

AUDIT PROGRAM FOR REVIEW OF PURCHASES MADE BY MANUFACTURING ORGANISATIONS

REVIEW OF PURCHASE PLANNING

- ◆ Whether purchase planning is centralised or decentralised.
- ◆ Check the role of Head Office/Works in formulating the purchase plans.
- ◆ Ascertain the criterion/factors considered for finalising purchase plans.
- ◆ Whether planned purchases are compared with actual purchases at regular intervals.
- ◆ Ascertain the system of co-ordination/communication followed among various departments, such as, Purchase department, Production department, Sales department, Marketing department, etc., and discrepancies, if any.
- ◆ Whether the authority and responsibility for preparation, monitoring, modification, cancellation of purchase plan has been formally and appropriately decided.
- ◆ Whether book stocks are reviewed at the time of placing order vis-a-vis average consumption.

PRELIMINARY STEP

- ◆ Study the system and procedures for purchases.
- ◆ Review of Purchase Manual, if any, and adherence to it.
- ◆ Study of various documents used by the Purchase department.
- ◆ How is the scheduled delivery dates arrived at in case User department forwards Purchase Requisitions (PR)?
- ◆ Whether too many PRs are unnecessarily being received by the Purchase department that can be avoided in respect of repetitive and regular consumable materials.

VENDOR ANALYSIS

- ◆ Criteria for selection of vendors.
- ◆ Frequency of vendor analysis.
- ◆ Database maintained for vendors – Master data and its updation.
- ◆ The procedure followed for inspection/approval of sample received from different vendors.
- ◆ Whether attempts are made to procure from alternate sources of supply instead of traditional suppliers. Find out the culture within the company to create new vendors. Check out whether comparative quotations are obtained before placing the orders with the party.

REVIEW OF QUOTATIONS

- ◆ Authority for finalising the rates.
- ◆ Whether invitation for quotations are restricted to only local markets and traditional suppliers for the company.

- ◆ Justification for placing an order above the lowest price.
- ◆ Whether a system of comparing price fluctuation of the material at reasonable intervals exists or not.
- ◆ Identify the material under Annual Rate Contract and the periodicity of reviewing the same.
- ◆ Whether sufficient time is allowed by the User department to enable Purchase department to have reasonable time to invite quotations.
- ◆ Ascertain the procedure followed for preparing a comparative quotation chart and its authorisation.

PURCHASE ORDER (PO) REVIEW

- ◆ Whether POs are properly raised and authorised.
- ◆ Instances of purchases without PO and ascertain reasons thereof.
- ◆ Time lag between Purchase Request (PR) and PO and also ascertain the reasons for excessive time lag in raising PO.
- ◆ Check pending PRs for a long time and ascertain reasons for the same.
- ◆ Ascertain whether quantity required, materials specifications and delivery schedules are as per PR.
- ◆ Comparison of terms of payment with the Company credit terms, if any,
- ◆ Whether the contents of PO ensure its adequacy/comprehensiveness.
- ◆ Examine PO terms with respect to quotation references, payment terms as stated in quotations, packing and delivery charges, discounts etc.
- ◆ Ascertain the frequency of and procedure for emergency procurements and time lag in consumption of these materials.
- ◆ Mode of confirming the orders by the suppliers.
- ◆ In case of materials, whether insurance cover is obtained by the supplier or the company.
- ◆ POs raised on the basis of telephonic talks, whether system of ratification followed subsequently.
- ◆ System of freight payment, specifically in case of purchase returns or rejections.
- ◆ Find out the quantum of the open purchase orders and their ageing.

ADVANCE PAYMENTS

- ◆ Procedure for giving advances to vendors.
- ◆ Documents prepared for advances.
- ◆ Procedure of Advance settlement.
- ◆ Follow-up of the pending advances.

BILL PASSING PROCEDURE AND CONTROL

- ◆ Review system for authorising bills
- ◆ Ensure that the payments are made on due dates and the available quantity discounts or cash discounts are availed.
- ◆ Ensure that all claims for breakage/demurrage are settled before payment.

- ◆ Ensure the authorisation of Credit/Debit Notes and justification for the same.
- ◆ Review of delivery schedules prepared vis-a-vis adherence thereof.
- ◆ Comparison of quantity received with PO quantity.

REPORTS GENERATED FOR/BY THE PURCHASE DEPARTMENT

- ◆ Vendor-wise and material-wise Purchase Report giving details of average purchase rate.
- ◆ Reports of Stock-outs at the Works are forwarded to the Purchase department.
- ◆ MIS generated by the Purchase department and its adequacy.

IMPORTED MATERIALS

- ◆ Cost comparison with locally available substitutes.
- ◆ Advance licence availment and utilisation.
- ◆ Stock lying in Custom warehouse – whether considered for purchase planning.
- ◆ Imports
 - Against import licence
 - Through supplier under “Actual Users Licence”
 - Clearance through Ports.
 - Custom Duty and other port charges.
 - Delay in clearance.
 - Documentation procedures and records maintained.

REVIEW OF MISCELLANEOUS ISSUES

- ◆ System of updating purchases database as regards price revision and market trend.
- ◆ Analysis of profitable modes of transportation.
- ◆ Review of escalation clause in case of contractual purchases.
- ◆ Review possibility of economic buying by placing order at one time for common items required by various factories/locations.
- ◆ Comparative ratio analysis of major purchase cost to production/sales.
- ◆ Find out instances of materials purchased but not consumed. If purchases are scheduled for consumption in the month of June whether consumption has undertaken in the month of June or it has gone ahead to the succeeding months. This highlights the need for proper planning and staggering of the purchases.
- ◆ For the above compute the receipts during the month against the consumption during the month.
- ◆ Compute the stock turnover ratio for few high value items.
- ◆ Find out purchases made in excess of the material requirement quantity and consumption of the materials during the month of purchase next month.



- ◆ Find out purchases made in spite of sufficient inventory. Take the stock statement (monthly). Compare the purchases during the month. See if the issues during the month could have been made out of the opening inventory. Find out till which date as per the consumption pattern the opening inventory was sufficient. Compute the notional interest loss on account of excess purchases.
- ◆ Find out item which are currently being purchased from a single source manufacturer.
- ◆ For cash purchases from the local parties check out whether purchase requisition slips are being filled for every cash purchase.
- ◆ Check whether multiple party codes are being allotted to the same party.
- ◆ Find out instances of payments received from one party lying in the account of another party.
- ◆ Debit balance lying in the suppliers' ledgers since when and the quantum of it. Compute the notional interest loss.

Thanks & Wishes

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