section should additionally verify:

- (i) For outdoor activities, sponsorship and merchandising
  - Authorization for free products (where agreed).
  - Receipts for up-front advances, if any.
  - Completion of activity, as certified by the Area Sales Manager.
  - Photographs of the outdoor activities.
- (ii) Signage
  - Installation report with outlet & Area Sales Manager signatures.
  - Photographs.
- (iii) Trade schemes and sampling
  - Free product authorization.
  - Summary settlement sheet for direct sales.
  - Distributor's debit note and settlement sheet for indirect sales.
- (iv) Key account discounts
  - Key Account Agreement (to be maintained by finance)
  - Copy of the invoices raised on the key account.

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- (v) Sales incentives
  - o Approval of the incentive scheme per COA
  - o Quantum of sales achieved per finance records for incentive calculation.

The finance department is to record expenditure on the PJV and disburse (or issue Credit Note) to the vendors (or distributors) as per agreed terms. Further, the period within which claims are to be submitted should be specified and periodically, the claims not received identified.

The actual payments made along with month-end accruals and debit/credit notes relating to marketing spend are to be recorded by the finance department against the original commitment (i.e. MSR and the corresponding PO). The accruals are to be reversed at the beginning of the next month. Where the actual spend exceeds the commitment per MS, the finance department is to immediately inform the marketing department and preferably hold the disbursement or issue Credit Note to the vendor, or to the distributors. A supplementary MS is to be prepared and approved. Typically, the actual spend should not exceed the MS amount.

Distributor claims are to be received promptly every month. The date of receipt is to be recorded and delays are to be followed-up for by finance, by tabulating the month-wise receipt of claims from each distributor. For secondary schemes, the amount claimed is to be supported by the distributor's invoices. Each claim is to be verified and approved by the Area Sales Manager. Subsequently, finance is to independently verify the claim, determining if it has been raised for the correct period, is adequately supported, approved and is in accordance with the policy. Where possible, claims are paid for in the form of free product.

### Process Risk Assessment (PRiA)

4.32 The following table give Process Risk Assessment from Direct Marketing Expenses.

Risk Q No.	Sub-Process	Risk Question	Remarks
1	Rebates	What is the value of rebates redeemed by customers for this operation?	Higher the value of rebate, higher is the risk rating to this sub-process.

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Risk Q No.	Sub-Process	Risk Question	Remarks
2	Rebates	Whether any fraudulent instances noted in the location related to rebate management	Higher the instances of fraudulent cases, higher is the rating to this sub-process.
3	Rebates	Has the operation had a history of material, out of period adjustments relating to customer rebates?	Significant adjustments related to customer rebates leads to higher risk rating to the sub-process.
4	Rebates	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher is the weightage or risk ranking of the sub-process.
5	Calculation, Pricing, and Approval	Does the operation require contracts for off-invoice rebates?	Off-invoice rebates without much contractual agreement leads to the higher risk rating to the sub-process.
6	Calculation, Pricing, and Approval	What is the value of rebates redeemed by customers for this operation?	Higher the value of rebate, higher is the risk rating to this sub-process.
7	Calculation, Pricing, and Approval	What percentage of rebates granted are manual over-rides?	Larger number of manual rebate processing leads to the higher risk rating to the sub-process.
8	Calculation, Pricing, and Approval	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher is the weightage or risk ranking of the sub-process.

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Risk Q No.	Sub-Process	Risk Question	Remarks
9	SOD	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher is the weightage or risk ranking of the sub-process.
10	Balance Sheet Reconciliation	What is the value of the rebate/ allowance accounts at this location?	Higher the value of rebate, higher is the risk rating to the sub-process.
11	Balance Sheet Reconciliation	Were there any material adjustments to the rebate/ allowance accounts for this entity/ location?	Significant adjustments related to rebate/ allowances leads to the higher risk rating to the sub-process.
12	Balance Sheet Reconciliation	Has there been any turnover in the preparer or reviewer of the rebate/ allowance reconciliations for the location?	Rebate reconciliation is one of the important functions in Deduction/ Rebate Management process. If there is any significant change in this function, it increases the risk around this sub-process and needs more attention in the year of transition.
13	Balance Sheet Reconciliation	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher is the weightage or risk ranking of the sub-process.

## Fixed Assets

### Visi Cooler Distribution and Maintenance

4.33 Visi Cooler (VC) is a refrigerator with glass door from which you can view items placed inside without opening the glass door. Generally, it is placed by beverages companies at the outlets and malls where public can see and select the drink they want.

The purpose of the Visi Cooler (VC) procedures is to establish the controls surrounding VCs, which are an important asset of the company and typically located with third parties and spread over geography. Broadly, the procedures cover the identification of outlets for placement of VCs, their installation, the asset code tagging and tracking, handling of withdrawal and re-installations, and the evaluation of the incremental sales arising from each installed VC.

All concerned departments jointly prepare Visi Cooler requirement plan for entire year along with yearly budget plan. The plan is to consider the purchase cost, which is to be approved as capital expenditure and the write-off or depreciation charge. Additionally, this is to take into account the existing uninstalled VCs on hand, as per inventory records. Ice-chests, push carts and other non-electric VCs are normally expensed in the month of purchase, and are to be accordingly budgeted.

Upon approval of the yearly budget plan, the supply chain department raises purchase order, specifying Visi Cooler-wise quantities approved, along with the delivery schedule indicating the time and location of delivery. The sales department identifies the outlets for installation of Visi Cooler, based on considerations like, expected growth in volume, exclusivity, visibility, effective distribution or other strategic reasons.

Once the Outlet Identification Form (OIF) is approved, sales department prepares installation requests, on a pre-printed and pre-numbered Installation Report (IR), completing Part I (installation request) thereof. This is to be prepared in triplicate: the original and the first copy for the supplier/service provider the installation team (service center) and the second copy being retained as book copy. The service center completes Part II (the installation report section) with installation details including machine serial number, company's asset tag number etc. and obtain the signatures of the outlet representative on both the IR and on the Visi Cooler Placement Agreement. The Agreement is to be prepared in duplicate: the original for the sales department and a copy for the outlet. The service center obtains the



## Business Process Overview and Risk Assessment

signatures of the Sales Manager on the IR, as acknowledgement of the successful completion of the installation and provides the completed IR (original) and the agreement to the sales department. The sales department then prints the list of VCs installed and provide to finance for release of payment to supplier or service provider.

In case a VC needs to be removed from an outlet for maintenance, a form is prepared in triplicate, the original for the outlet, the first copy for the sales department and the second copy being retained with the service center. Upon completion of the repair and maintenance, and the reinstallation of the VC, Part II of the above form, i.e., the 'Reinstallation of Equipment' section is completed and signatures of the outlet obtained on the form and provided to the sales department. The service center logs the maintenance of each VC, which is reviewed periodically by the cold drinks function periodically to ensure that the repairs are genuine and reasonable, particularly, where the Company pays for the spares.

Periodically, the sales department analyzes and document productivity of VCs placed based on incremental sales and profitability. Based on such evaluation, certain outlets may qualify for a different VC and some could even fail to meet the expected productivity. In certain cases, where VCs are placed for strategic reasons including visibility, exclusivity, etc., the productivity evaluation may be less relevant. However, an evaluation of the increased visibility, the existence of exclusivity at the outlet, and the incremental sales achieved should still be made and documented.

In case a VC needs to be withdrawn from an outlet, a pre-printed and pre-numbered withdrawal form is prepared in triplicate. The original and first copy for the service center (along with the original Agreement) and the book copy for the sales department. The service center pulls-out the VC from the outlet and hand over the original of the Withdrawal Form to the outlet after obtaining signatures for the cancellation of the Agreement on the first copy. The said copy is then submitted to the sales department along with the cancelled Agreement.

Withdrawn assets are maintained in the custody of the Company, and physically segregated from the new VCs. Periodically, the sales department is to review the VCs approved for pull-out but remaining placed with the outlet. Further, that the VCs pulled-out reconcile with the physical stock on hand.

The cold drinks department organizes periodic verification and reconciliation of the VCs at the outlets with the VC Tracking Register. The verification is to

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be carried on throughout the year, covering each VC at least once per annum. This may be carried out as part of the maintenance arrangement or separately undertaken through the sales force.

Additionally, an external agency may be hired for carrying out physical verification of VCs on a sample basis (say covering 5 per cent of assets). The results of such verification may then be extrapolated for drawing a conclusion on the population and determining the need to supplement the VC procedures. Where an asset is missing, the same is to be reported promptly to all concerns for further investigation and action.

### ***Accounting Entries***

4.34 Record the following entry based on GRNs for new VC received by Company:

Debit: Inventory – vendors, coolers and dispensers (new)

Credit:       Accounts payable - Trade

To capitalize VCs installed based on IRs received from service provider:

Debit: VCs

Credit:       Inventory – vendors, coolers and dispensers (new)

*It should be noted that no accounting entry is to be recorded for VCs pulled-out and remaining uninstalled.*

Expense of Ice chests, push carts etc. in the month of purchase:

Debit: POS material – outside production

Credit:       Accounts payable – Trade

Depreciate VCs (including that pulled-out and pending reinstallation):

Debit: Depreciation – VCs

Credit:       Accumulated depreciation – vendors, coolers and dispensers

### ***Returnable Containers***

4.35 Returnable Containers in non-alcoholic beverages industry includes - Glass Bottles, Plastic Crates and Bulk Jars which are meant to be returned to the factory for refill/ reuse. Therefore, these returnable containers cannot be treated as consumables, and hence, not charged to P&L at the time of their purchases but treated as assets in the financials. In general, returnable containers are spread over the following locations:

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- (i) Factory Premises
- (ii) Sales centre/ depots.
- (iii) Market with the distributor/ retailers
- (iv) Lying with consumers

Accounting Treatment will be as follows:

- (a) For purchasing container stock
  - Container stock account                      Dr
  - Bank/ creditor account                      Cr.
- (b) For recording deposit from customers
  - Bank Account                                  Dr.
  - Container Deposit Liability                      Cr.
- (c) At the time of return of containers from customer
  - Container Deposit Liability                      Dr.
  - Bank Account                                  Cr.

In terms of charging losses on account of breakages of glasses, the accounting treatment may differ from company to company as determining actual breakages is a challenge for any entity since these glasses are spread over various locations and only 15%-25% of the returnable containers remains in factory at any point in time. In case, an entity follows to account for breakages, the accounting entry can be:

- (d) Breakages on container asset
  - Profit and loss account                      Dr. (Breakages)
  - Container stock account                      Cr

Since, it is difficult to ascertain the actual breakages because of the physical location of returnable containers, an organization may adopt depreciation method which is more practical and feasible considering significant volume of glasses at entity level to estimate the losses on account of breakages and monitor the actual movement of glasses separately to account for glass on deposit. The accounting entry can be:

- (e) Depreciation on container asset
  - Profit and loss account                      Dr. (Depreciation)
  - Container stock account                      Cr.

### Other Fixed Assets

4.36 The purpose of the fixed assets and depreciation procedures is to ensure that the fixed assets are correctly and consistently accounted for, and that adequate controls are exercised and accountability established for this significant investment of the company. Broadly, this section covers the accounting for fixed assets and depreciation, including their transfers and disposals. Further, it also covers the procedures for physical control over fixed assets.

Following assets are capitalized:

- Items with a life exceeding one year;
- Purchased software packages, exceeding a specified amount and with a life of more than a year;
- Software development costs
- A substantial refurbishment is to be capitalized. Repair to existing assets, unless substantial and linked to enhance the productivity, are charged to expenditure.

New assets are recorded as construction work-in-progress, until installed and placed in service. The construction work -in-progress account is analyzed periodically and the status of old items is reviewed. Upon completion, new projects are capitalized at cost. Project related preoperative expenses are captured as 'construction work-in-progress'.

Spares, including machinery spares received with original equipment, are not to be capitalized but accounted for as inventory and kept in the stores.

All assets are tagged, preferably with metal tags, and coded in accordance with a standard coding pattern. Tags are affixed in a manner that they are clearly visible.

The finance/ Accounting department prepares and maintains Fixed Asset Register, with the following details:

- Account number
- Asset code
- Description of asset (sufficient to identify)
- Date of receipt
- Date placed in service
- Depreciable life

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- Depreciation method
- Cost
- Supporting documentation (e.g., Invoices, Registration, Approvals, POs, etc.)
- Equipment number/ serial number
- Location of asset (as detailed as practical)
- Department responsible for asset

Fully depreciated assets are not removed from Fixed Asset Register until disposed-off or transferred out. When transferred out, the receiving location assigns a new asset number and tags the asset. Besides, change in location of assets is updated on the fixed asset register. This ensures that the depreciation or other associated costs are charged to the correct cost center and the responsibility for custody remains correctly defined.

Fixed assets are physically verified at regular intervals. Physical verification is carried out independent of the person recording the asset and documented on pre-numbered count sheets. As convenient, verification may be conducted on a continuing or cyclical basis, with off-premise assets being confirmed by correspondence. Discrepancies identified on physical verification are reported to the appropriate authority and promptly investigated. Any unrecorded assets identified during physical verification are included after determining the reason for the initial omission.

