

Purchases and Trade Payables: Material Account Balance (Balance Sheet)/Class of Transactions (Income Statement)/Disclosure — RCM (Risk Control Matrix)

| Serial No. | Account Balance/ Class of Transactions/ Disclosure | Sub Area | Assertion Name — Relevant Assertion at the Period-End | | | | | | | Identification of Risk of Material Misstatement ("What Could Go Wrong") | Significant Findings or Issues? | Risk of Material Misstatement to Fraud? (Yes, No) | Reasons for classifying into Significant or Normal Risk | | | | | Classification of Inherent Risk (Normal, Significant) | Risk Associated with the Control (Not Higher, Higher) | | |
|--------------------------------|--|---|--|------------------------|--------------|--------------------------|------------|----------|--------|---|---|---|---|---|--|--|--|--|---|---|---|
| | | | Existence | Rights and Obligations | Completeness | Valuation and Allocation | Occurrence | Accuracy | Cutoff | | | | Classification | The transaction is complicated | Application of professional judgment is high | Transaction is outside normal course of business of the entity | Significant or new accounting pronouncements | | | Others (Specify) | |
| Explanations to Column Heading | | Sub are of Account Balance/ Class of Transactions/ Disclosure related to risk | (Refer Sheet 'Assertions') (Refer IG 11.5) | | | | | | | Identification of Risk that could result in Material Misstatement. (Refer Para 100) | Issues that require review by manager/partner. | The presumed risks due to fraud are revenue recognition and management override of controls. If there is a fraud risk, the risk should be classified as Significant. (Refer IG 10.15) | If answer to any of the above reasons is "Yes" it is to be classified as significant risk. (Refer column 'Classification of Inherent Risk') | | | | | Deciding the significance of risk from auditor's perspective. Always significant if there is a risk of fraud. (Refer IG 13.10) | Risk that a control might not be effective and, if not effective there is a risk that material misstatement would result. (Refer IG 13.7) | | |
| | Note 1 | | Note 2 | | Note 3 | | Note 4 | | Note 5 | | Note 6 | | Note 7 | | Note 8 | | Note 9 | | Note 10 | | |
| Col. 1 | Col. 2 | Col. 3 | 4A | 4B | 4C | 4D | 4E | 4F | 4G | 4H | Col. 5 | Col. 6 | Col. 7 | 8A | 8B | 8C | 8D | 8D | Col. 9 | Col. 10 | |
| 1 | Purchase | Receipt of goods | | | ✓ | ✓ | | ✓ | ✓ | ✓ | Goods received by the entity are: •Not recorded in trade payable. •Recorded at the incorrect amount. •Recorded in inappropriate heads of accounts. (Financial) | Yes/No-to be stated only after identifying control design conclusion and/ or testing | Yes/No-Based on facts | No, Since this is a simple purchase transaction | No | No | No | No | No | Normal-Based answers to reasons stated. | Not Higher, As the controls are effective.-After going through the controls |
| 2 | Purchase | Receipt of goods | ✓ | ✓ | | | | ✓ | ✓ | | Goods received by the entity are not | The inventory is booked | No | No | No | No | No | No | Normal | Higher, | |

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| | | | | | | | | | recorded in the correct period. (Not recorded in cases where risks and rewards are transferred before receipt of goods.) (Financial) | upon actual receipt of material at factory Purchases whose ownership is transferred prior to actual receipt is not recorded until GRN | | | | | | | | As the control is ineffective. |
| 3 | Purchase | Recording Payables | ✓ | ✓ | | | ✓ | | Amount is recorded in trade payables where no goods are received. (Financial) | No | No | No | No | No | No | No | Normal | Not Higher, As the controls are effective |
| 4 | Purchase | Recording Inventory | ✓ | ✓ | | | ✓ | ✓ | Inventory and trade payables are recorded prior to receipt and/or title transfer of the inventory. (Financial) | No | No | No | No | No | No | No | Normal | Not Higher, As the controls are effective |
| 5 | Purchase | Recording Payables | | | | ✓ | | ✓ | Inventory and trade payables are recorded at the incorrect amount. (Financial) | No | No | No | No | No | No | No | Normal | Not Higher, As the controls are effective |
| 6 | Purchase | Recording of goods | | | ✓ | | | ✓ | Inventory is received and not recorded in the inventory system. | No | No | No | No | No | No | No | Normal | Not Higher, As the controls are effective |
| 7 | Trade Payables | Vendor Management | ✓ | | | | ✓ | | The trade payables balance includes amounts due to unauthorised vendors. (Financial) | No | No | No | No | No | No | No | Normal | Not Higher, As the controls are effective |
| 8 | Trade Payables | Translation of Foreign payables | | | | ✓ | | | Foreign trade payables are translated using an incorrect foreign exchange rate. (Financial) | No | No | Yes, As the translation involves complicated worki | No | No | No | No | Significant | Not Higher, As the controls are effective |
| 9 | Purchases | Purchase Order Approval | | | | ✓ | | ✓ | The Purchases are not made at economic rates. (Operational) | No | No | No | No | No | No | No | Normal | Not Higher, As the controls are effective(see design gap) |
| 10 | Purchases | Receipt of goods | ✓ | | | ✓ | | ✓ | The quantity mentioned in the GRN exceeds the quantity mentioned in the | No | No | No | No | No | No | No | Normal | Not Higher, As the controls are |

