

**Internal Audit & Consulting
Proposal For Textile Industry
by Swift Vincom LLP**

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Executive Summary

#1 Internal Audit practice

a. Internal Audit leadership and In-depth Industry Experience & Insight

b. Audit Team & Governance Structure

c. Our key Strengths and Assurance

#1 Internal audit practice
In the manufacturing sector



Diverse skillsets suited to your requirement

>>20 professionals with relevant experience.

Subject matter experts in the fields of manufacturing related processes, Cyber Security, IT controls, analytics etc.

#1 Risk and Consulting

Internal Audit leadership and In-depth Industry Experience & Insight

The global market for Spun Yarn estimated at 55.5 Million Tons in the year 2022, is projected to reach a revised size of 83.3 Million Tons by 2030, growing at a CAGR of 5.2% over the analysis period 2022-2030. Cotton, one of the segments analyzed in the report, is projected to record 5% CAGR and reach 47.9 Million Tons by the end of the analysis period. Taking into account the ongoing post pandemic recovery, growth in the Polyester segment is readjusted to a revised 5.9% CAGR for the next 8-year period.

What`s New for 2023?

Global competitiveness and key competitor percentage market shares

Special coverage on Russia-Ukraine war; global inflation; easing of zero-Covid policy in China

Access to digital archives and Research Platform, Online interactive peer-to-peer collaborative bespoke updates

Why externalizing product Development is a winning strategy

How to strengthen product life cycle management using Branding

How China & Vietnam is leading the way in textile fashion Industry



How to address future sustainable yarn need along with current consumer need

How scale in manufacturing to remain relevant in the business

Why the Textile industry needs to focus on the next step of compliance



Audit Team & Governance Structure

We have proposed a governance structure to proactively update key stakeholders on progress of work, key outcomes and potential bottlenecks.

	Touch Points and frequency	Objective	Auditee Participants	Auditor Participants
Audit Committee	Executive Update Meeting (quarterly)	Approval of audit plan, risk coverage and value charter Status of implementation plan Assurance on control environment Feedback and course correction	Directors/Partners Leadership team members	Engagement Partner Engagement Manager Engagement Associate Engagement Director
Executive committee	Quarterly Executive Committee Meeting (Steer Co.)	Discussion on coverage, audit plan & action plans Discuss status of work on IA /key outcomes Discuss functional control dashboards Validation and discussion on issues prior to AC	CEO, CFO, Other CXOs/IA Lead	Engagement Manager Engagement Director
Functional heads	Periodic meetings with functional heads	Discuss controls performance in the process Discuss material audit findings Address conflicts, if any Discuss key process changes to be incorporated in policies and progress of work	Respective functional heads	Engagement Manager Engagement Director
Process Level	Closing Meeting	Agreement on all issues and related facts Agreement on action plan and timelines Agreement on key process changes to be included in policies	Process owners from respective function being audited	Engagement Manager Engagement Executive