The company's assets are secured and guarded against theft and destruction. The premises are enclosed by a high fence designed to discourage scaling. Further, security at the premises needs to be adequate and all unmonitored entrances locked and chained. Besides, the safety equipment (e.g., fire extinguishers, etc.) should be adequate, in good working condition and placed strategically to be clearly visible. Assets of the Company should be adequately insured at all times.

All assets, other than freehold land, are depreciated in periodically as defined in company's policy keeping IGAAP and other regulations in consideration.

## Process Risk Assessment (PRiA)

4.37 The following Process Risk Assessment (PRiA) of Fixed Assets:

Risk Q No.	Sub-Process	Risk Question	Remarks
1	Asset Capitalization-Accounting and Recording	Did the entity have fixed asset additions during the audit period?	Significant increase in fixed assets amounts to higher risk rating to the process.
2	Asset Capitalization-Accounting and Recording	Did the entity have fixed asset transfers during the audit period?	Significant amount of fixed assets transfers amounts to higher risk rating to the process.
3	Asset Capitalization-Accounting and Recording	What is the value of total asset additions, including transfers and CWIP?	Significant addition/transfer to the asset amounts to higher risk to the sub-process.
4	Asset Capitalization-Accounting and Recording	Have there been any changes in operation that affect this sub-process (i.e., M&A activity resulting in large amounts of additions, applications used, etc.)?	Significant change in this function amounts to higher risk to the sub-process.
5	Asset Capitalization-Accounting and Recording	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
6	Asset Capitalization-CIP and	Did the entity have any capital projects begin this year?	Significant amount of capital project initiated amounts to higher risk

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Risk Q No.	Sub-Process	Risk Question	Remarks
	Projects		rating to the sub-process.
7	Asset Capitalization-CIP and Projects	Is interest capitalized automatically or is it computed using a manual process?	System driven interest capitalisation leads to higher risk for the application controls whereas manual process leads to higher risk to the sub-process.
8	Asset Capitalization-CIP and Projects	Were there any material budget shifts or increases between capital projects?	Significant shift of budget amounts to higher risk of the sub-process
9	Asset Capitalization-CIP and Projects	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
10	Balance Sheet Recs	Were there any material adjustments to the PPE accounts for this entity/location?	Higher the number of adjustments in PPE account leads to higher risk rating to the sub-process.
11	Balance Sheet Recs	Has there been any turnover in the preparer or reviewer of PPE account reconciliations for the location?	Significant change in this function amounts to higher risk to the sub-process.
12	Balance Sheet Recs	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.

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Risk Q No.	Sub-Process	Risk Question	Remarks
13	Disposals	Did the entity have any fixed asset disposal or transfer requests during the year? What is the value of disposals	Higher the value of disposals, higher is the risk rating to the sub-process.
14	Disposals	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
15	Fixed Asset Register	Were there any asset movements (additions, transfers or disposals) during the year?	Significant movement amounts to higher risk rating to the sub-process.
16	Fixed Asset Register	Does the location have a formalized fixed asset process including tagging and tracking assets?	Non availability of standard procedures and tagging amounts to higher risk rating to the process.
17	Fixed Asset Register	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
18	Impairment	Have there been any impairments recorded this year? If applicable, what was the value of impairments recorded during the year?	Significant amount of impairment amounts to higher risk rating to the sub-process.



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Risk Q No.	Sub-Process	Risk Question	Remarks
19	Impairment	What types of assets make up the fixed asset balance?	Higher proportion of intangible assets or Fixed Assets amount to higher risk rating to the sub-process.
20	Impairment	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
21	Maintenance	Have there been any changes to fixed asset policies (i.e., useful lives to asset categories, depreciation conventions) during the audit period?	Significant change in the policies and guidelines amount to higher risk to the sub-process.
22	Maintenance	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
23	Physical Controls	Have there been any instances of material known theft or misappropriation of fixed assets at this location?	Instances noted for theft and missing assets recommends higher risk rating to the sub-process.
24	Physical Controls	Were there any material adjustments to PPE balances as a result of PPE inventories (i.e.,	Significant adjustments to PPE balances indicates gap in physical and book assets and amounts to higher risk rating to the process.

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Risk Q No.	Sub-Process	Risk Question	Remarks
		PP&E was not fully counted, etc.)?	
25	Physical Controls	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.

### Inventory

4.38 The objective of Inventory Procedures is to establish controls surrounding the issue, holding and reporting of inventory items including raw materials, consumables and stores and spares. Further, to determine the consumption of inventory items for the production of finished goods, obsolete items and shortages, if any. The inventory procedures include the receipt, the issue, storage and count of raw, packing and other inventory items.

Stores department receives materials purchased, along with a quality approved copy of the Goods Receipt Note. The items include raw materials & consumables bottles and cases, stores and spares and miscellaneous items. Based on the GRN and physical quantities received, the Quantitative Stock Ledger (QSL) is updated for each transaction.

Based on the Daily Production Plan, the production and QA departments requisition materials on a Material Requisition Note (MRN). MRN booklets are provided to user departments for requisitioning materials. On receipt of completed and approved MRNs, the stores department assigns a sequential number, based on the MRN Log. Items on which MODVAT credit is availed are recorded separately on the MRN Log. For items not in stock, the stores department makes a noting on the MRN, for the user to prepare a Purchase Requisition. Where the issue of materials is based on flow meter readings (e.g., CO<sub>2</sub>, HSD, LDO, treated water, etc.), the stores department records the meter reading on the MRN at the end of each shift along with the production supervisor. The difference between the current and previous reading represents the consumption.

After each shift, excess inventory on the shop floor is returned to stores department on a Material Return Note. Any loose quantities received from production is first issued out. Less preferably, for smaller quantities and

## Business Process Overview and Risk Assessment

where a secure shop floor store exists, excess inventory may be retained for consumption over the next day or so.

Inventory items are stored in a secure place and protected from the weather. As appropriate, these are stacked to facilitate issue on a FIFO basis, with the date of manufacture displayed. Certain smaller and similar items may be kept in bins. Material which are sensitive to temperature are kept in secured location and under temperature control, as prescribed, with access to authorized personnel only.

Obsolete and rejected materials are segregated in the warehouse, and clearly identified to avoid introduction into the production process.

The stores department is to carry out a daily physical count of raw and packing material at a fixed time. Stores and spares are classified as A, B, or C category on the basis of the value of consumption. Category 'A' items are verified more frequently, followed by category 'B' and 'C'.

All significant book-to-physical differences (shortages/overages) are to be investigated and reported to appropriate authority for approval for adjustment in books.

Obsolete material identified are to be destroyed promptly. An approval is required for such write off, and is to be approved as per the approval process. Physical destruction of obsolete stocks is to be carried out in presence of the finance and the quality assurance department under a Certificate of Destruction.

### Process Risk Assessment (PRiA)

4.39 The following is Process Risk Assessment of Inventory:

Risk Q No.	Sub-Process	Risk Question	Remarks
1	Receiving	Does this location have inventory? What is the percentage of change over previous period?	Higher the percentage of change or inventory value, higher weightage of risk rating to this sub-process.
2	Receiving	What was the value of inventory purchased during the period at this	Significant amount of purchase of inventory indicates higher risk rating

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Risk Q No.	Sub-Process	Risk Question	Remarks
		location?	to this sub-process.
3	Receiving	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
4	Costing	How much is the production volume in terms of units/ cases	Significant change of percentage of production volume over previous period leads to the higher risk rating to this sub-process.
5	Costing	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
6	Counts	What is the value of inventory at this location?	Higher inventory value leads to higher risk rating to this sub-process.
7	Counts	Were there any material adjustments made to the inventory accounts based on inventory counts during the period?	Significant adjustment entries in Inventory accounting indicates higher risk weightage to this sub-process.
8	Counts	Are there any inventory items at these locations that use a different unit-of-measure for count and recording purposes?	Non-Standard use of Unit of Measurement and different methodology leads to the higher risk rating to this sub-process.
9	Counts	Does this location	Inventory located at

## Business Process Overview and Risk Assessment

Risk Q No.	Sub-Process	Risk Question	Remarks
		have inventory held by third party?	multiple warehouse owned by third party amounts to higher risk rating to this sub-process.
10	Counts	What is the value of inventory held by others?	Higher inventory value held by 3 <sup>rd</sup> party leads to higher risk rating to this sub-process.
11	Counts	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
12	Book to physical adjustments	Has a physical inventory count been performed at this location during the period?	If physical verification was not performed, rate this sub-process as high risk.
13	Book to physical adjustments	Were any material differences in inventory noted at this location during the counts?	Significant differences during physical verification indicates higher risk rating for this sub-process.
14	Book to physical adjustments	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
15	Accounting for Bottles and Cases	Were there any material breakage adjustments to the Inventory accounts for this entity/location?	Significant adjustment entries in bottles and cases indicate higher risk weightage to this sub-process.

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Risk Q No.	Sub-Process	Risk Question	Remarks
16	Accounting for Bottles and Cases	Does this location have material prepaid container expense recorded on their books?	In case pre-paid expense is material, rate this sub-process as high risk.
17	Accounting for Bottles and Cases	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
18	Obsolete and slow moving inventory	Has the inventory turnover ratio decreased at this location during the period?	Lower inventory turnover means idle inventory and leads to higher risk weightage for this sub-process.
19	Obsolete and slow moving inventory	Does this location maintain a separate area for materials and goods which are obsolete or expired?	In case inventory is not bifurcated for good and obsolete stock, the risk rating is high for the sub-process.
20	Obsolete and slow moving inventory	Does this location maintain a reserve for obsolete inventory?	In the absence of reserve for obsolete inventory, rate this sub-process as high risk.
21	Obsolete and slow moving inventory	Has this location materially adjusted inventory (write-offs) during the period?	Significant write offs leads to higher risk weightage to this sub-process.
22	Obsolete and slow moving inventory	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
23	Impairment	Have economic or market events occurred which	Any indication of such event leads to higher risk weightage to this sub-

## Business Process Overview and Risk Assessment

Risk Q No.	Sub-Process	Risk Question	Remarks
		would result in the net realizable value of inventory decreasing at this location during the period?	process.
24	Impairment	Have container deposit prices/ rates changed at this location during the period?	Significant change in the price for the location leads to higher risk rating to the sub-process.
25	Impairment	Does this location estimate bottles and cases breakage/ loss?	In the absence of estimation for breakages and losses of inventory, the sub-process needs to be rated as high.
26	Impairment	How many issues were noted in last audit in this sub-process?	Higher the number of issues identified in a sub-process, higher the weightage or risk ranking of the sub-process.
27	SOD	Has there been any turnover in personnel that perform key Inventory duties that could result in an employee performing incompatible tasks?	Frequent/ major Change in function for Inventory Role may lead to higher risk rating for this sub-process.
28	SOD	Has there been any fraud noted at this location in regards to Inventory during the past 3 years?	Higher the number of fraud cases, higher the weightage or risk ranking of this sub- process.
29	SOD	Please indicate how many issues were	Higher the number of issues identified in a sub-

Risk Q No.	Sub-Process	Risk Question	Remarks
		noted during last assessment.	process, higher the weightage or risk ranking of the sub-process.

## General Ledger and Reporting

4.40 The purpose of general accounting and closing procedure is to ensure that all financial transactions are posted to the general ledger in the proper accounting period to enable the operation to prepare periodic trial balance and submit the financial statements.

The start of the process is with passing of journal vouchers, cash vouchers, booking of bills and ends with preparing of financial statements and the closing files. This process affects all Profit and Loss accounts and Balance Sheet accounts.

The accounting system is to be set up to restrict the access right of individual users to their areas of responsibility. For each individual user a separate user ID has to be created to ensure segregation of duties.

Accounting systems provides the option to close the particular period. Every month post-closing activities, Finance department closes the past period and opens the period for current month activities.

Generally, following type of vouchers are passed- Journal Voucher, Purchase Journal Vouchers, Reversible Voucher, System Generated Voucher, etc. These vouchers are parked in the Accounting System by an Accounts executives and needs to be reviewed for supporting, correctness of accounting codes by Accounts Manager.

After the PJVs are posted, the same are available for payment based on the credit terms. AP executives can select the vouchers for payment. Normally only due payments are selected for payments. In case of exceptions the AP executive mentions the reason for out of due selections on the printout of Payment selection register.

After the month ends, the period is blocked by Accounting or Finance Manager, and hence, no entries can be passed in the prior periods.

The Accounting Manager is responsible for posting all entries parked in Accounting System into the General Ledger. Before posting, he reviews the supporting documents and checks whether they are reviewed and approved. To make sure all journal entries are posted to General Ledger at the time of



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month-end, the Accounting system needs to give an error message to indicate whether there is any un-posted journals in the system.

