Organization Logo

**Prepared by**

KPMG

**Organization Name**: ABC Limited

**Area:** Finance & accounts

**Location:** Halol

**Process:** administration, function, bank management

**Sub Process:** Assest

**Date of report:** 27 March 2020

|  |  |
| --- | --- |
| **Distribution** | **Audit Duration:** 3Month |
| **Head** | **Closing meeting** |
|  | **Draft report** |
| **Period:**  JAN-MAR | **Management Response:**  Management agreed with the recommendation and provided a detailed action plan to address it. |
| **Audit Rating:** 50% | **Audit team member (s):**   1. XYZ 2. PQR |
| **Audit Group:** KPMG | **Report Reference** |
| **Audit Start Date:** 1 January 2019 | **Audit End Date:** 31March 2019 |
| **Audit Scheduling:** | **Financial Year:** 2019-2020 |

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12. **Background**

**1.1 Company Overview**

* ABC Limited (‘ABCL’ or ‘the Company’) is a subsidiary of ABC Asia Pacific Holding LLC which in turn is a subsidiary of ABC Corp, US.
* ABCL was set up in 1994 and is engaged in the assembly, marketing and sale of motor vehicles and sale of parts and accessories.
* The Company has a production facility situated at Halol, Gujarat and is currently in process of setting up a plant at Talegaon at an approximate cost of Rs 3,500 crores.

**1.2 Technical Centre Overview**

* ABC Technical Centre India (ABCTC) is a part of ABC Limited (ABCL).
* ABCTC is located in International Tech Park, Bangalore and occupies a total area of 113,900 sq. ft. across 2 buildings in the Park
* Total expenditure of the Tech Centre for 2019-20 approx. USD 19.50 million
* ABCTC currently employs approx. 700 employees (full time, contractual and supplier employees).

1. **Audit scope & objective**

The purpose of this audit was to ensure that Environment Canada’s accounts receivable are managed fairly, efficiently and effectively to recover such receivables and minimize the risk of loss.

The audit objectives were to assess:

* Whether the framework of controls for the management of accounts receivable is appropriate; and
* The degree of the Department’s compliance with the applicable accounting regulations, policies and standards.

The audit dealt with internal accounts receivable (with other federal departments and organizations) and external accounts receivable created during the 2007–2008 fiscal year and with accounts receivable as at April 1, 2008. Other analyses were carried out on subsequent dates for specific requirements, as certain reports could not be produced retroactively.

1. **Detailed Findings / Issues/ Findings**

**Issue Id:** ISU-1

**Scope:**

**Finding(s):** Recovery of Debts

The Treasury Board of Canada Secretariat Policy on Receivables Management stipulates that departments must vigorously pursue the collection of receivables. These measures must be appropriate, timely and cost-effective. The results of the audit reveal that the Department does not seem to be fully compliant with this requirement.

Monthly account statements are generated and are sent to all clients who have unpaid balances with the Department. These account statements are generated during the first three months following the original invoice.

**No. of case:** 1

**Probable causes:**

**Impact / Potential Risk(s)/ Risk**

During the planning of the audit, a risk analysis was carried out to identify, evaluate and prioritize the risks associated with the management of accounts receivable. This analysis was based upon an examination of the accounting policies, manuals and standards that govern the management of accounts receivable and on an analysis of the data contained in the Department’s financial system. Key personnel in the management of accounts receivable were also interviewed.

**Major / Financial Impaction**

The identified risks were then evaluated in terms of the probability of their becoming a reality and of their impact on the Department’s activities. As shown in Table 3, the risk evaluation activity did not reveal any high-level risks associated with the management of accounts receivable.

**Recommendation(s):**

1. The Assistant Deputy Minister, Finance and Corporate Branch, should:

* take the actions necessary to recover or write off the amounts over 365 days past due.
* Ensure that guidelines are sent to the Department’s accounting office’s concerning the management of amounts to be collected. Those guidelines should set out items such as:
* The roles and responsibilities of the personnel responsible for collections (managers, accounting offices, Departmental Accounting); and
* The methods of collection that are available and when to use them (standardize the process).