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|--|---|-----|--|-------------|-----------|------------------------|-----------|-----------|-----|
| | Whether the Inventory is recorded and GRIR entry is booked when GRN is prepared? | Yes | | | | | | | |
| | Whether GRN are prepared against purchase order? | Yes | | | | | | | |
| | Whether Accounts executive passes entry after receiving invoice upon matching GRN and PO? | Yes | | | | | | | |
| | Whether upon receipt of goods GRN is prepared? | Yes | | Implemented | Effective | Test in current period | 2015-16 | As needed | No |
| | Whether the Inventory is recorded and GRIR entry is booked when GRN is prepared? | Yes | | | | | | | |
| | Whether GRN are prepared against purchase order? | Yes | | | | | | | |
| | Whether Accounts executive passes entry after receiving invoice upon matching GRN and PO? | Yes | | | | | | | |
| | Whether upon receipt of goods GRN is prepared? | Yes | | Implemented | Effective | Test in current period | 2015-16 | As needed | No |
| | Whether the Inventory is recorded and GRIR entry is booked when GRN is prepared? | Yes | | | | | | | |
| | Whether GRN are prepared against purchase order? | Yes | | | | | | | |
| | Whether Accounts executive passes entry after receiving invoice upon matching GRN and PO? | Yes | | | | | | | |
| | Whether upon receipt of goods GRN is prepared? | Yes | | Implemented | Effective | Test in current period | 2015-16 | As needed | No |
| | Whether the Inventory is recorded and GRIR entry is booked when GRN is prepared? | Yes | | | | | | | |
| | Whether GRN are prepared against purchase order? | Yes | | | | | | | |
| | Whether Accounts executive passes entry after receiving invoice upon matching GRN and PO? | Yes | | | | | | | |
| | Whether physical verification of inventory is carried out periodically and reconciled with the ERP system? | Yes | | Implemented | Effective | Test in current period | 2015-16 | Quarterly | No |
| | Whether new vendors are added to the vendor master file once a transaction is entered into with them? | No | | Implemented | Effective | Test in current period | 2015-16 | As needed | No |
| | Are the supporting forms verified with the authorised signatories? | Yes | | | | | | | |
| | Whether a particular reference rate is used throughout for all transactions with trade payables? | Yes | | Implemented | Effective | Test in current period | 2015-16 | Monthly | No |
| | Whether ERP automatically calculates the translation amounts for foreign trade payables and other expenses? If yes, whether the same is reviewed by the management? | No | | | | | | | |
| | If not, whether a calculation is prepared by person having sufficient knowledge and whether the same is reviewed by the management? | Yes | | | | | | | |
| | Whether the journal entry is entered in books of accounts after sufficient documentary evidence and | Yes | | | | | | | |
| | Whether Quotations are called for and QCFs are prepared? | Yes | | Implemented | Effective | Test in current period | 2015-2016 | As Needed | No |
| | Whether the PO are approved by appropriate authority as per approval matrix? | Yes | | | | | | | |
| | Whether the PO released in the system only after approval is received? | Yes | | | | | | | |
| | Whether it is verified that the system quantity doesn't allow the GRN quantity to exceed the PO quantity.? | Yes | | Implemented | Effective | Test in current period | 2015-2016 | As Needed | Yes |

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|---|---|--|--------------------------|--|-------------|-----------|------------------------|-----------|-----------|----|
| | | Whether upon receipt o goods GRN is prepared? Whether the Inventory is recorded and GRIR entry is Whether GRN are prepared against purchase order? Whether Accounts executive passes entry after receiving invoice upon matching GRN and PO? | Yes Yes Yes Yes | | Implemented | Effective | Test in current period | 2015-16 | As needed | No |
| a. Payment process involves preparation of a summary of payments to be made by purchase department . This summary is mailed to Accounts Executive. (Preventative) | Effective, As the summary is making ensures the | Whether such a summary of payments reviewed? Whether approvals taken from Manager accounts and Chairman/Managing Director? | Yes Yes | | Implemented | Effective | Test in current period | 2015-2016 | As Needed | No |
| | | Whether the Debit Notes are reconciled to the Credit Note and the Original Purchase Order? | Yes | | Implemented | Effective | Test in current period | 2015-2016 | As needed | No |