### Process Risk Assessment (PRiA)

4.41 The following is Process Risk Assessment of General Ledger and Reporting:

Risk Q No.	Sub-Process	Risk Question	Remarks
1	GL Maintenance	Is this a Non-Enterprise ERP Location?	In case of non ERP location, the risk is higher.
2	GL Maintenance	Have there been any changes to the master data of any system for this location?	Higher the number of changes in the master data, higher the risk rating for the sub-process.
3	GL Maintenance	Have there been any direct postings to the general ledger at this location?	In case direct posting is not prevented through configuration, the risk of the sub-process amounts to higher.
4	GL Maintenance	How many issues were noted in last audit in this sub-process?	Higher the number of issues noted, higher is the risk of the sub-process.
5	Record Transactions and Post to Ledger	Have there been any new interfaces attached to the general ledger at this location?	Higher the number of interfaces, higher is the risk rating to the sub-process.
6	Record Transactions and Post to Ledger	How many issues were noted in last audit in this sub-process?	Higher the number of issues noted, higher is the risk of the sub-process.
7	System Access	Is responsibility for monitoring and	Formally assigned responsibility to monitor

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Risk Q No.	Sub-Process	Risk Question	Remarks
		testing interfaces formally assigned?	the interfaces amounts low risk to the sub-process and vice versa.
8	System Access	How many issues were noted in last audit in this sub-process?	Higher the number of issues noted, higher is the risk of the sub-process.
9	SOD	Has the operation identified possible SOD issues based on the Approval tool?	Adequate documentation and approval tool for possible SOD violation amounts lower risk to the process and vice versa.
10	SOD	Do employees with the ability to open and close accounting periods also have the ability to post journals entries?	Access to period open and posting Journal Entries to same person amounts to higher risk to the sub-process.
11	SOD	How many issues were noted in last audit in this sub-process?	Higher the number of issues noted, higher is the risk of the sub-process.
12	Adjusting Entries/JV's	Does this location post journal entries?	Higher the number of journal entries, higher is the risk to the sub-process.
13	Adjusting Entries/JV's	Does this location have parked documents?	In case system is configured to have park and post of Journal entry by different person, the risk to the sub-process is lower and vice versa.
14	Adjusting Entries/JV's	How many issues were noted in last audit in this sub-	Higher the number of issues noted, higher is the risk of the sub-process.

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Risk Q No.	Sub-Process	Risk Question	Remarks
		process?	
15	Reconciliation & Review	Were there any material adjustments to the general ledger for this entity/location?	Higher the number of adjustments, higher is the risk to the sub-process.
16	Reconciliation & Review	How many issues were noted in last audit in this sub-process?	Higher the number of issues noted, higher is the risk of the sub-process.
17	Field Sub-Consolidation	Has there been any turnover in the preparer or reviewer of consolidated investees step up entry calculations for the location?	Frequent/major change in function for GL role may lead to higher risk rating for this sub-process.
18	Intercompany	Does this location have intercompany transactions?	Higher the number of inter-company transactions amounts to higher risk rating to the sub-process.
19	Intercompany	How many issues were noted in last audit in this sub-process?	Higher the number of issues noted, higher is the risk of the sub-process.

# Chapter 5

## Internal Audit Checklist

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### Procurement Process

5.1 The purpose of the Procurement procedures is to ensure that purchases are made judiciously, and that goods of acceptable quality are purchased from reputable vendors, at competitive terms and in a timely manner. Further, to also ensure that timely disbursements are made. These procedures cover goods and services, but exclude purchases from inter-unit locations and capital purchases for projects etc.

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
1	Vendor Master	Vendor addition/change requests approved and vendors verified	Vendor addition/change requests, including vendor verification, are independently approved before being added to the Vendor Master.	Preventive	<ol style="list-style-type: none"><li>1. Ensure additions/ changes to the Vendor Master are formally authorized in line with the approved policies/ local COA prior to being updated in the Vendor Master.</li><li>2. Ensure there are adequate supporting documents to verify the validity and legitimacy of</li></ol>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					each addition or change. 3. Ensure the additions/ changes approver is an associate different from the requestor and is also independent from the Vendor Master Custodian.
2	Vendor Master	Vendor Master audit trail reviewed	An audit trail with all risk significant vendor master additions/ changes, including vendor name and address, bank account numbers, and other data that may be significant to the local operation is reviewed by an independent associate periodically.	Detective	1. Ensure audit trails were periodically reviewed for all risk significant vendor master additions and changes. 2. Ensure reviews were performed by an individual independent from the Vendor Master custodian.
3	Vendor	Vendor Master	Periodically, the entire	Detective	1. Ensure the Operation

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
	Master	Data Review	Vendor Master is reviewed (e.g., duplicate vendors, etc.) and maintained (e.g., Vendor Master updated to block duplicate vendor account, etc.).		performs a review for inactive and/or duplicate vendors at periodic level. 2. Ensure all inactive and/or duplicate vendors identified during the review have been blocked or deleted, respectively.
4	Vendor Selection	Bidding Process	Competitive bid procedures should be established, documented, and enforced in accordance with the local purchasing policy and approved guidelines.	Preventive	1. Ensure the Operation maintains appropriate competitive bid procedures in accordance with the purchasing policy. 2. Ensure competitive bids are comparable (i.e., issued in the same period, addressed to the operation, underlying

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					goods and services are comparable), documentation is properly maintained. There is a rationale if no bids were obtained, consideration was given to the best source of supply and bids were submitted within a reasonable period from the purchase date.
5	Release of Purchase Order	Approved Purchase Orders	Purchase orders approved in the system based on the release strategy configured in the system	Preventive	Check whether the release strategy configured in the system is in accordance with the approved COA.
6	Release of Purchase Order	Approved Purchase Orders	Manual Purchase orders should be approved	Preventive	For the selected samples, ensure that

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			based on the COA		purchase orders are approved based on the chart of authority.
7	Release of Purchase Order	Purchase price and quantity tolerances defined	Purchase price and quantity tolerances, as approved by local management, are defined within the application.	Preventive	Check whether purchase price and quantity tolerances defined in the system are in accordance with the limits approved by local management.
8	Goods/ Service Received	Goods/ Services are recorded based on the valid GRN document	Warehouse Manager/ Service receiver makes Goods Receipt Note based on the valid delivery note/ Service completion documents.	Preventive	<p>1 For the selected samples, ensure that Goods Receipt Note has been prepared based on the delivery or Invoice.</p> <p>2. Goods Receipt Note should be supported with approved Purchase</p>



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					Order. 3. Any variance in PO quantity and Invoice quantity should be approved by the appropriate personnel.
9	Goods/ Service Received	Exception reports reviewed	Open PO's, aged exceptions to 3-way match, unmatched receiving, and unmatched/ blocked invoice reports are reviewed and old/unusual items are investigated and resolved.	Detective	Open PO and PO Violation Reports Testing: 1. Ensure Open PO reviews were performed by the Operation and ensure they were performed timely and aged items are explained/ cleared 2. Ensure violation reports were adequately and timely reviewed by the Operation.

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
10	Goods/Service Received	Monthly manual purchasing accruals recorded	Operation maintains procedures to solicit/ obtain a complete listing of goods and services received but not invoiced (i.e., no goods receipt or invoice entry has been entered in ERP) to be included in manual accruals.	Detective	1. For the selected months, ensure that entity has performed manual accrual process. 2. Examine whether accrual process has captured all goods or services received but not invoiced. 3. Verify that working of accruals is supported with confirmation from respective departments for the goods or services received.
11	Invoicing	Invoice workflows control approvals and aligned with the	System invoice workflow authorizations control the invoice approval routing and are	Preventive	Check whether workflow for invoice approval routing is aligned with

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
		Local COA.	aligned with the Local COA.		the Local COA.
12	Invoicing	Invoice processing with support documentation	Accounts Executive process invoice after verifying the details of invoice to ensure that invoice carrying correct PO Number, Description, Qty and Vendor Name.	Preventive	<p>1. For the selected samples, ensure that invoice is supported with approved Purchase Order.</p> <p>2. Verify whether details of invoice matches with Purchase order in terms of quantity, PO Number, Vendor name and description of goods.</p> <p>3. In case of any miss-match, required approval has been supported.</p>
13	Payments	Recurring payments approved	New recurring payment setups are properly supported and independently approved and a	Preventive	1. Ensure new recurring payments (those set up since the last audit) have

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			review of existing recurring payments is performed at least annually to confirm the need for continuation of payment.		been reviewed/ approved with proper supporting documentation prior to set up in ERP. 2. Ensure an annual review (at least) of existing recurring payments (those set up prior to the current year) to confirm need for continuation of payment has been performed/ approved.
14	Payments	Approved Payments	The bank authorized signatories must approve the payments within system for payment advice to be released to the bank. Approval is given after	Preventive	1. For the selected samples, verify and confirm persons approving payment advices in system are authorized as per COA.

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			comparing the totals on the Hash report and payment summary with the figures on system in case of Automated payment run and after checking the supporting in case of the manual payments. The reports and supporting signed as an evidence of the review.		2. Verify the signatures on hash report/payment advice to ensure payment are duly authorized. 3. Ensure amounts payable as per payment advice are in match with the payment proposals.
15	Debit/Credit Notes	Invoice modifications approved	All modifications to an approved invoice via a debit/ credit memo are properly approved.	Preventive	Ensure all debit memos are properly supported and independently approved per the LCOA
16	Balance Sheet Reconciliations	BS Reconciliations prepared and approved	Balance sheet reconciliations for all Accounts Payable Accounts, including GR/IR accounts,	Detective	1. Select a sample of reconciliations for various periods/months and accounts

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			are prepared to ensure balances are supported, analyzed, and reconciling items are cleared in timely manner. Balance sheet reconciliations are independently reviewed/ approved.		throughout the year. 2. Review the reconciliations and ensure that they are performed and reviewed by the appropriate personnel. 3. Ensure that the reconciliations are performed in a timely manner and ensure that reconciling items are researched and addressed in a timely manner. 4. Review the Balance Sheet by account to identify unusual items (e.g., credit balances in asset accounts, debit

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					balances in liability accounts, etc.)
17	SOD	Functional duties segregated	Functional duties such as, custody, review, approval, and recording are properly segregated.	Preventive	1. Observe key functions of the process. 2. Evaluate if there is appropriate segregation of duties for all main processes.

## Production Process

5.2 The procedures cover the requisition and receiving of raw, packing and other materials, including empties for production, as per plan. This includes returning any excess quantities of materials to the stores and the transferring of completed production to the warehouse.

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
1	Material Master	Material Master addition/change requests approved.	Material Master addition/change requests, including Bill of Material for Finished Goods are independently	Preventive	1. Ensure additions/changes to the Material Master are formally authorized in line with the approved

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			approved before being added to the Master Data.		<p>policies/ local COA prior to being updated in the Master.</p> <p>2. Ensure there are adequate supporting documents to verify the validity and legitimacy of each addition or change.</p> <p>3. Ensure the additions/ changes approver is an associate different from the requestor and is also independent from the Material Master Custodian.</p>
2	Material Master	Material Master audit trail reviewed	An audit trail with all risk significant	Detective	1. Ensure audit trails were



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			Material master additions/ changes, including Bill of Material is reviewed by an independent associate periodically.		periodically reviewed for all risk significant content to the Material Masters additions and changes.  2. Ensure reviews were performed by an individual independent from the Material Master custodian.
3	Material Master	Material Master Data Review	Periodically, the entire Material Master is reviewed (e.g., duplicate codes, BOM, etc.) and maintained.	Detective	1. Ensure the Operation performs a review for inactive and/or duplicate Material codes at periodic level.  2. Ensure all inactive and/ or

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					duplicate Material codes identified during the review have been blocked or deleted, respectively
4	Issue Consumption and Output recording	Validation of Process Order	Plant Accountant verifies the correctness and completeness of process order ensuring correct recording of output and validates the consumption booking based on defined BOM	Preventive	<p>1. For the selected Process Order, ensure that output has been recorded based on the production document signed off by the Plant Manager for each production run.</p> <p>2. Verify whether consumption against output has been booked as per defined</p>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>BOM.</p> <p>3. Any variance in defined BOM and actual consumption is followed up for corrective action</p>
5	Issue Consumption and Output recording	Variance Analysis	Plant Finance Manager periodically performs the variance analysis report for standard consumption and Actual consumption. Significant variances are discussed with Production Team for corrective action	Detective	<p>1. For the selected period, ensure that variance analysis has been performed by the Plant Finance Manager.</p> <p>2. Examine the significant Variances noted during review.</p> <p>3. Ensure that follow-up actions were taken for corrective measure.</p>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
6	Machine Capacity Utilizations	Validation of capacity utilization norms	<p>Standard Capacity utilization norms are validated by the Plant Head by way of sign off of the report considering all technical inputs and engineer certification.</p> <p>On the basis of norms the overhead allocation is configured into master recipe to determine the cost of production.</p>	Preventive	<p>1. Ensure the capacity utilization norms are supported with engineer's certificate and technical inputs.</p> <p>2. Examine the utilisation norms are validated by Plant Head by way of sign off.</p> <p>3. Verify the overhead allocation has been appropriately configured into Master recipe.</p>
7	Machine Capacity Utilizations	Periodic Review of Capacity Utilization.	Plant Head Performs periodic review of capacity utilization norms and	Detective	1. Ensure that periodic review has been performed by Plant

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			any variance in actual and installed capacity is investigated for corrective action.		Head.  2. Examine the variance noted during review.  3. Verify whether such variances investigated and corrective actions were taken for revised allocation of overheads.

