

Internal Audit Checklist for SMEs in India

Financial Compliance & Reporting

Accounting Records & Financial Statements

- ☐ Verify that books of accounts are maintained as per Section 128 of Companies Act, 2013
- ☐ Check if financial statements comply with applicable Ind AS or AS
- ☐ Verify preparation of Statements - Balance Sheet, Profit and Loss, Cash Flow
- ☐ Review significant accounting policies and notes to accounts for completeness
- ☐ Check for proper classification of assets and liabilities as current and noncurrent
- ☐ Verify that financial statements are signed by authorized signatories
- ☐ Review Board's Report and other statutory reports for compliance

Tax Compliance (GST)

- ☐ Verify GSTR-1 (outward supplies) and GSTR-3B (summary return) filings
- ☐ Review reconciliation between books of accounts and GST returns
- ☐ Check Input Tax Credit (ITC) claims and eligibility
- ☐ Verify e-way bills generation and preservation
- ☐ Review HSN/SAC code classifications
- ☐ Check GST compliance for reverse charge mechanism transactions
- ☐ Verify GST annual return filing (GSTR-9)

<p><i>Tax Compliance (Income Tax)</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Review TDS deductions and timely deposit (Form 26Q, 24Q, 27Q) <input type="checkbox"/> Verify TDS return filings and issuance of Form 16/16A <input type="checkbox"/> Check advance tax payments as per prescribed schedule <input type="checkbox"/> Review Income Tax return filing and assessment status <input type="checkbox"/> Verify tax audit report if applicable (Section 44AB) <input type="checkbox"/> Check for transfer pricing compliance if applicable
<p><i>Banking & Finance</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Verify bank reconciliation statements for all accounts <input type="checkbox"/> Review unused cheques and their safekeeping <input type="checkbox"/> Check authorization matrix for bank transactions <input type="checkbox"/> Verify loan covenant compliance <input type="checkbox"/> Review interest calculation and payments <input type="checkbox"/> Check dividend declarations and payments (if applicable) <input type="checkbox"/> Verify statutory reserve creation as per applicable laws
<p><i>Cash & Fund Management</i></p>	<ul style="list-style-type: none"> <input type="checkbox"/> Verify petty cash management procedures and surprise cash counts <input type="checkbox"/> Review cash receipt and payment vouchers with supporting documents <input type="checkbox"/> Check approval procedures for fund transfers and large payments <input type="checkbox"/> Review investment portfolio and decision-making process <input type="checkbox"/> Verify foreign exchange transactions and FEMA compliance

Assets and Liabilities

Fixed Assets:

- ☐ Verify fixed asset register with physical assets
- ☐ Check proper capitalization of assets as per accounting standards
- ☐ Review depreciation calculations as per Companies Act and Income Tax Act
- ☐ Verify title deeds of immovable properties
- ☐ Check impairment testing for assets
- ☐ Review insurance coverage for assets

Inventory:

- ☐ Verify inventory valuation method (FIFO, weighted average, etc.)
- ☐ Check physical inventory count procedures and results
- ☐ Review slow-moving, non-moving, and obsolete inventory identification
- ☐ Verify inventory reconciliation between physical count and books
- ☐ Check insurance coverage for inventory

Receivables and Payables:

- ☐ Review aging analysis of accounts receivable
- ☐ Check provisioning for doubtful debts
- ☐ Verify customer balances with confirmation letters
- ☐ Review aging analysis of accounts payable
- ☐ Verify vendor balances with statements/confirmations
- ☐ Check for statutory dues payable

Corporate and Legal Compliance

Company Secretarial Compliance

- **Verify maintenance of statutory registers as per Companies Act, 2013:**
 - ☐ Register of Members
 - ☐ Register of Directors and KMP
 - ☐ Register of Contracts
 - ☐ Register of Charges
 - ☐ Register of Investments
- ☐ Check timely filing of annual returns with ROC
- ☐ Verify filing of financial statements with ROC
- **Review board meeting minutes and proper documentation**
 - ☐ Check for minimum number of meetings as per law
 - ☐ Verify proper recording of discussions and decisions
- ☐ Review annual general meeting compliance and minutes
- ☐ Check Director's KYC filing (DIR-3 KYC)
- ☐ Verify Director's report compliance with Section 134
- ☐ Check compliance with Corporate Social Responsibility provisions if applicable

