

Audit Of Purchases

by

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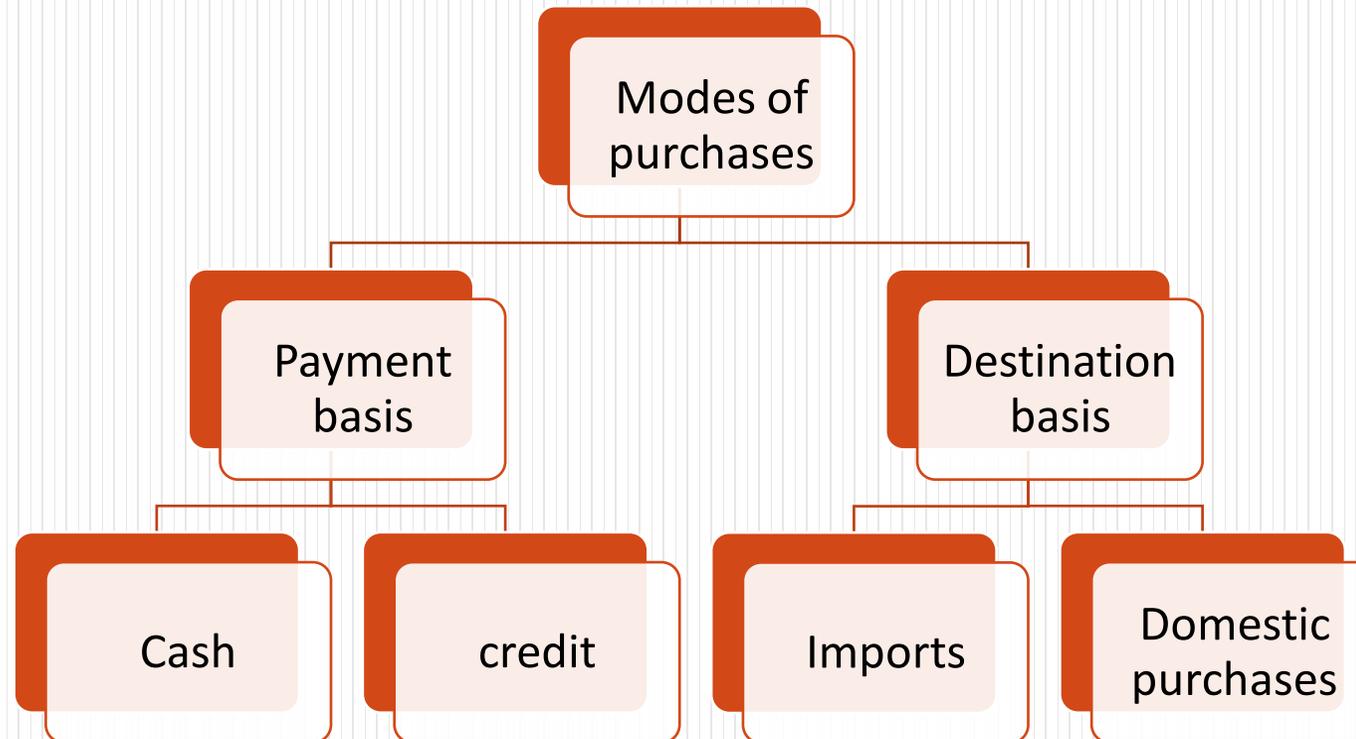
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Objective of today's session

- Purchasing system and procedure.
- Audit objective.
- Audit procedure.
- Audit program.
- Cash purchases.
- Audit findings and reporting.