## Sales and Accounts Receivables

5.3 The purpose of Stock-out and Stock-in procedures is to establish controls over inventory in the direct route selling process. These procedures describe the manner in which the hand over or takeover of company products is to occur between functions, to establish the responsibility (for custody).

Typically, a direct route sale is undertaken from a distribution warehouse/ Depot, or in certain cases, the plant warehouse. All vehicles on which product is loaded, must be subject to Stock-out and Stock-in procedures, including non-Company owned vehicles.

Indirect sales comprise sales to distributors for onwards sale to outlets. These procedures define the recommended controls over indirect sales, specifically pertaining to:

- The handing over of product to distributors and the collection of empties;

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- Receivables collection and credit control; and
- Other aspects like, compliance with agreements.

Indirect sales could be made both from the plant and distribution warehouses. Typically, dispatches are made against an order received from a distributor after credit approval by finance.

Sales to distributors are recorded as (end-customer) sale. However, it is useful to have further details of the distributor's customer base, network, etc. Also, the company may often support the indirect distribution process by monitoring (and supervising) important distributor routes, and assist in various marketing and other programs in the distributor's market.

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
1	Master File	Customer Master Verification from Source Data.	Master Data Executive checks whether the request for updating Customer Master/ Price Master/ Discount Master/ Credit Limit is complete and authorized as per DOA.	Preventive	1. Review whether Customer Master/ Price Master/ Discount Master/ Credit limit is updated based on valid request. 2. Ensure that Master data is updated based on valid supporting documents.
2	Master File	Review of correctness and completeness of the updated data	Master Data Manager verifies the correctness and completeness of updation of Customer/ Price/	Detective	1. Review whether audit trail report has been signed off by the Master Data Manager. 2. Examine whether any discrepancies

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
			Discount/ Credit master and signs off the audit log as an evidence of review.		noted during sign off has been followed up for corrective action.
3	Master File	Periodic review of Master Data	Finance Manager performs periodic review of customer master/ Discount Master/ Price Master/ Credit Limit to ensure the correctness and completeness of data.	Detective	<p>1. Verify that periodic review of Master Data has been performed by the Manager Finance.</p> <p>2. Examine whether any discrepancies noted during review has been followed up for corrective action.</p>
4	Sales Order	Release of Sales Order	Sales orders are released into system only on the basis of valid customer order and available credit limit.	Preventive	<p>1. Review that a credit limit has been established for the credit sales customers.</p> <p>2. Ensure all approvals are in accordance with the effective credit policy and the COA. If there is any</p>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
					<p>deviation with regards to the credit limit, ensure adequate approval before invoice was submitted.</p> <p>3. Ensure sales orders are released based on the valid customer order.</p>
5	Pricing	Data validation by system	ERP automatically calculates pricing based on the customer price masters at the time of creation of sales order. The sales order information is copied to delivery and billing in terms of Material code, order quantity and Pricing which ensures correct movement of	Preventive	Check the system configuration to ensure that system automatically calculates pricing based on the customer price masters at the time of creation of sales order.



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
			inventory at the time of delivery and correct billing at the time of invoicing.		
6	Shipment	Invoice verification at Exit Gate	Security personnel perform independent check of the invoice quantity and shipped quantity. Any variance noted is investigated and resolved.	Preventive	<p>1. For the selected samples, verify whether security personnel has signed off the count of vehicles.</p> <p>2. Examine whether quantity mentioned as per invoice tallies with the security count.</p> <p>3. Ensure the corrective action has been taken for any discrepancies for invoice quantity and security count.</p>
7	Shipment	Periodic Reconciliation of order quantity and	Reconciliation between sales order quantity and dispatched goods quantity	Detective	1. For the selected samples, ensure that reconciliation has been

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
		dispatched quantity	is performed by Warehouse personnel. Deviation if any, is followed up and rectified by Debit Note/ Credit Note		performed for sales order quantity and dispatched goods. 2. Verify that corrective actions have been taken for any differences.
8	Shipment	Proof of receipt are obtained as a Proof of Delivery	Invoices or other proof of receipt, signed by credit customers upon receipt of product, are obtained as a Proof of Delivery.	Preventive	1. Select a sample of shipments and ensure the respective invoice has been signed by the customer or another form of proof of receipt has been received. 2. Compare the shipment dates recorded in the system and the actual dates goods were shipped. Any discrepancies should be followed up on by operations in a timely manner. 3. Ensure that

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
					revenue has been correctly recognized for month end sales.
9	Invoicing	Review of Monthly Sales	On a monthly basis, sales analysis is performed by category (sales data extracted from system). The comparison is made against latest forecast. Significant variances are required to be noted and explained. Any resulting actions from the review are documented. The analysis prepared is reviewed by Financial Controller.	Detective	<ol style="list-style-type: none"> <li>1. Verify for the selected months whether sales analysis has been performed by the appropriate person. (Finance Controller)</li> <li>2. Examine the variance noted during the review are documented.</li> <li>3. Ensure corrective action has been taken for the variances noted during review.</li> </ol>
10	Invoicing	Balance Confirmation	Debtor balances as per books are circulated to customers for balance	Detective	<ol style="list-style-type: none"> <li>1. Obtain the guidelines for the periodic balance confirmation.</li> <li>2. Review the</li> </ol>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
			confirmation. Variations, if any, found out are addressed appropriately.		balance confirmation documents for the selected period. 3. Ensure that necessary adjustment entries were passed in case of variance in balance.
11	Revenue Recognition	Review of Sales during cut-off period	Operation reviews shipments close to period-end and provides necessary adjustment for shipments where title has not transferred as of established period cut-off.	Preventive	1. Obtain Revenue Recognition Policy of the Company. 2. Obtain Sales in Transit Reports/ Revenue Reversal Reports/ List of Goods Shipped But Not Invoiced. 3. Ensure that any shipments which require an adjustment due to period end cut-off have been made properly and in a timely manner. 4. Select

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
					samples of shipments near cut off periods (end of month and beginning of next month) and ensure that the revenue has been captured at the right period.
12	Collection Management	Debtors Ageing and corrective action	<p>On a monthly basis, overdue (aging) debtors' balances and related provisions/ incentives are reviewed.</p> <p>Amounts "past due" more than specified days or overdue amount in case of prompt "payment scheme" are followed up and action is decided and taken,</p>	Detective	<p>1. Obtain the debtors policy and guidelines for provisions.</p> <p>2. Ensure for the selected months whether ageing analysis has been performed by the appropriate personnel.</p> <p>3. Examine whether provision for doubtful debts have been calculated as per approved policy.</p> <p>4. Ensure that corrective action have</p>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
			including debit notes, blocking delivery to customer and creating provision(s) for bad debt. As part of the review, credit limits/ incentive schemes of customer is reviewed and amended or applied.		been taken for default customers e.g., blocking of credit limit or invoicing, etc.
13	Collection Management	Approved write offs for overdue balances	Write off proposal is raised containing the reasons for such write off. The proposal for write off is verified along with all the supporting and approved as per DOA.	Preventive	1. For the selected samples, verify whether write off has been approved as per DOA. 2. Ensure that write off is adequately supported by the working based on the approved policy.
14	Accruals	Adjustment entries for provision	Accounting Manager/ Assistant Accounting	Preventive	1. For the selected samples, verify whether

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
		s and accruals	Manager reviews all journal entries (including accruals, provisions and pre-payment) along with supporting sheets for correctness and validity before approving into system		Journal voucher for provision/ accruals etc has been approved as per DOA. 2. Ensure that journal voucher is adequately supported by the working based on the approved policy.
15	Collections	Incoming payment processing on the basis of invoice.	Incoming payment from customer are matched with invoice by Finance Team and AR balance is cleared on timely basis.	Preventive	1. For the selected samples, verify whether collections are recorded after verifying the invoice amount. 2. Check whether discount/ interest/ fees as applicable for timing of payments are adequately calculated and supported before deriving final amount of payment.

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
					3. Ensure whether AR Balances are cleared on timely basis.
16	Collections	Reconciliation between Sub Ledger and General Ledger and Sub Ledger	Reconciliation between Sub Ledger and General Ledger is done and reviewed by Accounting Manager. Any differences are analysed and resolved.	Detective	<p>1. Check whether reconciliation is prepared between General Ledger (GL) per Sub-ledger (SL).</p> <p>2. Review the reconciliations for accuracy and their correctness.</p> <p>3. Ensure that all adjustment entries to support the reconciliation are approved and backed-up with working.</p> <p>4. Investigate the reason for aged item in reconciliation.</p>
17	Sales Return	Sales return recorded on the basis of	Sales returns are recorded on timely basis by the Order Taking	Preventive	1. For the selected samples, ensure that sales returns



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
		approval	Centre Team on the basis of supporting documents and required approval		are recorded only on the basis of adequate approval. 2. Examine whether sales returns are recorded on timely basis. 3. Verify whether reason for sales returns are adequately documented.
18	Sales Return	Sales Return Reconciliation	On a quarterly basis, Distribution team physically counts the returned goods from randomly selected returned invoice and reconciles with ERP to ensure that returns have been recorded correctly and completely. The reconciliation	Detective	1. For the selected quarter, obtain the document of physical verification documents. 2. Verify whether physical verification has been conducted based on the approved guidelines. 3. Examine whether any discrepancies noted during physical

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/Detective)	Test Procedures
			statement is reviewed by Financial Controller.		verification has been followed up for corrective action.
19	Route Settlement Direct Sales	For direct sales to outlets, settlement associate ensures driver's settlement sheets are prepared and supported by the properly signed documents	In case of Direct Sales to outlets, settlement associate ensures driver's settlement sheets are prepared and supported by the properly signed documents (e.g., cashier signed receipts, checker signed load documents).	Preventive	<ol style="list-style-type: none"> <li>1. Verify the following documents: <ul style="list-style-type: none"> <li>- Fulls check in slip</li> <li>- Empties check in confirmation with the PV</li> <li>- System generated settlement sheet</li> </ul> </li> <li>2. Ensure these documents are signed by appropriate authority.</li> </ol>
20	Route Settlement Direct Sales	Settlement sheets and supporting documents are audited on a daily basis	In case of Direct Sales to outlets, settlement sheets and supporting documents are audited (e.g., by comparing driver's load document	Preventive	<ol style="list-style-type: none"> <li>1. Obtain settlement sheets for the period under audit.</li> <li>2. Check whether settlement sheets are reviewed by an independent person.</li> </ol>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
			used in route settlement against checker's copy and by reviewing invoices to ensure they are issued at the approved price) on a daily basis.		
21	SOD	Functional SOD	The functional duties related to this process (such as custody, review, approval, and recording) are properly segregated.	Preventive	<ol style="list-style-type: none"> <li>1. Observe key functions of the process.</li> <li>2. Evaluate if there is appropriate segregation of duties for all main processes.</li> </ol>

## Direct Marketing Expenses

5.4 The objective of marketing expense control procedures is to monitor marketing related commitments and the corresponding actual spend against budgets. The procedure covers the preparation of annual budget by marketing spend category; the recording of commitments; the subsequent recording of actual expenditure for approved schemes and programs, by brand, marketing spend category; and the reporting of marketing expenditure on the sales curve basis. The procedures also describe the process of recording and evaluating the actual results achieved and those expected at the start of the activity.

The marketing and finance departments are to jointly prepare the annual marketing budget and obtain appropriate approvals. Typically, this is based on the expected annual sales.