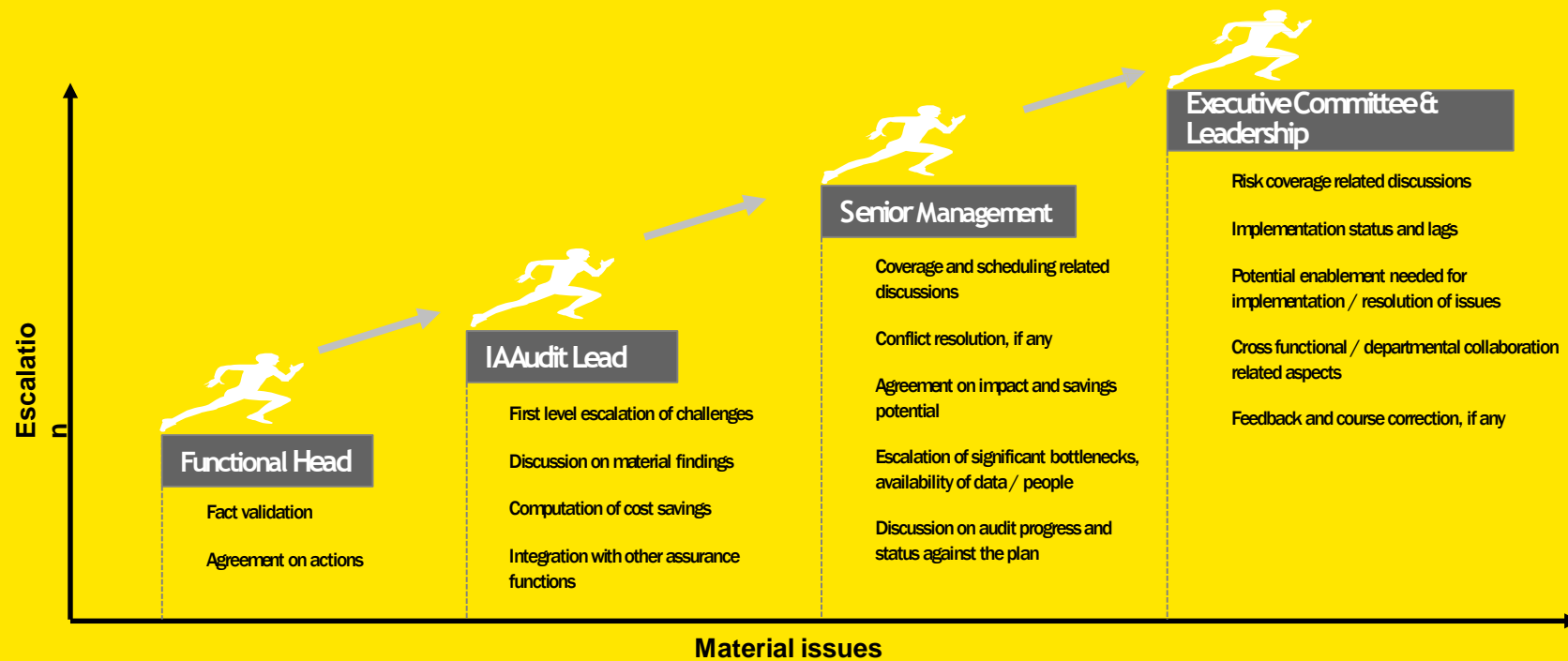
Audit Team & Governance Structure (Cont.)

Governance and Project Management

Large engagements of this size and scale are likely to face various challenges, like changing expectations from the stakeholders, differences of opinion and lack of agreement with the business process owners, lack of adequate support from the business, non-adherence to the defined schedule timeline and plans, etc.

To ensure we have an end to end agreement on all the critical issues being flagged by audit and at the same time we take cognizance of the stretched bandwidth of key stakeholders, we propose a layered structure of involving various stakeholders across the organization.

We propose formation of a specific Executive Committee comprising on functional / business vertical leadership along with the relevant extended team to discuss on the way forward and also to enable implementation of recommended practices. We will work back with you to assist in formation of this committee by suggesting the recommended participants, structure and charter, frequency of meetings, agenda, etc



Our key Strengths and Assurance?

KEY STRENGTHS

- Clients acknowledged track record of Partners/ Directors
- Focused approach towards value additions in each assignment
- Strong understanding of Management & Business perspective
- Balanced — practical recommendations for enhancing control environment
- Benchmarking of best practices with the dynamic knowledge base

ASSURANCE

- IA plan covering critical risks
- Independent & objective view based on stress testing
 - IFC
 - Compliance
 - Anti-fraud controls
 - Application controls
- Control weaknesses remediated
- Enhanced focus on value additions

EXECUTION

- Communicate and agree on the audit plan With process Owner and Key Client Contact
- Prepare data requirement list and intimate process owners in advance
- Closely work with audit coordinator to ensure completeness and focused audit
- Instant guidance & support from Experts (SMEs) available in other service verticals
- Appreciation of Business Issues through active guidance from Partner in Charge

TALENT

- Independent MKM's Partner with 10+ years (PERSON) of experience will lead your IA
- Sector focused Professionals with expertise in your sector will deliver audits
- Specialists Multi skilled resources for special audits requiring domain knowledge
- Coordinated Establish a core team which will normally not change .



Internal Audit methodology

Audit planning

- Gaining detailed understanding of your organisation.
 - Identification of key business processes supporting patient service.
 - Identification of business risks at unit and organisation wide level.
 - Organising workshops at unit and HO level to discuss key business processes and risk rating to attain common understanding.
- Identification of operational processes to be audited (audit wish list).
Discussion with unit heads and HO to prioritise audits.

