AUDIT PROCEDURE FOR MANUFACTURING COMPANIES

Hi Friends this is my first article which I writing about audit procedure to be followed to while carrying audit to the Manufacturing Companies.

So Without any other deviation/discussion, let us directly go into the procedure

1) **Has to know brief history about the clients nature of business:**

First of all if u want to carry an audit to any manufacturing company, U should have a brief knowledge about the client's nature of business, what are the activities they are carrying, what is the procedure they are following while making purchases & sales, at what range they are following internal control procedures.

2) **Identify the Production process:**

   Take a list of what are the major raw materials inputs they are using in production.

   Note the steps they are following for the conversion of raw material into finished goods.

   Verify the internal control at the time of inputting raw material.

AUDIT PROCEDURE:

3) **Opening balances Verification** – First collect the opening balances report from the management and verify whether the opening balances have been carried forward correctly from the previous year audited financial statements.
4) **Vouching of purchases –** Ask about the purchase procedure and draw a flow chart which is very relevant for your understanding while carrying audit.

   Flow chart which I prepared is unable to put it here. (Check this link http://www.caclubindia.com/share_files/important-flow-chart-for-audit-35645.asp).

   Compare the Purchase Voucher with the Taxable Invoice received from the seller and Material Received Note (MRN) to confirm that whether quantity & amount is tallied or not.

Also check whether the rate of material on Invoice tallies with Purchase Order (P.O) raised by the company and check whether the date on MRN is relating to the current period.

5) **Vouching of Journal vouchers (JV's), Tour Bills and Cash & Bank** – Verify whether the supporting bills tallied with the JV's and that expenditure relating to the current period.

While verifying the JV's ensure whether the TDS was deducted wherever applicable.

For Vouching of Tour Bills the company should maintain their tour policy, ask the management for tour policy.

Verify whether bills are as per the limits set for the designation in policy.

For Vouching of cash verify whether any cash payments are exceeded Rs.20, 000/- (Sec. 40A(3)) and also check for credit balances in cash. Also go to surprise verification of cash.

Verify whether the Bank Reconciliation Statement (BRS) is tallied.\

6) **Reconciliations –** During the course of audit reconcile the following:
   a) VAT returns with purchase and sales
   b) Provident Fund (PF)
   c) Professional Tax (PT)
   d) Employee State Insurance (ESI)

   Reconcile the salary register with respective returns filed.

   The above said statutory payments are majorly applicable to all the companies, and all other like TDS, Excise etc., also have to be reconcile.

7) **Carry the Stock Audit –** The Company should maintain the RG 23 books and stock registers when they are carrying manufacturing activity.

Verify whether the RG 23 A Part II / RG 23 C Part II are tallied with purchase registers and input credit is recorded correctly.
Verify the Personal Ledger Account (PLA) register whether payment is made through PLA after considering input credit.
Also carry the Physical Stock Verification, ensure whether the physical quantity is tallied with the stock register maintained at factory.

8) **Miscellaneous:**
   a. Rental Agreements: Verify whether Rent paid is as per the Rental Agreement. Also check whether Rental Agreements are updated.

   b. PAN No's for contractors: Checked whether the company is maintaining Photocopy PAN cards for contractors because from the AY 11-12 onwards every company has to maintain PAN No's of all persons who comes under TDS applicability for that company.
   Otherwise Straight away deduct the TDS @ 20%.

By following all the above you can successfully complete your audit the above points wrote based on my audit cum article experience.

THANKS TO CA CLUB INDIA

Prepared By

Madhu Kiran