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
1	Pre-Paid Marketing and Media Buying	Investment in coolers is adequately supported.	Amount paid to bottler for investment in coolers are appropriately supported with required approval and have valid agreement.	Preventive	<ol style="list-style-type: none"> <li>1. Check whether amount paid to Bottler for investment in coolers are supported with valid agreement.</li> <li>2. Ensure the payment is supported with required approval.</li> <li>3. Verify whether the payment has been appropriately recorded in the correct GL Code.</li> </ol>
2	Pre-Paid Marketing and Media Buying	Amount spent on celebrity fees and media space is appropriately supported.	Amount spent on celebrity fees and media space is appropriately supported with required approval and have valid agreement	Preventive	<ol style="list-style-type: none"> <li>1. Check whether amount paid to Celebrity and Media Agency for media space are supported with valid agreement.</li> <li>2. Ensure the payment is supported with</li> </ol>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					required approval. 3. Verify whether the payment has been appropriately recorded in the correct GL Code.
3	Media Buying	Marketing Performance Audit	Marketing finance executes quarterly audits of marketing performance. (billed as contracted or agreed)	Detective	1. Obtain the marketing performance audits for key bottlers. 2. Verify that the report has been reviewed timely. 3. Verify that any adjustment/ follow up action noted during review has been performed.
4	Media Buying	Media Performance Audit	Local media airing/ performance are audited and reviewed on a timely basis.	Detective	1. Understand the media airing/ performance process. 2. Obtain the post-audit report for

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					review. 3. Ensure that follow up action has been performed.
5	Prepaid Marketing and Media Buying	Review on Prepaid Marketing Assets	Marketing assets/ programs amortization calculation and/ or other accounting treatments are properly supported, recorded and independently reviewed and approved	Detective	1. Examine agreements, entries, amortization schedules, etc for new pre-pays and determine whether amounts were properly recorded and reviewed/ approved. 2. Examine amortization for reasonableness and accuracy 3. Verify that amortization is reviewed by authorised person.
6	Marketing Accruals	Procedures to solicit goods/s	Operation has established procedures	Detective	1. Review the month end marketing accrual and

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
		ervices received but not invoiced for the manual accruals	to solicit/ obtain a complete listing of goods and services (including marketing assets) received but not invoiced to be included in manual accruals. All accrual accounts need to be reviewed in the next period to ensure the proper fall out recording.		<p>ensure the basis for preparing the marketing accrual is reasonable, including estimate for marketing claims received from bottlers in preparing the accrual.</p> <p>2. Obtain the JV to record the accrual and ensure whether the support calculation had evidence of review and approval.</p> <p>3. Note whether the resulting adjustments were appropriately booked.</p>
7	Impairment	Impairment Survey	Quarterly, Operation reviews the marketing	Detective	1. Obtain the quarterly confirmation submitted to

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			asset balances for possible impairment indicators and supports conclusions prior to submission to the Corporate. Ensure the impairment testing cover the marketing side (i.e., long term marketing assets, investment in coolers).		<p>Corporate Finance.</p> <p>2. Verify if any impairment indicators have been identified.</p> <p>3. Review the process to identify impairment indicators to ensure the confirmation sent to Corporate Finance is prepared in accordance with the approved guidelines.</p> <p>4. If accounting adjustments were required and recorded, verify that they were discussed with and approved by Corporate Finance.</p>



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
8	Balance Sheet Reconciliation	Balance Sheet Reconciliations	Balance sheet reconciliations for all marketing related accounts (including prepaid media spent, Coolers and accruals) are prepared to ensure balances are supported, analyzed, and reconciling items are cleared in timely manner. Balance sheet reconciliations are independently reviewed/ approved.	Detective	<ol style="list-style-type: none"> <li>1. Verify that there is adequate supporting documentation and they are independently reviewed and approved.</li> <li>2. Verify that reconciling items if any are cleared timely.</li> <li>3. Review the Balance Sheet by account to identify unusual items (e.g., debit balances in liability accounts, etc.)</li> </ol>
9	SOD	Functional SOD	The functional duties related to this process (such as	Preventive	<ol style="list-style-type: none"> <li>1. Observe key functions of the process.</li> <li>2. Evaluate if there is appropriate</li> </ol>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			custody, review, approval, and recording) are properly segregated.		segregation of duties for all main processes.

## Deductions from Revenue

5.5 This process is designed to monitor marketing related commitments and the corresponding actual spend against budgets with control procedures. Further, it broadly evaluates the effectiveness of the marketing related spend.

The procedures cover the preparation of annual budget by marketing spend category and month; the recording of commitments; the subsequent recording of actual expenditure for approved schemes and programs, by brand, marketing spend category; and the reporting of marketing expenditure on the sales curve basis. The procedure also describes the process of recording and evaluating the actual results achieved and those expected at the start of the activity.

The marketing and finance departments jointly prepare the annual marketing budget and obtain approval as per COA. Typically, this is based on the expected annual sales volume and often stated as cost per case of sales. This budget is to be further detailed by month and marketing spend category.

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
1	Calculation, Pricing, and Approval	Off-invoice rebate/ allowance calculations properly supported and	Off-invoice rebate/allowance calculations are supported by the	Preventive	1. Verify whether calculations are reviewed by an

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
		independently reviewed and approved	properly signed contract with bottler/ customer, independently reviewed and approved.		<p>independent person and are properly approved.</p> <p>2. Verify whether calculations are supported by a properly signed contract with the bottler/ customer or duly approved program.</p> <p>3. Verify that the rebate is recorded to the appropriate GL account.</p> <p>4. Determine whether credit memos, claims, or invoices paid/</p>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
					deducted was in line with the supporting documentation, agreements or contracts. 5. If payment requires, acknowledgment ensure to obtain evidence that customer receives the payment or products or customer is aware of the deductions in their accounts.
2	Calculation, Pricing, and Approval	New/ changes to Rebate prices are properly approved	New/ changes to rebate prices are properly approved in accordance with the COA/	Preventive	1. Ensure that changes are made for the selected samples of

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
			rebate policy prior to update in Rebate/ Price Master File.		<p>new prices and amendments to the rebate master file as per appropriate level of approval as defined in the local chart of authority.</p> <p>2. Verify if adjustments are timely encoded in SAP and after approval.</p> <p>3. Review a list of all adjustments and identify adjustments are approved and supported.</p>
3	Calculation, Pricing, and	Manual override of rebate prices are properly	Any manual override of rebate prices are properly	Preventive	1. Obtain a listing of price overrides

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
	Approval	approved	reviewed and approved in accordance with COA or applicable policy.		(exception reports, etc.). 2. Verify that the manual overrides are properly supported and reviewed approved in accordance with COA. 3. Verify the operation is routinely reviewing price overrides.
4	Calculation, Pricing, and Approval	Independent Rebate/Price Master File Audit Trail Review	An audit trail of changes to Rebate/ Price Master File is reviewed by an independent associate periodically.	Preventive	1. Obtain the operation's review of the rebate master file audit trail. 2. Verify that all risk significant changes were reviewed

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
					and approved. 3. Verify that the person performing the review is independent of the rebate update process.
5	Source Data Validation	Independent associate ensures credit memo/ invoice from customer/ check request for off-invoice rebates/ allowances/ fees is properly supported by approved calculation prior to payment	Independent associate ensures credit memo/ invoice from customer/ check request for off-invoice rebates/ allowances/ fees is properly supported by approved calculation prior to payment.	Detective	1. For the selected sample review invoice with signed contracts or agreements , payment approvals and supporting documentation. 2. Ensure that the supporting documentation in line with agreements or contracts

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
					and payment/ credit is calculated based on above. 3. Investigate any significant differences.
6	Accrual Recording and Reconciliation	Operation has established procedures to identify all rebates earned by customer but not paid that need to be included in manual accrual.	Operation has established procedures to identify all rebates earned by customer but not paid that need to be included in manual accrual. Accruals are reviewed for reasonableness and approved by appropriate management.	Preventive	1. For the selected months, obtain the rebates accrual analysis and ensure: (a) Accruals are reasonable based on rebate type. (b) Accruals are reviewed by an independent person and are properly approved.



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/ Detective)	Test Procedures
					2. Compare month-to-month accruals and investigate and conclude on any unusual variances.
7	Balance Sheet Reconciliation	Balance Sheet Reconciliations	Balance sheet reconciliations for all rebate/ allowance related accounts are prepared to ensure balances are supported, analyzed, and reconciling items are cleared in timely manner. Balance sheet reconciliations are independently reviewed/	Detective	1. For the selected months review the reconciliations and ensure that they are performed and reviewed by the appropriate personnel. 2. Ensure that the reconciliations are performed in a timely manner and ensure that reconciling items are

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive/Detective)	Test Procedures
			approved.		researched and addressed in a timely manner. 3. Verify that the amortization methodology is in-line with the related Customer Master Agreement.
8	SOD	Functional SOD	The functional duties related to this process (such as custody, review, approval, and recording) are properly segregated.	Preventive	1. Observe key functions of the process 2. Evaluate if there is appropriate segregation of duties for all main processes.

## Fixed Assets

5.6 The purpose of the fixed assets and depreciation procedures is to ensure that the fixed assets are correctly and consistently accounted for, and that adequate controls are exercised and accountability established for this significant investment of the company. Broadly, this section covers the accounting for fixed assets and depreciation, including their transfers and

## Internal Audit Checklist

disposals. Further, it also covers the procedures for physical control over fixed assets.

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
1	Civil Construction work-awarding	Granting Civil Construction work is adequately controlled.	Civil construction work is evaluated, approved and verified before awarding the work and making payments.	Preventive	<ol style="list-style-type: none"> <li>1. Ensure that an independent evaluation of the structural drawings (layouts) has been performed by an external consultant to determine the quantum of work and cost to be incurred. Specific focus to be placed on the process documented for awarding of such contracts.</li> <li>2. Check that based on above, the (RFQ) has been prepared to</li> </ol>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>obtain bids/ quotes from civil works contractors and contracts has been awarded based on established parameters</p> <p>3. Verify that the quotations invited are comparable with respect to the specifications of materials etc.</p> <p>4. Check whether the final bill of the vendor for construction / renovation has been reviewed by independent civil</p>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					consultant before payment.
2	Asset Capitalization-Accounting and Recording	Asset Additions properly capitalized prior to updating fixed asset register	Assets-Under Construction are reviewed periodically for capitalization and for asset additions.	Preventive	<ol style="list-style-type: none"> <li>1. Select sample for assets additions from FAR. (Sample selection criteria e.g. - High value machinery, Civil Work, Items dealt/ purchased by local operations)</li> <li>2. Analyze FAR and check if asset life and depreciation method have been defined in accordance with the company policy.</li> <li>3. Verify bids (sufficient number of quotes) for assets</li> </ol>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>purchases. Lesser number of bids should be supported by approved business justification / reasoning.</p> <p>4. Check for the correct capitalization in the system (asset category, asset life, asset value, tagging, Installation Date, Put to use date, etc.)</p> <p>5. Check account balance in the asset-under-construction account and compare it with</p>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>detailed project specific report (where project cost is recorded).</p> <p>6. Discuss with the unit management about the process of reviewing asset-under-construction (CWIP) account to ensure the timely capitalization of projects.</p> <p>7. Review the asset-under-construction (CWIP) transfer entries in FAR for accuracy and timeliness.</p>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>8. Perform a physical examination of Asset lying under CWIP account for checking if asset is actually under construction stage.</p> <p>9. Verify if depreciation is calculated on account balances (transferred from CWIP account) from the date the project is finished and it is recorded in FAR.</p>
3	Intangible Asset Capitalization- Accounting and Recording	Intangible Asset Additions adequately capitalized .	Finance Manager - capitalizes the intangible asset on the basis of approved agreement and details as	Preventive	Examine whether Finance Manager capitalize the intangible assets based on the



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			approved by the authorised person in terms of financial viability of the intangible assets like patent/ copyright/ marketing rights, etc.		approved agreement and relevant support documents.
4	Review of Intangible Assets	Independent review of Intangible assets	Accounts Executive forwards asset schedule at the end of every quarter to Manager-Cell for review. Asset schedule captures the accumulated amortization and net value of the intangible asset as on date.	Detective	Verify whether review of intangible assets have been performed to ensure the correctness of amortization and net value of intangible assets.
5	Fixed Asset Register	Independent review of periodic assets movement in FAR	Periodic asset movements (i.e., new, disposed, transferred) recorded in FAR are independently reviewed for accuracy.	Detective	1. Verify whether all the assets movements (Additions/ Transfers/ Disposals/ Write-offs) as recorded in

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>the monthly / quarterly financial reporting are matching with FAR.</p> <p>2. Perform a walkthrough of the process followed by Operations for reviewing assets movement.</p> <p>3. Pick a random sample of 2 months / quarters for testing.</p>
6	Physical Controls	Fixed Asset Tagging	Fixed assets are appropriately and uniquely identified in FAR which includes unique asset numbers to link the physical assets to the asset records.	Preventive	<p>1. For a sample of fixed assets, verify assets have been tagged with a unique asset tag number. Select from floor to sheet and</p>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>sheet to floor.</p> <p>2. Using ACL (other data analytics tools), identify instances where assets tag number is missing and instances of duplicate asset tag numbers in FAR.</p>
7	Physical Controls	Periodic Fixed Asset Verification and reconciliation to FAR	Assets are periodically verified via physical observation and reconciled to FAR. Any differences identified during asset verification are properly recounted, investigated, and supported. Upon completion of investigation provision or	Detective	<p>1. Check if assets are physically verified on periodic basis.</p> <p>2. Off-premises assets (Vehicles given to distributors, Machinery to co-packers, etc.) should also be verified as per this</p>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			adjustments are made for missing assets.		<p>periodicity.</p> <p>3. Verify if latest physical verification report is reconciled with FAR.</p> <p>4. If assets are found for which there is not record in FAR, reason for their omission should be documented and approved as appropriate</p> <p>5. Check if recount was performed for variances in the FAR quantity and physically available quantity</p> <p>6. Ensure that provision or</p>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					adjustment entries are passed for the adjustments identified.  7. Verify if appropriate approvals were obtained before assets are adjusted in FAR.
8	Segregation of Duties	Functional Segregation of Duties	The functional duties related to this process (such as physical custody, recording and approval) are properly segregated.	Preventive	1. Observe key functions in the process.  2. Review Access Controls List from ERP and evaluate if appropriate segregation of duties for all main processes have been defined.
9	Maintenance	Changes in Master Data file	Changes to the Master Data File (e.g., useful lives to	Preventive	Check if all the changes in FAR and depreciation