- Final internal audit plan
- Engagement letters

Audit execution

- Detailed scoping for each audit in discussion with process leaders, FCs and HO to identify key focus areas.
- Conducting detailed process walkthroughs, documentation, risk & controls identification Continuous discussion with management at unit and HO.
- Identification of issues, risks, implications, recommendations and discussion with process leaders.
- Benchmarking of processes with leading textile practices.

- Engagement scoping document and timelines
- Regular audit updates
- Audit workpapers and audit issues

Reporting

- Providing detailed audit issues and supporting evidence to process leaders at unit and management for management comments.
- Submit final audit report to unit, HO and audit committee.
- Formation of recommendations implementation roadmap in consultation with unit and HO.
- Summary reporting to audit committee and presentation.
- Obtain feedback.

- Findings and recommendations report for management comments
- Final report for management and audit committee
- Practical recommendations and implementation roadmap

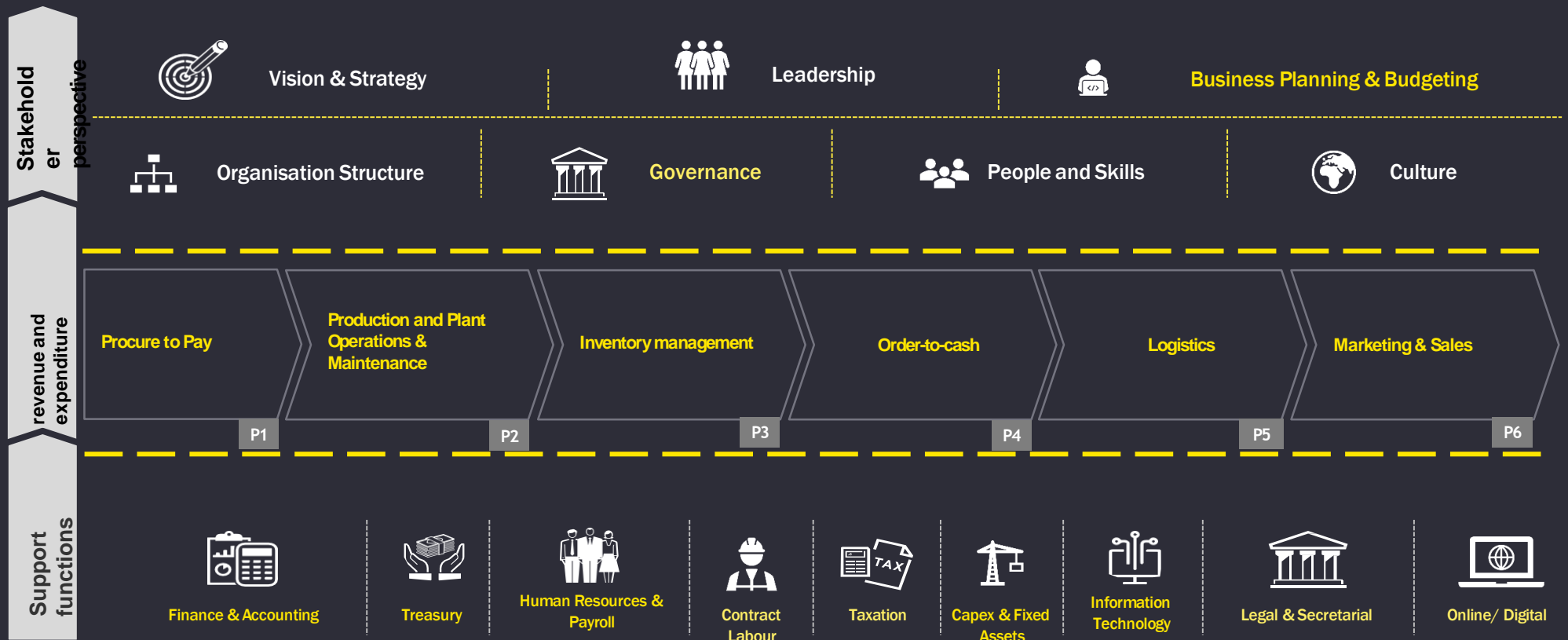
- Team of professionals with extensive experience in textile audits.
- Continuous project reviews by partners and directors of the firm to ensure quality and client satisfaction.

