

Internal Audit Preparation Checklist

For Indian Businesses

PRE-AUDIT PLANNING PHASE

1. Audit Scope and Objectives Definition

- ☐ Define the audit period (typically financial year ending March 31)
- ☐ Identify business units, processes, and functions to be audited
- ☐ Determine audit objectives (compliance, operational efficiency, risk assessment)
- ☐ Establish materiality thresholds as per company size and turnover
- ☐ Review previous audit findings and management responses
- ☐ Identify high-risk areas requiring special attention

2. Regulatory Framework Review

- ☐ Companies Act 2013 compliance requirements
- ☐ Income Tax Act 1961 provisions
- ☐ Goods and Services Tax (GST) regulations
- ☐ Foreign Exchange Management Act (FEMA) requirements (if applicable)
- ☐ Industry-specific regulations (SEBI, RBI, IRDAI, etc.)
- ☐ State-specific labor laws and regulations
- ☐ Environmental compliance requirements
- ☐ Data Protection and Privacy laws

3. Internal Audit Team Preparation

- ☐ Appoint qualified internal auditors or engage external audit firm
- ☐ Ensure team has relevant certifications (CA, CMA, CS, CIA)
- ☐ Conduct pre-audit training on updated regulations
- ☐ Assign roles and responsibilities to team members
- ☐ Prepare audit calendar and timeline
- ☐ Establish reporting hierarchy and communication protocols

DOCUMENTATION & RECORDS PREPARATION

4. Financial Records Organization

- ☐ Trial balance and general ledger for the audit period
- ☐ Bank statements and reconciliations
- ☐ Fixed asset register with depreciation schedules
- ☐ Inventory records and stock statements
- ☐ Accounts receivable and payable aging reports
- ☐ Inter-company transactions and related party disclosures
- ☐ Investment records and market valuations
- ☐ Loan agreements and compliance certificates

5. Statutory Compliance Documentation

- ☐ Board resolutions and minutes of meetings
- ☐ Annual General Meeting (AGM) proceedings
- ☐ Statutory registers (members, directors, charges, etc.)
- ☐ ROC filings (Annual Returns, Financial Statements)
- ☐ Tax returns and assessments (Income Tax, GST, TDS)
- ☐ Labor compliance records (PF, ESI, labor licenses)
- ☐ Environmental clearances and compliance certificates



6. Operational Records

- ☐ Organization chart and employee records
- ☐ Policy and procedure manuals
- ☐ Internal control documentation
- ☐ Risk management framework and assessments
- ☐ Vendor agreements and purchase orders
- ☐ Customer contracts and service agreements
- ☐ IT system access controls and data backup procedures
- ☐ Quality management system documentation

INTERNAL CONTROLS ASSESSMENT PREPARATION

7. Financial Controls Review

- ☐ Segregation of duties in financial processes
- ☐ Authorization limits and approval matrices
- ☐ Monthly closing procedures and reconciliations
- ☐ Cash management and petty cash controls
- ☐ Credit approval and collection procedures
- ☐ Procurement and vendor management controls
- ☐ Expense reimbursement policies and controls
- ☐ Asset management and physical verification procedures

8. Information Technology Controls

- ☐ IT general controls (access management, change management)
- ☐ Application controls for financial systems
- ☐ Data backup and disaster recovery procedures

- ☐ Cybersecurity policies and incident response plans
- ☐ Software licensing compliance
- ☐ User access reviews and privilege management
- ☐ System integration controls and interfaces
- ☐ Data privacy and protection measures

9. Operational Controls

- ☐ Inventory management and cycle counting procedures
- ☐ Production planning and quality control processes
- ☐ Sales order processing and revenue recognition
- ☐ Human resources policies and procedures
- ☐ Health and safety compliance programs
- ☐ Environmental management systems
- ☐ Business continuity and crisis management plans
- ☐ Third-party risk management procedures

RISK ASSESSMENT & COMPLIANCE VERIFICATION

10. Key Risk Areas Identification

- ☐ Revenue recognition and cut-off procedures
- ☐ Related party transactions and transfer pricing
- ☐ Foreign exchange exposures and hedging
- ☐ Tax compliance and positions taken
- ☐ Regulatory changes impact assessment
- ☐ Fraud risk assessment and prevention measures
- ☐ Liquidity and credit risk management
- ☐ Reputation and operational risk factors



11. Specific Indian Compliance Areas

- ☐ Corporate Social Responsibility (CSR) compliance (if applicable)
- ☐ Transfer pricing documentation and compliance
- ☐ GST input tax credit reconciliation and compliance
- ☐ TDS compliance and certificate issuance
- ☐ FEMA compliance for foreign transactions
- ☐ Labor law compliance across multiple states
- ☐ Environmental impact assessment and clearances
- ☐ Industry-specific regulatory compliance

12. Management Representations and Certifications

- ☐ Management representation letter template
- ☐ CEO/CFO certifications on financial statements
- ☐ Compliance certificates from department heads
- ☐ Legal confirmations from company lawyers
- ☐ Third-party confirmations (banks, customers, vendors)
- ☐ Specialist reports (valuations, actuarial, technical)
- ☐ Insurance coverage confirmations
- ☐ Contingent liability disclosures

INFRASTRUCTURE AND LOGISTICS PREPARATION

13. Audit Facility Setup

- ☐ Dedicated workspace for audit team
- ☐ Secure document storage and access controls
- ☐ IT infrastructure and system access arrangements



- ☐ Communication facilities and meeting rooms
- ☐ Document copying and scanning capabilities
- ☐ Confidentiality and data security measures
- ☐ Emergency contact information and protocols
- ☐ Backup power and connectivity arrangements

14. Key Personnel Availability

- ☐ Schedule key management personnel interviews
- ☐ Ensure availability of department heads and process owners
- ☐ Coordinate with external advisors and consultants
- ☐ Arrange for technical specialists availability
- ☐ Plan for overlap coverage during audit period
- ☐ Communicate audit schedule to all stakeholders
- ☐ Establish escalation procedures for urgent matters
- ☐ Prepare for remote audit capabilities if needed

FINAL PRE-AUDIT STEPS

15. Quality Assurance and Review

- ☐ Conduct pre-audit file review for completeness
- ☐ Verify all documents are current and authentic
- ☐ Ensure all regulatory updates are incorporated
- ☐ Review previous audit recommendations implementation
- ☐ Validate internal control design and operation
- ☐ Confirm audit team qualifications and independence
- ☐ Test IT systems and data extraction procedures
- ☐ Prepare management presentation on business updates



16. Communication and Coordination

- ☐ Send audit commencement notification to all departments
- ☐ Distribute audit checklist to process owners
- ☐ Conduct pre-audit meeting with senior management
- ☐ Coordinate with statutory auditors for information sharing
- ☐ Inform board audit committee of audit commencement
- ☐ Establish regular progress reporting mechanisms
- ☐ Prepare contingency plans for audit delays or issues
- ☐ Document all preparation activities and decisions