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			asset categories, depreciation conventions) are supported, reviewed and approved.		adjustment report are supported.
10	Disposals	Asset disposal and transfers are properly supported and reviewed	For asset disposal and transfers, finance department ensures proper authorization and support prior to updating the FAR.	Preventive	<ol style="list-style-type: none"> <li>1. Obtain a list of all disposals made to date from ERP.</li> <li>2. Check whether these disposals have been adequately approved and supported.</li> <li>3. Verify bids (sufficient number of quotes) for assets purchases. Lesser number of bids should be supported by approved</li> </ol>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>business justification/ reasoning.</p> <p>4. Verify gate out pass, shipping document, invoices and match details in bids and invoices.</p> <p>5. Match the invoice with the sales proceeds.</p> <p>6. Recalculate gain/loss on disposal and trace to the general ledger.</p> <p>7. Ensure the disposal of the assets was correctly and properly</p>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					booked.
11	Disposals	Accrual for assets ready for disposal are properly prepared, reviewed and approved.	For asset disposals not processed in the period of impairment identification / discontinuation of asset use, an accrual is prepared, reviewed, and properly approved at the time of identification in order to recognize any associated loss on disposal in the appropriate accounting period.	Preventive	<ol style="list-style-type: none"> <li>1. Discuss with the operations about the assets identified for disposal.</li> <li>2. Ensure that appropriate accruals have been made and approved for these assets.</li> </ol>

## Inventory Process

5.7 The objective of Inventory Procedures is to establish controls surrounding the issue, holding and reporting of inventory items including raw materials, consumables and stores and spares. Further, to determine the consumption of inventory items for the production of finished goods, obsolete items and shortages, if any. The inventory procedures include the receipt, the issue, storage and count of raw, packing and other inventory items. Stores department receives materials purchased, along with a quality approved copy of the Goods Receipt Note. The items include raw materials and consumables bottles and cases, stores and spares and miscellaneous items. Based on the GRN and physical quantities received, the Quantitative Stock Ledger (QSL) is updated for each transaction.



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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
1	Receiving	Physical count of the goods is compared with the packing slip, delivery notice, or bill of lading before acceptance.	At the time of GR, the packing slip, delivery notice, or bill of lading is compared to a physical count of the goods before acceptance and is used as evidence to document and record the goods receipt.	Preventive	<ol style="list-style-type: none"> <li>1. Verify whether the packing slip, delivery notice or bill of lading is compared to a physical count of the goods before acceptance.</li> <li>2. Verify whether the Operation records the GR at the point of legal transfer of title. Review actual receiving documentation and shipping documentation to ensure SAP GR</li> </ol>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					date is accurate and appropriate.
2	Costing	Standard costs are periodically reviewed and revised as needed.	Standard costs are periodically reviewed and revised as needed (for instance, before being input into the system).	Detective	<ol style="list-style-type: none"> <li>1. Discuss the process of deciding standard costs for various items.</li> <li>2. Check if standard cost is established during the annual budgeting process.</li> <li>3. Check that standard cost are established for new products introduced during the year.</li> <li>4. Check whether AFM or FM has reviewed/ approved</li> </ol>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					the standard before uploading it in ERP.
3	Costing	Purchase/ production variances are periodically analyzed.	Purchase/ production variances are periodically analyzed and allocated to appropriate accounts and accounting periods.	Preventive	<ol style="list-style-type: none"> <li>1. Obtain monthly analysis report and review analysis of variances.</li> <li>2. Verify whether the variances are allocated to appropriate accounts and accounting periods. Review the Deferred Inventory Account to ensure accuracy.</li> <li>3. Verify whether the labor and</li> </ol>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>overhead applied costs are being reconciled to actual costs on a timely basis.</p> <p>4. Verify whether the significant variances are highlighted in management reports for review and approval or are monitored by the finance department independently of production.</p> <p>5. Review variance accounts in the</p>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					general ledger and investigate and explain unusual entries.
4	Counts	Periodic Physical Counts	Periodic Physical counts for Full goods and Raw materials are performed in accordance with the proper count plan to verify purchases on hand. A proper count plan should include frequency, cut off procedure, inventory held at third party, etc.	Detective	<ol style="list-style-type: none"> <li>1. Discuss with the Unit Management about process for physical verification of all Inventory items.</li> <li>2. Check if physical verification is performed by an independent person.</li> <li>3. Participate in the physical count (falling within audit period) and count</li> </ol>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>few inventory items (high and low value both).</p> <p>4. Check if count difference s are investigated and recounted for resolution/ confirmation.</p> <p>5. Verify if reconciliat ion between book quantity and physical quantity is performed and it is done by a person independent of custodian/ person performing count.</p> <p>6. Take</p>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>physical verification report of any other month and verify approvals for adjusting book stock.</p> <p>7. Check if all items are covered during the physical verification at the month-end.</p> <p>8. Ensure inventory lying at third party locations are covered during the month-end counts. (Third Party Locations may interalia</p>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>include SGAs lying with external vendors, Jobwork material like resins, etc.)</p> <p>9. Sight the confirmation received from third party for inventory lying at their locations</p> <p>10. At the time of participating month-end count, check whether the physical movement of inventory including RM/ PM/ FG is stopped at the time of</p>



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					physical verification. 11. Check whether goods received but not inventories are not included for count.
5	Inventory Counts	Inventory counts are adequately controlled.	<ol style="list-style-type: none"> <li>Inventory counts sheets / tags are used and controlled.</li> <li>Inventory count sheets are not pre-populated with inventory balances as per books.</li> <li>Items using different</li> </ol>	Preventive	<ol style="list-style-type: none"> <li>Check that the inventory count sheets are used during the physical counts.</li> <li>Count sheets must include all the inventory items.</li> <li>At the time of participation in physical count, check if count sheets are</li> </ol>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			unit-of - measure for count and recording are identified and these conversions are reviewed and approved.		<p>prepopulated with on-hand inventory quantities.</p> <p>4. In the previous months count sheets, check if quantity appears to be pre-populated or computer printed.</p> <p>5. Discuss with the management if items using different unit-of - measure are identified and their conversion criteria is approved.</p> <p>6. Check the month-end</p>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>physical quantity for such items in the books and calculate book quantity as per approved conversion criteria.</p> <p>7. Verify in the book versus physical reconciliation whether proper conversions are made and reviewed by Plant Manager.</p>
6	Inventory Counts	Inventory Counts at third party	Third-party total inventory balances are monitored for reasonableness to ensure inventory losses are	Detective	1. Review a sample of third-party inventory custodian contracts to ensure material loss limits and

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			recorded.		<p>penalty fees are clearly documented.</p> <p>2. Verify whether the operation has a process in place to monitor third-party losses.</p> <p>3. Review a sample of material losses beyond acceptable limits and ensure they have been or will be recuperated/ recovered.</p>
7	Obsolete and slow moving inventory	Obsolete or expired materials and goods are appropriately segregated and	1. Obsolete or expired materials and goods are appropriately	Preventive	1. Identify expired finished goods from the closing inventory

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
		monitored for obsolescence .	<p>segregated and restricted from being consumed , shipped to customers.</p> <p>2. Slow moving and excess inventory (including bottles and cases) is monitored for obsolescence and appropriate reserves are established, reviewed, approved and properly recorded.</p> <p>3. Adjustments for inventory</p>		<p>records.</p> <p>2. Discuss with the Unit Management if expired finished goods and other Inventory items are lying in the plant/depot premises.</p> <p>3. Verify if expired inventory is properly segregated and marked as "Expired - Not to be consumed / shipped".</p> <p>4. Discuss with the unit management about the process for identifying</p>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			write-offs (e.g. expired goods write-off, and broken bottles and cases) are booked in the proper accounting period and are properly authorized.		<p>slow moving/ excess inventory.</p> <p>5. Check whether enough provision/ reserves were created for such stock.</p> <p>6. Check if write-off is performed for provided items identified as slow moving/ non-moving/ obsolete.</p> <p>7. Verify that the inventory write offs are appropriately approved.</p>
8	Check-in / check-out	1. The warehouse personnel	1. The warehouse personnel	Preventive	1. Select a sample of load document

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
		<p>1. signs the load document.</p> <p>2. Check-out/ in is performed away from warehouse storage areas.</p> <p>3. Independent Check-Out Count and blind count.</p>	<p>signs the load document to evidence release of goods and receipt of returns.</p> <p>2. Check-out/ in is performed away from warehouse storage areas where product could be placed on the vehicles without detection.</p> <p>3. Independent Check-Out Count and blind count is performed .</p>		<p>s evidencing the release of goods and receipt of returns.</p> <p>2. Check whether load document and return receipts are appropriately signed by the shipping department.</p> <p>3. Check whether goods were physically counted by security prior to release/ return.</p> <p>4. Check whether check-out/ in is performed away from</p>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>warehouse storage areas where product could be placed on the vehicles without detection.</p> <p>5. Observe whether at check-out, an independent (checker) and blind count (other than shipping) is performed for the product loaded on vehicles.</p>
9	Segregation of Duties (SOD)	SOD between custody and book entry.	A person independent of the inventory custodian participates	Preventive	1. Review User Access List to check who all have



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			in the entry of final inventory count into the system.		access to enter inventory count in the system. 2. Ensure that the custodian of inventory is independent of person entering the count in the system.

## General Accounting and Closing

5.8 The purpose of General Accounting and closing procedure is to ensure that all financial transactions are posted to the general ledger in the proper accounting period to enable the operation to prepare periodic trial balance and submit the financial statements.

The start of the process is with passing of Journal Vouchers, Cash Vouchers, booking of bills and ends with preparing of financial statements and the closing files. This process affects all P&L accounts and Balance Sheet accounts.

The accounting system is to be set up to restrict the access right of individual users to their areas of responsibility. For each individual user a separate user ID has to be created to ensure segregation of duties.

Accounting Systems provides the option to close the particular period. Every month post-closing activities, Finance department closes the past period and

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opens the period for current month activities.

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
1	GL Maintenance	Changes to master data	Changes to master data are properly reviewed and independently approved prior to their update in the system.	Preventive	<ol style="list-style-type: none"> <li>Obtain understanding of process to add/ change GL accounts.</li> <li>Obtain random samples and perform the following: <ol style="list-style-type: none"> <li>Verify if the accounts were properly included in the COA (Chart of Accounts) by comparing the additions or changes to the company's chart of accounts.</li> <li>Verify if additions/changes are properly and timely approved.</li> </ol> </li> </ol>
2	GL Maintenance	Direct posting to GL accounts	Direct posting to G/L accounts is restricted by the system.	Preventive	<ol style="list-style-type: none"> <li>Determine whether certain GL accounts are blocked for direct posting.</li> <li>Obtain evidence</li> </ol>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					(screenshots, etc.) that direct posting is blocked.
3	GL Maintenance	GL to Financial Statement s mapping	System is designed to map General Ledger accounts to proper Financial Statement lines.	Preventive	<ol style="list-style-type: none"> <li>1. Understand the structure of the financial statement system.</li> <li>2. Obtain samples from the Balance Sheet and Profit &amp; Loss Accounts and reconcile that the mapped accounts were properly classified and included in the proper financial statement lines.</li> </ol>
4	GL Maintenance	Update of currency table	Currency table is updated on timely basis.	Preventive	<ol style="list-style-type: none"> <li>1. Verify that exchange rates were updated timely in the system.</li> <li>2. Ensure that update was reviewed and approved independently.</li> </ol>
5	Segrega	System	The	Preventive	1. Review of

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
	tion of Duties	based duties are adequately segregated.	system-based duties for all financial processes are properly segregated and violation, if any, are monitored and mitigated in accordance with the company policy.		<p>access control list vis-à-vis SOD matrix with respect to critical transactions and reports in all financially relevant business process.</p> <p>2. Discuss any exceptions with the Unit management and check approvals given by appropriate authority for granting the conflicting access.</p>
6	Adjusting Entries and Journal Vouchers	Manual and Recurring Journal Vouchers	Journal Vouchers (Manual or Recurring) are properly supported, and independently reviewed and approved.	Preventive	<p>1. Check whether vouchers are properly supported, reviewed and appropriately approved.</p> <p>2. Check whether vouchers provide sufficient explanation, acceptable documentation and evidence</p>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					<p>of independent review/ approval.</p> <p>3. Check if entries were posted timely.</p>
7	System Access	Critical Spreadsh eets and financial system access	Access to critical spreadshe ets and areas where critical, confidentia l, and financial data is stored (like shared drives, databases, share point sites, etc.) is properly restricted.	Preventive	<p>1. Obtain a listing of shared drives and the employees who have access to these folders.</p> <p>2. Review the listing for reasonablenes s based on folder manager job title and ensures that no terminated employee has access to any of these shared folders.</p> <p>3. Select a random sample of employees and test their access, according to the access listing, by observing them attempt to access and</p>

## Technical Guide on Internal Audit of Beverages Industry

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
					modify folders to which they were not granted access as well as folders to which they were given read-only access.
8	GL Maintenance	Closure of calendar month	Operation closes the accounting period in the system as per defined timelines approved by the management.	Preventive	Download GL Calendar Report from financial system and ensure that the accounting periods were closed as per company's calendar month.
9	Financial Closure Process	Sign off of Financial Closure Check-list	Finance Controller signs off the financial closure checklist covering balance sheet/ profit and loss account elements as defined	Detective	Verify whether book closure check list has been signed off by the authorised person. Ensure that book closure checklist has comments on all the items as defined in SOP.