Key Activities

Deliverables

Quality Assurance

Business Landscape



Emerging Risks

Contract and Third party Risk | Compliance management | Digital Risk | Cyber Security | Master Data management | Online/Social media monitoring

All areas marked with yellow font, can be covered as part of IA scope, based on management priority

Key Issues noticed in Textile Manufacturing Industry

- Improper scrap management
- Improper Delegation of roles & responsibility.
- Absence of management controls and approvals
- Preventive maintenance
- Insufficient use of IT/Automation in daily operations
- Not maintaining fixed asset register.
- Limited tracking on Store spare parts and equipment maintenance & there expenses.
- Threat of information theft from internal sources
- Lack of written SOP in Place.
- No customer record analysis and feedback system.
- Not creating purchase order in software at the time of giving order.

- Improper monitoring of cost and quality against the plan/ budgets
- Regulatory non-compliances
- Inappropriate data used for reporting to management
- Lack of knowledge of change in applicable laws
- Not able to take benefits of schemes of government due to lack of awareness
- Improper Vendor Master Data Management (MDM)
- In efficient user access rights.
- Not maintaining the sales order in software.
- Not maintaining the proper system of Non returnable goods & Returnable goods movement.



Audit scope

Audit Scope: The internal audit fieldwork took place at LOCATIONS



Sales order to Cash, Credit Limit, Due Dates, CD/RD/QD, Supplier master



Procure To pay, Open POs, Payment delays, debit note



Inventory management



Regulatory and Statutory Compliance



Logistics



Capex Management



Human Resource & Payroll



Finance & Accounts and Information and technology

Audit Objective

The objectives of our internal audit were to:

- ▶ Gain an understanding of the current state of activities;
- ▶ Evaluate the design and operating effectiveness of associated key business process controls and;
- ▶ Report control deficiencies along with recommendation for improvement in systems, processes and procedures

Proposed Audit Procedure– Thematic reviews

Indicative

Area	Indicative Focus Area (Thematic Reviews)
E-Commerce/ Online Business review	<ul style="list-style-type: none"> • Sales planning and budgeting • Review of tie-ups/ contracts with E-commerce agencies • Sales incentives/ KPI of the sales/ marketing team • Review of selection of SKU for online sale • Review of logistics and supply channel for E-commerce deliveries • Review of customer complaint and sales return
New Product Development/ Product innovation/ Product lifecycle lifecycle Management Review	<ul style="list-style-type: none"> • Review of identification of need for NPD • Review of new product roll out plan • Review of promotional plan for NPD • Review of ROI on NDP/ Product innovation • Product lifecycle management
Contract Labour Management	<ul style="list-style-type: none"> • Process of contractor selection • Adherence to labour laws and other statutory regulations • Payment of statutory dues like PF, ESI, PT • Attendance Management (contract labour) • Service Entry Sheet creation • Bill Certification (including proof of service) • Adherence to SLAs by contractors

Area	Indicative Focus Area (Emerging Reviews)
BU deep-dive	<ul style="list-style-type: none"> • Customer on-boarding and agreements • Compliance to Authority Matrix in customer on-boarding • Sales planning • Pricing process and master maintenance • Discounts and commissions • Lead conversion and monitoring • Product contribution monitoring/ ROI • Sales orders creation and monitoring process • Collection Process • Write offs and provisioning of doubtful debts • Invoicing and Revenue recognition accuracy • Customer complaints and returns handling • Scrap sale process
Employee/ Salesforce expense expense review	<ul style="list-style-type: none"> • Review of reimbursement policy and allowable expenses • Process of claim and approval

Proposed Audit Procedure– Standard reviews (1/2)

