

# *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)

*Tax Compliance  
(Income Tax)*

- Review TDS deductions and timely deposit (Form 26Q, 24Q, 27Q)
- Verify TDS return filings and issuance of Form 16/16A
- Check advance tax payments as per prescribed schedule
- Review Income Tax return filing and assessment status
- Verify tax audit report if applicable (Section 44AB)
- Check for transfer pricing compliance if applicable

*Banking & Finance*

- Verify bank reconciliation statements for all accounts
- Review unused cheques and their safekeeping
- Check authorization matrix for bank transactions
- Verify loan covenant compliance
- Review interest calculation and payments
- Check dividend declarations and payments (if applicable)
- Verify statutory reserve creation as per applicable laws

*Cash & Fund  
Management*

- Verify petty cash management procedures and surprise cash counts
- Review cash receipt and payment vouchers with supporting documents
- Check approval procedures for fund transfers and large payments
- Review investment portfolio and decision-making process
- 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

*Contract  
Management*

- Review key contracts for legal compliance and business alignment
- Verify proper execution and authorization of contracts
- Check for unusual or onerous contract terms
- Review service level agreements and compliance
- Verify confidentiality and non-disclosure agreements
- Check IP protection in contracts

***Human Resources & Labor Compliance***

*Employment  
Documentation*

- Verify appointment letters for all employees
- Check employment contracts for key positions
- Review job descriptions and roles documentation
- Verify employee personnel files for completeness
- Check employee ID proof and address verification documents
- Review background verification process and documentation

*Payroll Management*

- Verify salary calculation and structures
- Check compliance with Minimum Wages Act, 1948
- Review overtime calculation and payment
- Verify salary slip issuance
- Check leave encashment calculations
- Review bonus payment calculations as per Payment of Bonus Act
- 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"> <li>➤ <b>Review compliance with Maternity Benefit Act, 1961</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Verify maternity leave records</li> <li><input type="checkbox"/> Check benefit calculations and disbursements</li> </ul> </li> </ul>
<p><i>Workplace Policies</i></p>	<ul style="list-style-type: none"> <li>➤ <b>Verify Sexual Harassment Prevention (POSH) policy implementation</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Check Internal Complaints Committee formation</li> <li><input type="checkbox"/> Review annual reports on sexual harassment cases</li> <li><input type="checkbox"/> Verify training and awareness programs</li> </ul> </li> <li><input type="checkbox"/> Review grievance redressal mechanism</li> <li><input type="checkbox"/> Check employee code of conduct documentation</li> <li><input type="checkbox"/> Verify anti-discrimination policy implementation</li> <li><input type="checkbox"/> Review whistle-blower policy and procedures</li> </ul>
<p><b><i>Information Technology &amp; Data Security</i></b></p>	
<p><i>IT Infrastructure</i></p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Verify hardware inventory and management</li> <li><input type="checkbox"/> Check software licenses and compliance</li> <li><input type="checkbox"/> Review network security setup (firewalls, VPN)</li> <li><input type="checkbox"/> Verify server maintenance and backup procedures</li> <li><input type="checkbox"/> Check antivirus and anti-malware solutions</li> <li><input type="checkbox"/> Review disaster recovery and business continuity plans</li> </ul>
<p><i>Data Security &amp; Privacy</i></p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Verify data classification and protection measures</li> <li><input type="checkbox"/> Check access control procedures and implementation</li> <li><input type="checkbox"/> Review data backup and recovery procedures</li> <li><input type="checkbox"/> Verify compliance with IT Act, 2000</li> <li><input type="checkbox"/> Check privacy policy implementation</li> <li><input type="checkbox"/> Review information security incident management</li> <li><input type="checkbox"/> Verify data retention and disposal procedures</li> </ul>

<i>Application Controls</i>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Review user access management for business applications</li> <li><input type="checkbox"/> Check segregation of duties in critical applications</li> <li><input type="checkbox"/> Verify system logs and audit trails</li> <li><input type="checkbox"/> Review change management procedures for applications</li> <li><input type="checkbox"/> Check data validation controls in systems</li> </ul>
<b><i>Operations &amp; Process Controls</i></b>	
<i>Procurement &amp; Vendor Management</i>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Verify vendor selection and onboarding procedures</li> <li><input type="checkbox"/> Review purchase approval matrix and implementation</li> <li><input type="checkbox"/> Check purchase order generation process</li> <li><input type="checkbox"/> Verify goods/services receipt verification process</li> <li><input type="checkbox"/> Review vendor performance evaluation system</li> <li><input type="checkbox"/> Check vendor payment approval process</li> <li><input type="checkbox"/> Verify vendor master data management</li> </ul>
<i>Sales &amp; Distribution</i>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Review customer onboarding and KYC procedures</li> <li><input type="checkbox"/> Check sales order processing workflow</li> <li><input type="checkbox"/> Verify dispatch and delivery documentation</li> <li><input type="checkbox"/> Review customer complaints handling process</li> <li><input type="checkbox"/> Check sales return and credit note procedures</li> <li><input type="checkbox"/> Verify credit control procedures and implementation</li> </ul>
<i>Production &amp; Quality Control (if applicable)</i>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Review production planning and scheduling process</li> <li><input type="checkbox"/> Check raw material consumption recording</li> <li><input type="checkbox"/> Verify production yield and variance analysis</li> <li><input type="checkbox"/> Review quality control procedures and documentation</li> <li><input type="checkbox"/> Check calibration of measuring instruments</li> <li><input type="checkbox"/> Verify batch production records</li> </ul>

*Inventory Management*

- Review material receipt and inspection procedures
- Check warehouse management and safety measures
- Verify inventory issuance procedures
- Review cycle count procedures and results
- Check inventory reconciliation process
- Verify scrap handling and disposal

***Risk Management & Internal Controls***

*Risk Assessment*

- Review enterprise risk management framework
- Check risk register and mitigation plans
- Verify key risk indicators monitoring
- Review business impact analysis documentation
- Check insurance coverage for identified risks

*Internal Controls*

- Verify control documentation for key processes
- Check implementation of segregation of duties
- Review authorization matrix for transactions
- Verify implementation of maker-checker concept
- Check exception reporting and handling

*Fraud Prevention*

- Review anti-fraud policies and procedures
- Check unusual transaction monitoring
- Verify whistleblower mechanism effectiveness
- 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