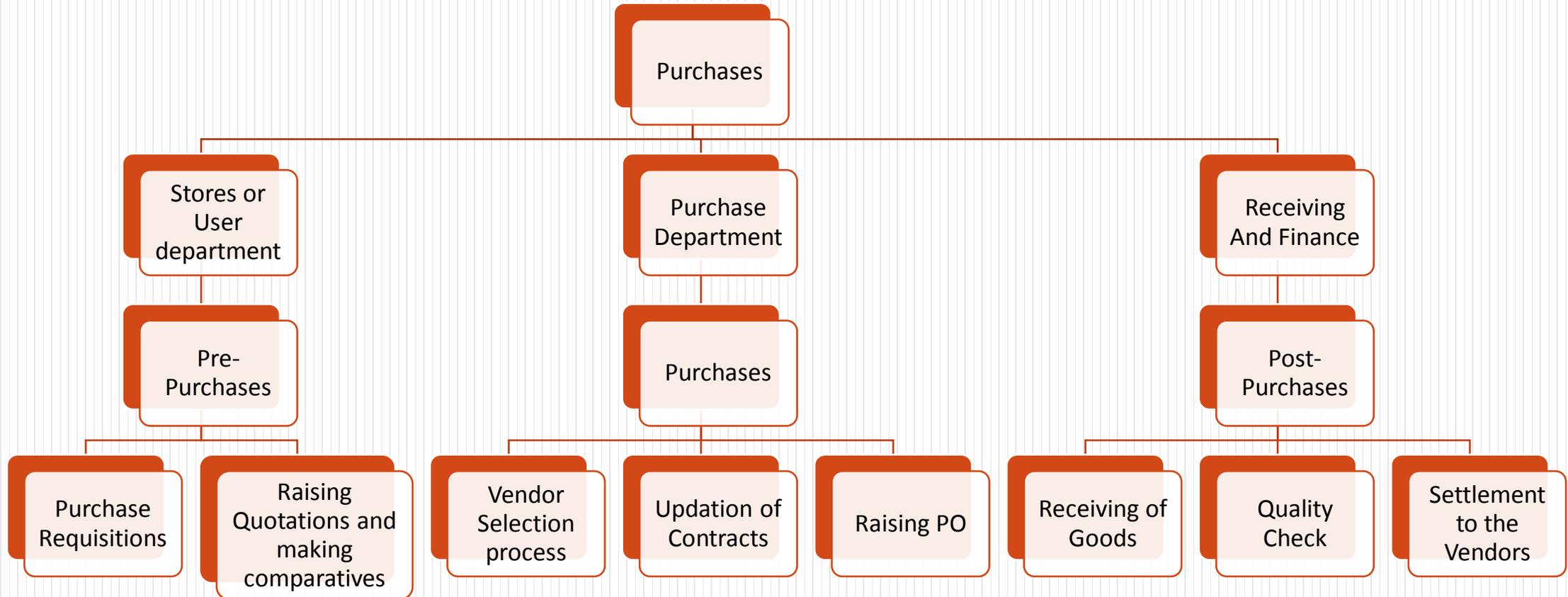
What is Purchasing system?

- The activity of acquiring goods or services to accomplish the goals of an organization.
- A purchase department manages the entire acquisition process either for the material or for the services, from Purchase requisition to Vendor Settlement.



Purchase Procedure

- Purchase procedure can be divided into three stages namely



Audit Objective

- Comprehensive policies and procedures addressing purchasing activities have been developed and documented.
- The functioning is in compliance with the established policies.
- Validate that there is proper segregation of duties within the purchasing department.
- Ensure that adequate internal controls have been implemented to limit the exposure to unauthorized or inappropriate transactions.

- **Standard Operating Process(SOP)**

- Every entity will have a standard process for every department/area. The first document which is to be considered while doing audit is standard policy document.

- **Process Note**

- The next document which is to be considered is the process note. It states the actual procedure which is being followed. If no process note is there then it should be documented after articulating with personals at the department. Any deviations between standard policy document and process note should be updated and then confirmed with the client either orally or documented. At the time of documenting the process, make sure that below mentioned questions are addressed into,

- What?
- Who?
- Why?
- Where?
- When?
- How?

Contd....

- **Audit program**
 - An audit program, also called an action plan that documents what procedures an auditor will follow to validate that an organization is in conformance with its Standard Operating Process (SOP) and process Note.

- **Information to be obtained**
 - Purchase Requisition Register
 - Purchase register.
 - Obtain SOP and written process notes.
 - Obtain hard copies of other supporting documents (invoices, Purchase order, quotations, purchase requisition, comparative statements, bill of entry(in case of imports)) post selection of samples.
 - Take the authorized list of people who can authorize purchase requisition from user department and purchase order.
 - Obtain Authorization Limits.
 - Obtain goods receipt note and stores record of goods.
 - Obtain Reorder Level if any.

Procedure to be followed for verification

- **Sampling**

- Pick sample invoices to test check in case the purchase transactions are huge in number. The samples can be chosen based on the amount of the transactions, the supplier and the type of purchase, i.e., import or domestic purchase. Samples selected should be such that it should contain a risk element attached to it.