Area	Indicative Focus Area
Production and Plant operations & operations & maintenance	<ul style="list-style-type: none"> • Production Planning • Production order processing and closure • Production Efficiency, Capacity Utilization, and Machine idling Machine idling • Yield Monitoring and variance analysis • Review of Work in progress • Review of production MIS • Bill of Material Controls • Consumption booking • Production declaration • Throughput parameters – OEM vs Actual • Preventive maintenance planning & calendar • Comparison between preventive vis-à-vis breakdown breakdown maintenance • Review of Quality control procedures • Machine Maintenance and downtime
Procurement (Procure to Pay) Pay)	<ul style="list-style-type: none"> • Review of procurement/ Commercial Policy and delegation of delegation of Authority matrix • Review of vendor identification and selection process process • Review of vendor master maintenance and update • Review of process of purchase Requirement (PR) & & Procurement Planning • Review of ordering Process Review of procurement of services of services availed from external parties • Review of gate entry, weighment and stores recording recording procedures • Review of aging of open invoices / GRIR account • Review of vendor evaluation / SLA & KPI monitoring monitoring • Review of recording and reconciliation of payables • Review of processing of payment liabilities and advances advances • Review of contract with third party manufacturer/ contract contract manufacturer

Area	Indicative Focus Area
Order to Cash	<ul style="list-style-type: none"> • Customer on-boarding and agreements • Compliance to Authority Matrix in customer on-boarding boarding • Sales planning • Pricing process and master maintenance • Discounts and commissions • Lead conversion and monitoring • Product contribution monitoring • Sales orders creation and monitoring process • Collection Process • Write offs and provisioning of doubtful debts • Invoicing and Revenue recognition accuracy • Customer complaints and returns handling • Scrap sale process
HR and Payroll	<ul style="list-style-type: none"> • Manpower planning, recruitment, onboarding and separation separation • Employee joining documentation review • Employee Master Management • Payroll processing • Compliances to HR and Payroll Policies • Payroll Master Management • Attendance and leave management process • Employee separation / exit process • Employee training and development • Performance appraisal and bonus • Review of tracking of overtime and pay-outs

Proposed Audit Procedure– Standard reviews (2/2)

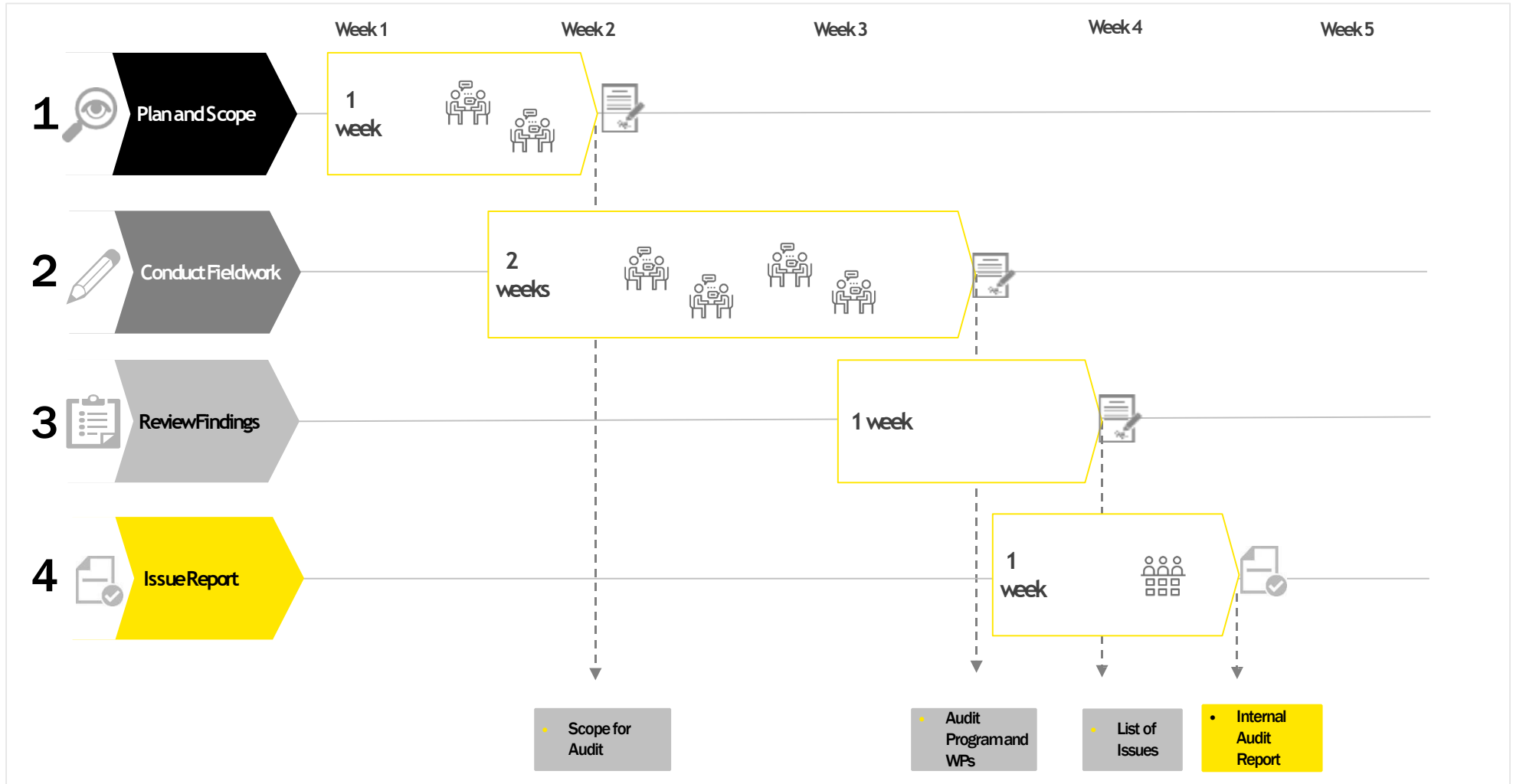
Area	Indicative Focus Area
Inventory Management	<ul style="list-style-type: none"> • Material Master Management • Materials issue requisitioning, approval and issue process process • Consumption of inventory (Review of consumption pattern of inventory) • Physical controls for inventory verification • Inventory valuation • Inventory adjustment and approval process • Review of spares inventory management • Inventory level management (incl. monitoring of slow, non moving non moving ,obsolete inventory) • Review of obsolete / damaged stock write off and disposal disposal process
Capex and Fixed asset	<ul style="list-style-type: none"> • Capex Budget Approvals • Project Management for Capex • Fixed Assets Management (utilization) • Capital WIP, Accounting, Capitalization • Transfer of assets from one location to other • Scrutiny of Fixed Asset register • Physical verification of assets (on a sample basis) • Depreciation of Assets • Sale/ Disposal/ Write off Fixed Assets
Logistics	<ul style="list-style-type: none"> • Vendor selection and agreements • Rate negotiations and revision • Logistics planning and deployment • Bill certification • Freight provisions • Detention and Demurrage • Transport documentation • Vendor Evaluation

