

Audit of Scrap Sales

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What is Scrap & Reasons

Different types of scarp are generated due to damage or expiry of products and scarp generation is also depending on the type of industry and the type of the product also. But depending on the type of the scarp, it may be recycled back into the production process or sold as revenue.

The main reasons for Scarp in a manufacturing industry,

- Mistakes in the procurement
- Wrong planning decision
- Change in the design method and product
- Goods produced with less quality

Audit Objective

This procedures will help to organisation to prevent the irregularities (Misstatements, Errors & Frauds) in the scrap sales from generation point to sales and also the company will get the true financial profit arising from the scrap sales

Documents required

Documents required for verification,

- Obtain written Policies and Procedures for Scarp sales
- Scarp sales register
- Production details(Normal wastage Vs Actual Wastage)
- Obtain documented list of Authorised Personnel who sanction the Scarp Invoices.
- All contract copies along with copies of contract extension documents for scarp sales, if any
- Hard copies of documents(sample selected)

Understanding of Process:

First we should understand the process to be followed for scarp sale (scarp disposal) by way of discussing with client or read the written policies of the company if any. At the time of capturing the process we should able to answer the below six questions for better understanding the process flow are as follows,

- i. What**
- ii. Why**
- iii. Where**
- iv. Who**
- v. When**
- vi. How**

Audit Procedure - Verification of Scrap sales

Prepare the audit programme:

After developing the process notes we should prepare the Audit Programme, also called audit plan. The prepared audit programme should contain the following elements,

- Audit programme should be aligned with the process note
- Initial documents (as requested above) required for verification
- Steps to be followed for verification. Ex. Control checks, Regulatory Compliances, analytical procedures and other related issues relating to that area.
- Working paper reference for each stage of verification
- Remarks or comments if any both from audit and client perspective

Internal Controls Check

- Review the Segregation of Duties as regards to generation, storage and disposal of scarp items.
- Examine the financial power vested in the different persons and conditions under which they exercise them.

Analytical Procedures:

Analytical procedures are an important part of the audit procedures. The analytical procedures include,

- Review the production data and cost records for the determination of the extent of scarp materials that may arise in a given period and compare the same with the normal loss and last year figures.
- Compare the income from the sale of scraps with the corresponding figures of the preceding year for any abnormal changes. In case of any abnormal changes in the scarp generation same should be taken to notice of the management.

Verification Scrap sale records

- Ensure that a separate space / scrap yard is earmarked for keeping the scrap material. The scrap yard should have an enclosure and a gate with a lock and key.
- Ensure that scarp records i.e. inward register and outward register at the scarp yard should be updated daily with proper cross verification by the authorized personnel.
- Ensure that all scrap sold have been billed and same been accounted in the books of accounts.
- Sample should be selected based invoice value or based on the any abnormal sales in a day or month

Audit Procedure - Verification of Scrap sales

- Verify the all supporting documents relating to scrap sale sample selected as follows,
 - Invoice: In invoice we should concentrate on the date of transaction, Vendor name, Amount as per contract if any, Taxes as applicable
 - Waybills: Ascertain whether the way bill is properly prepared (Description of goods, quantity etc.)
 - Weighment slips: Ensure proper counting / weighment / measurement of scrap at the scrap yard should be under proper authority
 - Internal documents if any

Audit Procedure - Verification of Scrap sales

Vendor Contract verification:

- The process of entering into contracts have to be documented and the approving authorities for the entering of contracts have to be noted
- Ensure that vendor selected for scarp sales should be based on proper evaluation and should verify the supporting of the same i.e. comparative statements.
- Check the rates at which different types of scraps have been sold and compare the same with the rates that prevailed in the preceding year. In case any expiry of the contract, copy of extension taken have to be examined.
- Ensure that vendor should follow the terms and conditions specified in the contact i.e. payment terms, security deposits, advances if any, clauses for termination etc.
- Verify the vendor ledger account for cross checking of payment of advances as per contact and record of all sales during the period against respective vendor.

Any Questions????

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Thank you!!!

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