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive / Detective)	Test Procedures
			in SOP to ensure the completeness and correctness of book closing.		
10	Financial Closure Process	Review of Variance Analysis	Finance Controller reviews the Balance Sheet and Profit and Loss statement. Any variance over the threshold limit defined in SOP is explained and auctioned on quarterly basis.	Detective	Verify the variance analysis has been performed for the Balance Sheet and Profit and Loss Account on quarterly basis. Ensure that all variance over threshold limit has been adequately explained and auctioned.

## Legal and Regulatory Compliance

5.9 Even though the overall approach of any internal audit assignment depends on the need and perception of the entity's management, of late certain legal requirements and regulatory prescriptions relating to corporate governance have assumed importance in this regard.

Increasingly internal auditors are being asked to constantly review processes

## Technical Guide on Internal Audit of Beverages Industry

of compliance with these requirements and evaluate their efficacy. Not only does this provide assurance to the management and also to those charged with governance (e.g., Board of directors) but it also helps in improving corporate governance practices.

The purpose of internal audit in the area of legal and regulatory compliance is to ensure that all applicable commercial, environmental, statutory requirements are being regularly monitored for effective compliance by the organization.

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
1	Pollution Control	Obtain consent/ permission under various Acts and Rules.	Has consent been obtained by the manufacturing unit from the State Pollution Control Board under Air Act, Water Act and Hazardous Waste Management Rules of the Environment Protection Act.	Preventive	<ol style="list-style-type: none"> <li>1. Check whether conditions on which consent was given are fulfilled?</li> <li>2. Is the consent valid for the audit period?</li> <li>3. Check for the actual effluent discharge details and their requirement as per consent letter and the company'</li> </ol>



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
					s quality policy.
2	Pollution Control Board	Submit Environmental statements	Has the unit submitted the environmental statement for each financial year to the State Pollution Control Board?	Preventive	<ol style="list-style-type: none"> <li>1. Check if statement for the last financial year has been sent.</li> <li>2. Check if it was sent within prescribed time period.</li> <li>3. Check for the accuracy of data mentioned in the environmental statement.</li> </ol> <p><i>(Refer to Appendix A – Format of Environmental Statement)</i></p>
3	Water supply agreement	Draw water as per the agreement.	Is the unit drawing water as per an	Detective	<ol style="list-style-type: none"> <li>1. Enquire from the factory</li> </ol>

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S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
			approved scheme of the central ground water authority/ State government?		<p>manager or quality manager if plant falls in the critical/ semi-critical (unsafe) zone with respect to ground water availability.  <i>(Approval is not required from CGWA if Unit falls in the safe zone)</i></p> <p>2. Check for compliance with the approved scheme.</p>
4	Water supply agreement	Payment of periodic water bills.	Has the unit paid the necessary monthly	Detective	Check whether the Unit is paying the cess on

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
			charges/ cess for use of water?		water usage on timely basis.
5	Food Safety And Standards Act, 2006	License under FSS Act 2006	Has the unit obtained license under the Food Safety And Standards Act, 2006?	Preventive	<ol style="list-style-type: none"> <li>1. See if license is valid for the audit period.</li> <li>2. License covers all the products manufactured/ stored by unit.</li> <li>3. Check compliance with conditions mentioned in the License".</li> </ol>
6	Food Safety And Standards Act, 2006	FSS license with distributors.	Do all the distributors of the unit have license under Food Safety And Standards Act, 2006?	Preventive	<ol style="list-style-type: none"> <li>4. See if license is valid.</li> <li>5. Check if the license covers all the products manufactured or</li> </ol>

## Technical Guide on Internal Audit of Beverages Industry

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
					stored by unit.
7	Factories Act, 1948	License under Factories Act, 1948	Has the unit obtained license under the Factories Act?	Preventive	Check whether factory license is valid for the audit period.
8	Factories Act, 1948	Overtime exceeding 50 hours per quarter	Is overtime incurred by workmen exceeding 50 hours in a quarter?	Preventive	<ol style="list-style-type: none"> <li>1. Analyze the overtime tracking record maintained by the unit to check whether overtime by each worker is within permissible limit.</li> <li>2. Inquire about the reasons of non-compliances with HR Manager.</li> </ol>
9	Factories Act, 1948	Overtime wage rate	Is the overtime paid at double of	Preventive	<ol style="list-style-type: none"> <li>1. Verify the calculation of</li> </ol>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
			ordinary wage rate (Basic + allowance)?		wages (as mentioned in the factories act)  2. Verify if unit has been paying overtime at double the wage rate.
10	The Minimum Wages Act, 1948 (updated in 2012)	Payment of minimum wages	Are the minimum wages paid by the unit as per specified by the state government labor laws?	Preventive	Verify from the salary sheet if unit is paying at least minimum wages specified by government from time to time.
11	The Minimum Wages Act, 1948 (updated in 2012)	Filing of annual return.	Has annual return been filed (Form III)?	Preventive	Verify return has been filed with prescribed authority on timely basis.
12	The workmen compensation Act (For	Health Insurance Policy	Has a health insurance policy taken by the unit	Preventive	1. See if policy is valid. 2. Check if

## Technical Guide on Internal Audit of Beverages Industry

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
	<i>those units where ESI act is not applicable)</i>		covering all workers their spouse and kids?		the policy covers all the employees of the unit.
13	The Contract Labor Act, 1970	Registration for engaging contract labor.	If the unit engages contract labor, has it obtained certificate of registration for employing contract labor?	Preventive	Check if license is valid.
14	The Contract Labor Act, 1970	Use of Certified contractors.	Do the labor contractors have a certificate in Form V for working as contractors?	Preventive	Verify if all the contractors have obtained the said certificate and is valid.
15	The Contract Labor Act, 1970	Payment of PF and ESI by the contractors.	Is the unit ensuring that PF and ESIC are paid by the contractor?	Detective	Check if PF and ESIC are paid by all the contractors on timely basis.
16	Storage of Liquefied gas Rules of the	Storage of Liquefied gas	1. Has the unit obtained license	Preventive	1. Check if the said license has

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
	Explosive Act, 1884		<p>from the Chief Controller of Explosives under the Storage of liquefied gas Rules of the Explosive Act if it is storing more than 100 Kgs of LPG.</p> <p>2. Has the unit stored LPG in excess of the licensed quantity any time during the period?</p>		<p>been obtained and is valid.</p> <p>2. Analyze daily record of LPG and check if the consumption or storage exceeds the licensed quantity at any point in time.</p>
17	Storage of petroleum products	License for storage of petroleum products.	1. For storage of petroleum items like Petrol/ Diesel, Furnace oil, etc., has the unit	Preventive	<p>1. Check if the said license has been obtained and is valid.</p> <p>2. Analyze</p>

## Technical Guide on Internal Audit of Beverages Industry

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
			<p>obtained license under the petroleum rules?</p> <p>2. Has the unit stored Petrol or Diesel or Furnace oil in excess of the licensed quantity at any time during the period?</p>		<p>daily record of petrol, diesel and furnace oil and check if the consumption or storage exceeds the licensed quantity at any point in time.</p>
18	Storage of petroleum products	License under the Solvent, Raffinite and slop order	If the consumption of furnace oil exceeds 50 KL in a month and its storage exceeds 20 KL at any point of time, the unit is required to take a license under the Solvent, Raffinite and	Preventive	Check if the license is valid during the audit period.



## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
			slop order from the District supply officer for consumption of Furnace oil or any other solvent.		
19	Static and Mobile Pressure Vessel Rules	Storage of CO2	<ol style="list-style-type: none"> <li>Has the unit obtained the license for storage of CO<sub>2</sub> under static and mobile pressure vessel rules?</li> <li>Has the unit stored CO<sub>2</sub> in excess of the licensed quantity at any time during the</li> </ol>	Preventive	<ol style="list-style-type: none"> <li>Check if the license is valid during the audit period.</li> <li>Analyze daily record of CO<sub>2</sub> and check if the consumption or storage exceeds the licensed quantity at any point in time.</li> </ol>

## Technical Guide on Internal Audit of Beverages Industry

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
			period?		
20	Indian Boiler (Amendment) Act, 2007	License to operate the boilers.	Has the unit taken license to operate the boilers under the Indian Boiler Act, 1923?	Preventive	Check if licenses are available for all boilers and they are valid during the audit period.
21	Indian Boiler (Amendment) Act, 2007	Annual inspection of boiler.	Has the unit ensured annual inspection and testing of the boiler by factory inspector?	Detective	Verify that for the last year every boiler was verified.
22	State Electricity Board	Permission for power and DG sets	Has permission been obtained from State electricity board for authorized maximum power for the unit?	Preventive	<ol style="list-style-type: none"> <li>1. Compare maximum granted and actual usage of power.</li> <li>2. If the in-house power generation is more than 500KWA then ensure</li> </ol>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
					that required permissions are available with the location.
23	State Electricity Board	Annual fees for inspection.	Has the unit deposited the annual fees for inspection by the electrical inspector?	Preventive	Verify if said fee has been paid timely.
24	Motor Vehicles Act, 1988	Registrations and insurance of vehicles.	Are all the vehicles owned by the unit registered in its name? Has a comprehensive insurance (including third party liability) been taken? Has fitness certificate been obtained for all the company owned vehicles? Do company drivers and	Preventive	1. Obtain the list of all vehicles available with the Unit from the Fixed Asset Register. 2. See physical documents if all the vehicles entered in FAR are in the name of

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S. No.	Sub-Process	Control Title	Control Description	Classification ( <i>Preventive /Detective</i> )	Test Procedures
			fork lift operators have adequate licenses?		<p>unit.</p> <p>3. Discuss with the Unit Management if certain vehicles are given to distributors and check RC book for those vehicles.</p> <p>4. Check whether insurance policy for all the vehicles is in place and is valid.</p> <p>5. Check whether fitness certificate has been obtained for all the company owned</p>

## Internal Audit Checklist

S. No.	Sub-Process	Control Title	Control Description	Classification (Preventive /Detective )	Test Procedures
					vehicles. 6. Check whether the company drivers and fork lift operators have requisite licenses.
25	The Fire Safety Act, 2005	NOC from Fire agency.	Has a No Objection Certificate been obtained from the local fire service agency	Preventive	Check if the said NOC is in place and valid.
26	The Legal Metrology Act, 2009	Certification of weighing scales	Is annual stamping and certification of all weighing scales conducted by Inspector of weights and measure?	Preventive	Verify certification has been done for all weights and measures available with the Unit.

## IT General Controls

5.9 IT General Controls, ITGC for short, are the IT controls in place to ensure the proper development and implementation of applications, as well as the integrity of programs, data files and computer operations. ITGC audits are usually done in support of a financial statements audit, where the purpose of the ITGC audit is to review the controls in place for the IT

## Technical Guide on Internal Audit of Beverages Industry

systems that have a direct impact on the financial statements.