- **Purchase requisition process**

- Are orders placed only when the goods reach their reorder level?
- Check whether authorizations for raising PRN are taken manually or through system. In case manually take the specimen of the concerned person signature.
- Check whether any pending PR are there. If so obtain reason for the same.

- **Vendor selection process**

- Verify that the minimum number of quotations that a company has to be received for each order placed (dependant on the amount of order) has been received. In case of any deviation, reasons of the same filed by the purchase team has to be verified.
- Approvals taken for finalization of vendors by the authorized personnel are to be obtained.
- Check Stamp and signatures of the vendor and other party on the contract agreement.
- Check whether the terms of contract are being complied by both of the parties, in case of deviation obtain reasons for the same.
- If advance payment has been made, the terms of the contract has to be analysed to verify the same.
- The validity of the contract and the contract period has to be verified.
- Review vendor list to recognize inactive vendors.

- **Purchase Order**

- Check whether all the authorizations needed are obtained.
- Check whether purchase order contains such terms to see that no liability is on the company in case of any issue.
- INCO Terms has to be verified for each sample. In case of any revision, has the same been authorized by the respective authorized personnel.
- Check whether all the purchase orders are closed only when the whole quantity is received.
- Ensure that there is no long outstanding open purchase Order (Po) for the respective Financial year if any notify the reasons.

Note: Inco terms are trade terms published by the International chamber of commerce that are commonly used in both international and domestic trade contracts.

- **Goods receipt Note**
 - Check whether Goods receipt note is raised on receipt of goods. Whether the receipt is raised as soon as goods are received or at latter point of time.
 - Check whether Maker-Checker control is there while raising GRN
 - Check how the details in GRN are printed (i.e. whether they are manually typed by personnel at receiving area or it is auto populated from purchase order.
 - Verify whether any differences are there among details mentioned in GRN, Invoice and PO.
 - Verify whether the date of GRN is after raising purchase order.
 - In case of Huge difference is noted among raising Purchase requisition, purchase order and GRN, reasons for the same are to be taken.
- **Vouching of invoice**
 - The auditor should check the entries in the purchase day book with the invoice.
 - He should pay his attention to the following points:
 - The date of invoice.
 - The name of the supplier.
 - The products mentioned in PO and Invoice is entered while passing entry in accounting software.

- **Purchase returns**
 - Reasons for the return of goods are to be reviewed and the same is to be analysed if it is reasonable or not?
 - Are all debit notes pre-numbered and numerically controlled?
 - Are appropriate and necessary adjustments made to the respective accounts for the return of goods?
 - Have the goods been accepted by the suppliers and have the claims been adjusted.
- **Statutory compliances**
 - Verify the purchase transactions for the applicability of tax (GST/ customs). If any taxes / duties are to be charged on the purchase transactions, verify if the same has been charged.
 - In case the duties / taxes applicable have not been charged, the reasons for the same have to be ascertained. If exemption from payment of certain taxes has been obtained from the Government, the approval letter has to be verified. Analyse if the purchase transaction falls within the purview of the transactions for which taxes are exempt.
 - Check whether revised invoices have been obtained from suppliers (with supplier's GSTIN number).
 - Check whether purchases made from unregistered dealers is below Rs5000/-.

- **Payment**

- Check whether payment to supplier is made within the credit period. In case of any deviations reason for the same is to be obtained.
- In case of payment of any advance check whether authorizations are obtained and whether the goods are received.
- Check whether payment is made within 180 days from the supply of goods to avoid reversal of GST credit.
- Check payment is done after completion of three-way matching.

Cash Purchases

- In case of cash purchases check whether authorizations are taken from concerned authority and GRN is raised.
- Comparative analysis is to be done (i.e. comparing last year cash purchases with current year, analysing which product is purchased with cash every month).
- In case any contract item is purchased with cash reason for the same is to be obtained.

Audit findings and reporting

- Document all the observations which were found during audit.
- Recommend to auditee any appropriate adjustments, internal controls, or operational recommendations as a result of the review
- Discuss your observations with auditee and jot down their replies.
- Determine whether to include each audit finding in final audit report based on the audit disposition, the overall materiality, to the audit and relative risk exposure.

SBS And Company LLP

Chartered Accountants

Our Presence in

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Thank you!!!

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