**Management Response:** Management agreed with the recommendation and provided a detailed action plan to address it.

**Manage action plan (s)**

**Responsibility**

**Timeline**

**Show upload file:** Show uploads working paper

**Finding status:** Open

**Finding Type:** Financial

**Finding Nature:** Operational Laps

**Person Responsible: 1.** ABC

2. PQR

**Issue Id:** ISU-2

**Scope:**

**Finding(s): Interest**

In addition to administrative charges, the Department is required to charge interest on accounts that are more than 30 days past due. The rate of interest set out by the Treasury Board of Canada Secretariat is equivalent to the bank rate plus 3%. This rate is calculated on a monthly basis and the financial system is updated by Departmental Accounting before the account statements are generated by the accounting offices and sent to their customers.

The interest charges apply only to external accounts. Internal accounts are paid via the automated Interdepartmental Settlement System and are paid immediately.

**No. of case:** 1

**Probable causes**

**Impact / Potential Risk(s)/ Risk**

During the planning of the audit, a risk analysis was carried out to identify, evaluate and prioritize the risks associated with the management of accounts receivable. This analysis was based upon an examination of the accounting policies, manuals and standards that govern the management of accounts receivable and on an analysis of the data contained in the Department’s financial system. Key personnel in the management of accounts receivable were also interviewed.

**Major / Financial Impaction**

The identified risks were then evaluated in terms of the probability of their becoming a reality and of their impact on the Department’s activities. As shown in Table 3, the risk evaluation activity did not reveal any high-level risks associated with the management of accounts receivable.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Low** | **Medium** | **High** |
| **Impact** | **High** | * **Problems with invoicing (delays, amounts)** | * **Inadequate controls** |  |
| **Medium** |  | * **Unjustified or unauthorized write-offs** * **Ineffective collection measures** |  |
| **Low** | * **Inefficient management of deposits (delays, protection of assets)** * **Failure to comply with year-end procedures** | * **Failure to charge interest on overdue accounts** * **Uncollectible debts not written off** | * **Incorrect amounts for the allowance for uncollectible debts ($)** |
|  |  | **Probability** | | |

**Recommendation(s):**

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**Responsibility**

**Timeline**

**Show upload file**

**Finding status:** Open

**Finding Type:** Financial

**Finding Nature:** Operational Laps

**Person Responsible: 1.** ABC

2. PQR

1. **Purpose/ Rationale of the Audit**

The purpose of the audit was to ensure that Environment Canada’s accounts receivable are managed fairly, efficiently and effectively in order to recover such receivables and minimize the risk of loss. With this in mind, the specific objectives of the audit were to evaluate the adequacy of the management control framework of accounts receivable as well as the degree to which the Department is in compliance with the applicable accounting regulations, policies and standards.

1. **Executive Summary**

Accounts receivable are divided into two categories: internal accounts (created for transactions with other federal departments or organizations) and external accounts (created for other types of clients). The audit dealt with both internal and external accounts receivable created during the 2007–2008 fiscal year and with accounts receivable as at April 1, 2008. On March 31, 2008, the balance of accounts receivable was $7.6 million, $3.3 million (43.4%) of which were with external parties.

1. **Summary of Issues**

* The main findings of the audit show that, in general, the Department’s accounts receivable are managed in accordance with the principles of due diligence and in compliance with the main requirements that govern them.
* However, certain processes could benefit from further review in order to improve their efficiency, fairness and consistency. For example, the Delegation of Financial Signing Authorities could be modified in order to reduce the level of approval required for the writing off of interest. Currently, the approval of the Director of Financial Policy and Operations is required to write off interest amounts that are often less than a dollar.
* Guidelines should also be communicated to accounting offices across the Department in order to standardize the accounts receivable management process. This subject is dealt with in greater detail in various sections of the report.

1. **Project Milestones**
2. **Total**
3. **Closed**
4. **Closure Status**
5. **Vertical**