There are typically seven main control elements/ sub-processes, namely:

- (a) Access to Programs and Data
- (b) Computer Operations
- (c) Program Changes
- (d) Software Development/ Acquisition
- (e) Install and Test Software and Infrastructure
- (f) Configuration Management
- (g) SLA Management

S. No.	Sub-process	Control	Classification ( <i>Preventive/ Detective</i> )	Test Procedures
1	Software Development/ Acquisition	The organization's system development lifecycle methodology (SDLC) includes security, integrity and availability requirements for the development and acquisition of new systems and major changes to existing information systems.	Preventive	Check whether each development project (custom development and/ or the acquisition of vendor applications) adheres to the structured System Development Life Cycle (SDLC) methodology of the company.
2	Software Development	The SDLC methodology	Preventive	Check whether adequate application controls have

## Internal Audit Checklist

S. No.	Sub-process	Control	Classification (Preventive/ Detective )	Test Procedures
	nt/ Acquisition	ensures that information systems are designed to include application controls that support complete, accurate, valid and authorized transaction processing.		been applied to all new information systems development and changes to existing information systems.
3	Software Development/ Acquisition	The organization has an acquisition and planning process that aligns with its overall strategic direction.	Preventive	<ul style="list-style-type: none"> <li>• Check whether Annual Budgeting and Planning Process have been established.</li> <li>• Check whether rankings are assigned to the projects to set the priority.</li> </ul>
4	Software Development/ Acquisition	IT management ensures that users are appropriately involved in the design of applications, selection of off-the-shelf software and the testing	Preventive	<p>Review the evidences available to demonstrate that</p> <p>users of information system (represented by Business Lead etc.) have been adequately involved in the following phases of application design or selection of software:</p> <ol style="list-style-type: none"> <li>1. Initiating and</li> </ol>

## Technical Guide on Internal Audit of Beverages Industry

S. No.	Sub-process	Control	Classification (Preventive/ Detective )	Test Procedures
		thereof. Post-implementation reviews are performed to verify controls are operating effectively.		Planning 2. Requirements Analysis 3. Design 4. Build and Test Check whether post-implementation review have been performed to validate that the company's IT Internal Controls are operating effectively.
5	Software Development/ Acquisition	The organization acquires or develops systems software in accordance with its acquisition, development and planning policies and procedures.	Preventive	Check whether acquisition of system software has been made in accordance with the acquisition and planning process. Also check if in-house development of system software was in compliance with the System Development Lifecycle Methodology (SDLC).
6	Install and Test Software and Infrastructure	A testing strategy is developed and followed for all significant changes in applications and infrastructure technology,	Preventive	Check whether adequate testing has been performed for all significant changes to ensure that all the requirements of an application have been met and no unauthorized/unintended change has



## Internal Audit Checklist

S. No.	Sub-process	Control	Classification (Preventive/ Detective )	Test Procedures
		which addresses unit, system, integration and user acceptance testing to ensure that the proposed systems operate as intended.		been made
7	Install and Test Software and Infrastructure	<p>Load and stress testing is performed according to a test plan.</p> <p>Interfaces with other systems are tested to confirm that data transmissions are complete, accurate and valid.</p>	Preventive	<p>Check whether plans for application development and support include Load testing and System Stress testing.</p> <p>Check whether interface testing is a part of all test plans for application development and support.</p>
8	Install and Test Software and Infrastructure	The conversion of data is tested between its origin and its destination to confirm that it is complete, accurate, valid	Preventive	Check whether effectiveness of data conversion has been reviewed and approved by business owners.

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S. No.	Sub-process	Control	Classification (Preventive/ Detective )	Test Procedures
		and has restricted access.		
9	Program Changes	<p>IT change requests are standardized, documented and subject to formal Program Changes procedures.</p> <p>Emergency change requests are documented and subject to formal Program Changes procedures.</p>	Preventive	<p>Check whether all change requests are standardized, documented and approved by appropriate authority. (for example by Requester's manager, IT Operation Manager and the Business Owner.)</p> <p>Check whether emergency change request are standardized, documented and approved/ ratified within reasonable time.</p>
10	Program Changes	Controls are in place to restrict transport of programs to production only by authorized individuals.	Preventive	<ul style="list-style-type: none"> <li>• Check if controls are in place to restrict the migration of programs to the production environment only by authorized individuals.</li> <li>• Check if controls are in place to ensure that compiler or other system development tools cannot be installed on production machines. All code shall be</li> </ul>

## Internal Audit Checklist

S. No.	Sub-process	Control	Classification (Preventive/ Detective )	Test Procedures
				<p>precompiled before moving into a production environment where applicable. If a compiler is necessary on a production machine, the access and execution rights are strictly controlled.</p> <ul style="list-style-type: none"> <li>• Check whether access to production environment has been restricted to authorized release managers only. Also check if application developers have display access only when necessary for a business function.</li> </ul>
11	Program Changes	IT management ensures that the setup and implementation of system software do not jeopardize the security of the data and programs being stored on the system.	Preventive	Check whether setup and configuration of system software (like Windows 2003 Servers, Windows XP, AS400, Domain Controllers, Firewalls, etc.) is in accordance with Technical Security Standards laid out by the organization.
12	Access to	Systems are	Preventive	Check whether all users

## Technical Guide on Internal Audit of Beverages Industry

S. No.	Sub-process	Control	Classification (Preventive/ Detective )	Test Procedures
	Programs and Data	configured to authenticate all users to the system to support the validity of transactions and to enforce periodic password changes in accordance with defined procedures.		of the Systems are supplied with a unique user ID that is valid throughout the user's employment. Also check if controls are in place to ensure that user IDs are not reused for other individuals even after termination of the original employee.
13	Access to Programs and Data	<p>Procedures exist and are followed to ensure timely action relating to requesting, documenting, approving, establishing, suspending and closing user accounts.</p> <p>Controls relating to appropriate segregation of duties over requesting and granting access to</p>	Preventive	<ol style="list-style-type: none"> <li>1. Check if documented procedures have been put in place for granting access to new users; changing access of existing users and removing access of separated or transferred users.</li> <li>2. Check whether management shall ensure that all company information assets issued to employees and third parties such as, laptops, badges, keys, ID cards, secure-ID tokens, software, data, documentation, and manuals are collected</li> </ol>

## Internal Audit Checklist

S. No.	Sub-process	Control	Classification ( <i>Preventive/ Detective</i> )	Test Procedures
		systems and data exist and are followed.		and turned in upon the termination or suspension of an employee.  3. Check whether the request for a user's access to company information is approved by his Reporting Manager and by information owner before access is actually granted to the user.
14	Access to Programs and Data	A process exists and is followed to periodically review and confirm access rights.	Detective	Check whether user access rights to company's Information Systems are reviewed and documented by business owner or delegatee periodically. Also ensure that the review encompasses all employees and third parties with access to company information.
15	Access to Programs and Data	Firewalls, intrusion detection and vulnerability assessments, exist and are used to prevent unauthorized access to the	Preventive	Check whether firewalls, intrusion detection system, etc. have been appropriately configured, Vulnerability assessments exist and used to prevent unauthorized access.

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S. No.	Sub-process	Control	Classification (Preventive/ Detective )	Test Procedures
		company's network.		
16	Access to Programs and Data	IT administration monitors and logs security activity, and identified security violations are reported to senior management.	Detective	Check whether security logs are reviewed and monitored regularly for any probable security violation, like, any unauthorized activity or attempted intrusion.
17	Access to Programs and Data	Physical access is restricted to authorized personnel and requires appropriate identification and authentication.	Preventive	<ol style="list-style-type: none"> <li>1. Check whether controls are in place to ensure that unknown or unauthorized individuals are not allowed into restricted areas without escort.</li> <li>2. Check whether a process is in place to document the request for data center access to a user.</li> <li>3. Check whether a process is in place to immediately remove a user's access to data center as soon as he has left the organization or when</li> </ol>

## Internal Audit Checklist

S. No.	Sub-process	Control	Classification (Preventive/ Detective )	Test Procedures
				<p>his role has changed.</p> <p>4. Also check if the room containing wiring or communications equipment (wiring closets, PBX rooms, etc.) is locked at all times with access restricted to authorized personnel only.</p>
18	Configuration Management	Information systems are configured to ensure that administration privileges are required for software installation. All installed applications and software must be authorized by Head of IT.	Preventive	<p>1. Review the controls implemented by the organization to ensure that users are not allowed to load, download or install software from the Internet on their machines without appropriate approval.</p> <p>2. Check whether periodic review of software installed on user machines is performed by the organization to ensure that all system resources are in compliance with licensing agreements.</p>

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S. No.	Sub-process	Control	Classification ( <i>Preventive/ Detective</i> )	Test Procedures
19	Configuration Management	IT management has established procedures across the organization to protect information systems and technology from computer viruses.	Preventive	<p>Check whether :</p> <ol style="list-style-type: none"> <li>1. All company information systems use current Company approved anti-virus software.</li> <li>2. Definitions of anti-virus software are updated periodically.</li> <li>3. Complete hard drive of user machines is scanned periodically.</li> <li>4. A system is disconnected from the network immediately if virus is suspected on that machine.</li> </ol>
20	SLA Management	A framework is defined and managed to establish key performance indicators to manage service level agreements, both internally and externally.	Preventive	<p>Check whether a network services agreement identify and includes:</p> <ol style="list-style-type: none"> <li>1. Security requirements including Non-Disclosure Agreement,</li> <li>2. Service levels-response time, resolution time, etc.</li> <li>3. Monitoring including penalty clause for failure to comply with agreed Service</li> </ol>



## Internal Audit Checklist

S. No.	Sub-process	Control	Classification (Preventive/ Detective )	Test Procedures
				Levels, 4. Management requirements and 5. Right to Audit.
21	SLA Management	A regular review of security, availability and processing integrity is performed for service level agreements and related contracts with third-party service providers.	Detective	Check whether SLA review is performed covering areas like: 1. Critical Service Level Trends. 2. Call Volumes. 3. Service Desk Response Time Reports. 4. Service Desk Resolution Time Reports. 5. Backup Reports. 6. Disk Capacity Reports.
22	Access to Programs and Data	Management protects information, logically and physically, in storage and during transmission against unauthorized access or modification.	Preventive	Check whether : 1. Smoking, drinking and eating in system processing rooms is prohibited. 2. Smoke detectors and humidity monitors are installed in the data center. Besides, the same are tested on periodic basis to ensure that they are working as intended. 3. On-site and off-site

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S. No.	Sub-process	Control	Classification (Preventive/ Detective )	Test Procedures
				<p>storage of back-up media is in fire-proof vaults.</p> <p>4. Backup media, as well as a comprehensive set of operating and application documentation, is stored off-site in a different seismic zone.</p>
23	Access to Programs and Data	Management has implemented a strategy for backup of data and programs.		<p>Check whether :</p> <p>1. System and application software back-up is performed before regularly scheduled system upgrades and/ or maintenance occurs.</p> <p>2. Multiple tape back-ups of all critical applications are created regularly. One set is stored onsite at a Company data center and the other set is sent off-site to a remote location.</p> <p>3. Tapes are sent offsite daily for critical applications and periodically, as</p>

## Internal Audit Checklist

S. No.	Sub-process	Control	Classification ( <i>Preventive/ Detective</i> )	Test Procedures
				defined by back-up schedule, for other applications.
24	Access to Programs and Data	Procedures exist and are followed to periodically test the effectiveness of the restoration process and the quality of backup media.	Detective	<ol style="list-style-type: none"> <li>1. Check whether periodic testing of backups and backup media is performed to get reasonable assurance that backup process is effective. All business critical data has been adequately backed up and is restorable, when needed.</li> <li>2. Check the worthiness and reusability of backup media</li> </ol>

# Appendix

## Format of Environmental Statement (Form V)

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### A – Format of Environmental Statement (Form V)

(See rule 14)

Environmental Statement for the financial year ending the 31<sup>st</sup>  
March.....

#### PART – A

- (i) Name and address of the owner/occupier of the industry operation or process.
- (ii) Industry category Primary ----(STC code) Secondary.----(SIC Code)
- (iii) Production capacity.----Units----
- (iv) Year of establishment
- (v) Date of the last environmental statement submitted

#### PART – B

Water and River Material Consumption

- (1) Water consumption m<sup>3</sup>/d:

Process

Cooling

Domestic

S. No.	Name of Products	Process water consumption per unit of product output.	
		During the previous financial Year	During the Current financial Year
1			
2			
3			
4			

1. Substituted by Rule 2 (b) of the Environment (Protection) Amendment Rules, 1993 notified vide G.S.R 3'6 (E) dated 22.04.1993.

(ii) **Raw Material Consumption**

S. No.	* Name of Raw Material	Name of Products	Consumption of raw material per Unit of Output	
			During the previous financial Year	During the Current financial Year
1				
2				
3				
4				

\*Industry may use codes if disclosing details of raw material would violate contractual obligations, otherwise all industries have to name the raw materials used.

**PART - C**

Pollution discharged to environment/unit of output

(Parameter as specified in the consent issued)

Pollutants	Quantity of pollutants discharged (mass/day)	Concentrations of pollutants discharges (mass/volume)	Percentage of variation from prescribed standards with reasons
a) Water b) Air			

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### PART – D

#### Hazardous Wastes

(as specified under Hazardous Waste Management and Handling Rules, 1989)

S. No.	Hazardous Waster	Total Quantity (Kg.)	
		During the previous Financial Year	During the current Financial Year
1	From process		
2	From pollution control facilities.		

### PART – E

#### Solid Wastes

S. No.	Waste	Total Quantity	
		During the previous Financial Year	During the current Financial Year
1	From process		
2	From pollution control facilities.		
3	a. Quantity recycled or re-utilized within the unit b. Sold c. Disposed		

### PART – F

Please specify the characterizations (in terms of composition of quantum) of hazardous as well as solid wastes and indicate disposal practice adopted for both these categories of wastes.

**PART – G**

Impact of the pollution abatement measures taken on conservation of natural resources and on the cost of production.

**PART – H**

Additional measures/investment proposal for environmental protection including abatement of pollution, prevention of pollution.

**PART – I**

Any other particulars for improving the quality of the environment.