Area	Indicative Focus Area
Statutory Compliances	<ul style="list-style-type: none"> • Review the process of updation of compliance checklist w.r.t. checklist w.r.t. amendments to Law and Regulations • Review of compliance tool, if deployed • Review the process of defining Compliance Responsibility Responsibility • Review the level of documentation maintained on the basis of the basis of which declaration is conducted • Timely submission of returns as applicable (for sample sample compliances) • Review of Sample compliance acts
Finance & Accounts	<ul style="list-style-type: none"> • Booking of Expenses • Monthly Closure Process • Documentation Control • GL Masters- Creation and Modification • GL scrutiny (Selected GLs) • Provisions and Accruals • Manual JV • Spreadsheet Controls • Month end close process • Financial statement preparation and finalization process process • Petty cash management
Marketing and Media Spends	<ul style="list-style-type: none"> • Review of policies and brand manuals • Review of KPIs and other incentives • Review of promotion strategies of newly developed products products Review of ROI (return on investment) • Review of expenditures on special events and promotions promotions • Budgets prepared vis-s-vis actual spent • Review of process of agency selection and SLA monitoring



Our Timelines

We will be conducting one visit to each office in the locations within the scope. The effort required to conduct the individual internal audit reviews, in terms of time and resources, will be determined following the risk assessment exercise covering all offices and locations, depending on the size of operations of each office, the risks identified for each office, and the number of areas in scope based on the assessed risks. The visit timeline ranges between 3 to 4 weeks. On average, the timelines to deliver an individual internal audit review is reflected below.



Note 1: The finalisation of the internal audit report, inclusive of management action plans, might extend to week 5.

Note 2: We will support you with presenting the final reports to the Audit Committee.

Note 3: We will be conducting regular follow-up on the status of agreed action plans.

Thank you !

Swift Vincom LLP