Regulatory Compliance

- ☐ Verify MSME registration and compliance with MSMED Act, 2006
- ☐ Check reporting of outstanding payments to MSMEs
- ☐ Review Shop & Establishment Act registration and renewal
- ☐ Verify Local Municipal Corporation licenses
- ☐ Check Trade License validity
- ☐ Review FSSAI license/registration for food businesses
- ☐ Verify pollution control board clearances if applicable
- ☐ Check compliance with Plastic Waste Management Rules if applicable

<i>Contract Management</i>	<ul style="list-style-type: none"><input type="checkbox"/> Review key contracts for legal compliance and business alignment<input type="checkbox"/> Verify proper execution and authorization of contracts<input type="checkbox"/> Check for unusual or onerous contract terms<input type="checkbox"/> Review service level agreements and compliance<input type="checkbox"/> Verify confidentiality and non-disclosure agreements<input type="checkbox"/> Check IP protection in contracts
<i>Human Resources & Labor Compliance</i>	
<i>Employment Documentation</i>	<ul style="list-style-type: none"><input type="checkbox"/> Verify appointment letters for all employees<input type="checkbox"/> Check employment contracts for key positions<input type="checkbox"/> Review job descriptions and roles documentation<input type="checkbox"/> Verify employee personnel files for completeness<input type="checkbox"/> Check employee ID proof and address verification documents<input type="checkbox"/> Review background verification process and documentation
<i>Payroll Management</i>	<ul style="list-style-type: none"><input type="checkbox"/> Verify salary calculation and structures<input type="checkbox"/> Check compliance with Minimum Wages Act, 1948<input type="checkbox"/> Review overtime calculation and payment<input type="checkbox"/> Verify salary slip issuance<input type="checkbox"/> Check leave encashment calculations<input type="checkbox"/> Review bonus payment calculations as per Payment of Bonus Act<input type="checkbox"/> Verify full and final settlement calculations for separated employees

*Statutory Labor
Compliance*

➤ **Employees' Provident Fund (EPF)**

- ☐ Verify monthly PF contribution calculations and timely remittance
- ☐ Check ECR (Electronic Challan cum Return) filing
- ☐ Review PF annual return filing
- ☐ Verify KYC compliance for employees

☐ **Employees' State Insurance (ESI)**

- ☐ Verify monthly ESI contribution calculations and timely remittance
- ☐ Check half-yearly return filing
- ☐ Review employee coverage criteria compliance

➤ **Professional Tax**

- ☐ Verify monthly/quarterly deduction and remittance
- ☐ Check return filing as per state regulations

➤ **Labor Welfare Fund**

- ☐ Verify contributions as per state rules
- ☐ Check return filing compliance

*Labor Law
Compliance*

➤ **Check compliance with Factories Act, 1948 (if applicable)**

- ☐ Review factory license and renewals
- ☐ Check working hours and overtime records
- ☐ Verify safety measures implementation

➤ **Verify compliance with Shops & Establishments Act**

- ☐ Check registration certificate and renewals
- ☐ Review working hours compliance
- ☐ Verify leave records as per Act

➤ **Check compliance with Contract Labor Act (if applicable)**

- ☐ Verify contractor licenses and registrations
- ☐ Review wage payment records of contract workers

➤ **Verify compliance with Payment of Gratuity Act, 1972**

- ☐ Check gratuity calculations
- ☐ Review gratuity fund maintenance

	<ul style="list-style-type: none"> ➤ Review compliance with Maternity Benefit Act, 1961 <ul style="list-style-type: none"> <input type="checkbox"/> Verify maternity leave records <input type="checkbox"/> Check benefit calculations and disbursements
<i>Workplace Policies</i>	<ul style="list-style-type: none"> ➤ Verify Sexual Harassment Prevention (POSH) policy implementation <ul style="list-style-type: none"> <input type="checkbox"/> Check Internal Complaints Committee formation <input type="checkbox"/> Review annual reports on sexual harassment cases <input type="checkbox"/> Verify training and awareness programs <input type="checkbox"/> Review grievance redressal mechanism <input type="checkbox"/> Check employee code of conduct documentation <input type="checkbox"/> Verify anti-discrimination policy implementation <input type="checkbox"/> Review whistle-blower policy and procedures
<i>Information Technology & Data Security</i>	
<i>IT Infrastructure</i>	<ul style="list-style-type: none"> <input type="checkbox"/> Verify hardware inventory and management <input type="checkbox"/> Check software licenses and compliance <input type="checkbox"/> Review network security setup (firewalls, VPN) <input type="checkbox"/> Verify server maintenance and backup procedures <input type="checkbox"/> Check antivirus and anti-malware solutions <input type="checkbox"/> Review disaster recovery and business continuity plans
<i>Data Security & Privacy</i>	<ul style="list-style-type: none"> <input type="checkbox"/> Verify data classification and protection measures <input type="checkbox"/> Check access control procedures and implementation <input type="checkbox"/> Review data backup and recovery procedures <input type="checkbox"/> Verify compliance with IT Act, 2000 <input type="checkbox"/> Check privacy policy implementation <input type="checkbox"/> Review information security incident management <input type="checkbox"/> Verify data retention and disposal procedures