| Is IPE Used in Testing or Performing a Relevant Control? | List IPE | Application System | Testing Reference IPE | Reference to Evaluation D&I | Planned Nature, Timing, and Extent of Procedures to Evaluate Operating Effectiveness (OE) of Controls | Testing Reference OE | Findings and Observations (None Noted, Change to Plan, Deficiency, Identified or Suspected Fraud, Management Letter Comment, Material Weakness, Significant Deficiency) |
|--|---|--|--|---|--|--|---|
| | | | | | | | |
| <i>(Refer IG 8)</i> | IPE includes Process flows, SOPs, Workings, Ledgers or other system generated reports and other documents obtained from the entity. <i>(Refer IG 8)</i> | Examples include, ERP, Tally, RAMCO, TIM, etc. <i>(Refer IG 7)</i> | Reference to workings and documents taken on file. | Reference to other workings and papers on file for evaluation of the Process flow and SOPs. | Timing and Extent of check has been mentioned with the documents. <i>(Refer IG 13.27, 13.28 & 13.29)</i> | Reference to workings and documents taken on file. | |
| Note 14 | | Note 15 | Note 16 | Note 18 | Note 19 | Note 20 | Note 21 |
| Col. 22 | Col. 23 | Col. 24 | Col. 25 | Col. 26 | Col. 27 | Col. 28 | Col. 29 |
| Yes | 1. Automatic email | ERP | Email | Evaluation process flow. | 1. Inquiry-Queries asked 2. Inspection-GRN reviewed 3. Observation-Process observed. | Email | Change to Plan |
| Yes | 1.GRN(In ERP) 2. Vouchers(In ERP) 2. Purchase Orders(In ERP) 3. Invoices | ERP | Vouching | Evaluation process flow. | 1. Inquiry 2. Inspection | Vouching | None Noted |
| Yes | 1. Physical Verification done by client | ERP | Physical Verification | Physical Stock Evaluation process flow. | 1. Inquiry 2. Inspection | Physical Stock Verification | None Noted |
| Yes | 1. Budget | ERP | Budget | Evaluation process flow. | 1. Inquiry | Budget | None Noted |

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|-----|---|-----|-----------------------------|--------------------------|--|-----------------------------|------------|
| Yes | 1.GRN(In ERP) 2. Vouchers(In ERP) 2. Purchase Orders(In ERP) 3. Invoices | ERP | Vouching | Evaluation process flow. | of 1. Inquiry 2. Inspection | Vouching | None Noted |
| Yes | 1.GRN(In ERP) 2. Vouchers(In ERP) 2. Purchase Orders(In ERP) 3. Invoices | ERP | Vouching | Evaluation process flow. | of 1. Inquiry 2. Inspection | Vouching | None Noted |
| Yes | 1.GRN(In ERP) 2. Vouchers(In ERP) 2. Purchase Orders(In ERP) 3. Invoices | ERP | Vouching | Evaluation process flow. | of 1. Inquiry 2. Inspection | Vouching | None Noted |
| Yes | 1.GRN(In ERP) 2. Vouchers(In ERP) 2. Purchase Orders(In ERP) 3. Invoices | ERP | Vouching | Evaluation process flow. | of 1. Inquiry 2. Inspection | Vouching | None Noted |
| Yes | 1. Physical Verification done by client | ERP | Physical Stock Verification | Evaluation process flow. | of 1. Inquiry 2. Inspection | Physical Stock Verification | None Noted |
| Yes | 1. Vendor Registration form | ERP | Vendor Registration Form | Evaluation process flow. | of 1. Inquiry | Vendor Registration Form | None Noted |
| Yes | 1. FEF working | ERP | Revaluation Working | Evaluation process flow. | of 1. Checking | Revaluation Working | None Noted |
| Yes | 1. Purchase Orders. 2. Quotation Comparative Forms. 3. Purchase Vouching. | ERP | Vouching | Evaluation process flow. | of 1. Inspection 2. Observation 3. Enquiry | Vouching | None Noted |
| Yes | 1. Purchase Vouching. | ERP | Vouching | Evaluation process flow. | of 1. Inquiry 2. Inspection | Vouching | None Noted |

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|-----|---|-----|------------------------------|--------------------------|--------------------------------|------------------------------|------------|
| Yes | 1.GRN(In ERP) 2. Vouchers(In ERP) 2. Purchase Orders(In ERP) 3. Invoices | ERP | Vouching | Evaluation process flow. | of 1. Inquiry 2. Inspection | Vouching | None Noted |
| Yes | Advance Payment Request Memo | ERP | Advance Payment Request Memo | Evaluation process flow. | of 1. Inspection 2. Inquiry | Advance Payment Request Memo | None Noted |
| Yes | Credit Notes | ERP | Vouching | Evaluation process flow. | of 1. Inspection 2. Inquiry | Vouching | None Noted |