<i>Application Controls</i>	<input type="checkbox"/> Review user access management for business applications <input type="checkbox"/> Check segregation of duties in critical applications <input type="checkbox"/> Verify system logs and audit trails <input type="checkbox"/> Review change management procedures for applications <input type="checkbox"/> Check data validation controls in systems
<i>Operations & Process Controls</i>	
<i>Procurement & Vendor Management</i>	<input type="checkbox"/> Verify vendor selection and onboarding procedures <input type="checkbox"/> Review purchase approval matrix and implementation <input type="checkbox"/> Check purchase order generation process <input type="checkbox"/> Verify goods/services receipt verification process <input type="checkbox"/> Review vendor performance evaluation system <input type="checkbox"/> Check vendor payment approval process <input type="checkbox"/> Verify vendor master data management
<i>Sales & Distribution</i>	<input type="checkbox"/> Review customer onboarding and KYC procedures <input type="checkbox"/> Check sales order processing workflow <input type="checkbox"/> Verify dispatch and delivery documentation <input type="checkbox"/> Review customer complaints handling process <input type="checkbox"/> Check sales return and credit note procedures <input type="checkbox"/> Verify credit control procedures and implementation
<i>Production & Quality Control (if applicable)</i>	<input type="checkbox"/> Review production planning and scheduling process <input type="checkbox"/> Check raw material consumption recording <input type="checkbox"/> Verify production yield and variance analysis <input type="checkbox"/> Review quality control procedures and documentation <input type="checkbox"/> Check calibration of measuring instruments <input type="checkbox"/> Verify batch production records

<i>Inventory Management</i>	<ul style="list-style-type: none"><input type="checkbox"/> Review material receipt and inspection procedures<input type="checkbox"/> Check warehouse management and safety measures<input type="checkbox"/> Verify inventory issuance procedures<input type="checkbox"/> Review cycle count procedures and results<input type="checkbox"/> Check inventory reconciliation process<input type="checkbox"/> Verify scrap handling and disposal
<i>Risk Management & Internal Controls</i>	
<i>Risk Assessment</i>	<ul style="list-style-type: none"><input type="checkbox"/> Review enterprise risk management framework<input type="checkbox"/> Check risk register and mitigation plans<input type="checkbox"/> Verify key risk indicators monitoring<input type="checkbox"/> Review business impact analysis documentation<input type="checkbox"/> Check insurance coverage for identified risks
<i>Internal Controls</i>	<ul style="list-style-type: none"><input type="checkbox"/> Verify control documentation for key processes<input type="checkbox"/> Check implementation of segregation of duties<input type="checkbox"/> Review authorization matrix for transactions<input type="checkbox"/> Verify implementation of maker-checker concept<input type="checkbox"/> Check exception reporting and handling
<i>Fraud Prevention</i>	<ul style="list-style-type: none"><input type="checkbox"/> Review anti-fraud policies and procedures<input type="checkbox"/> Check unusual transaction monitoring<input type="checkbox"/> Verify whistleblower mechanism effectiveness<input type="checkbox"/> Review fraud investigation procedures

Industry-Specific Compliance

Manufacturing

- ☐ Verify factory license and renewals
- ☐ Check boiler certifications if applicable
- ☐ Review hazardous waste management compliance
- ☐ Verify pollution control measures and certificates

Trading

- ☐ Check Legal Metrology Act compliance
- ☐ Verify product labeling compliance
- ☐ Review warranty management procedures

Service Sector

- ☐ Verify professional licenses if applicable
- ☐ Check client data confidentiality measures
- ☐ Review service quality standards compliance

IT/ITES

- ☐ Verify Software Technology Park (STP) compliance if applicable
- ☐ Check SEZ compliance if applicable
- ☐ Review data localization compliance
- ☐ Verify intellectual property protection measures

Document Checklist

Corporate Documents

- ☐ Certificate of Incorporation
- ☐ Memorandum and Articles of Association
- ☐ Board meeting minutes and resolutions
- ☐ Annual General Meeting minutes
- ☐ Statutory registers
- ☐ Annual returns

