

AUDIT OF STOCKS AND RECEIVABLES

dated

Sub. : **Stock & Receivable Audit of _____ .**

Kind Attention : **Mr. _____ (DF/G.M. – Accounts & Finance of the Company).**

Sir,
This is with reference to _____ Bank letter No. _____ dated _____ regarding Stock Audit of the Company. You are requested to provide the following information/ details so that the stock audit can be commenced at the earliest :

- 1) Complete details of your bankers and facilities/ arrangements with them (Fund Based & Non Fund Based both) together with their outstanding as on (Cut off date).
- 2) Copy of the latest sanction letter issued by _____ Bank and other Banks (if any).
- 3) Detailed note on :
 - a. Management Organization Chart
 - b. Manufacturing Process
- 4) Complete details of inventory as on (Cut-off date) and as on 31.03.(previous year) alongwith the locations etc. You are requested to provide complete list of places where the inventory is stored together with person-in-charge and their contact numbers.
- 5) Copies of latest QIS and Fund Flow Statement/Monthly Stock Statement submitted by the Company to _____ Bank and other Banks (if any) for 1st April to Cut-off date.
- 6) Details of stock lying with third party, if any.
- 7) Details of stock in transit, if any.
- 8) Note on system of Purchases/ Sales/ Inventory Accounting & Valuation of Stocks alongwith the period of credit allowed by the creditors.
- 9) List of Debtors Age-wise i.e. 0-30 days, 31-60, 61-90, 91-120, 121-180, and above 181 days. You are requested to provide the reasons for long outstanding debtors over 90 days and credit policy of the company in general, i.e. credit period allowed to customer.
- 10) List of Creditors as on (Cut-off date) and as on 31.03.20.... alongwith the nature of dues.
- 11) Details and copies of Insurance policies covering the inventory at plants and in transit as well as in the godowns.
- 12) Copies of up-to-date Certificate of Registration of Charges with R.O.C.
- 13) Policy relating to procurement of raw material and management of stocks.
- 14) Complete details of borrowings including unsecured loans and ICDs, if any, taken by the company from 1.04.20... onwards alongwith the date of repayment.
- 15) Copies of last three years Audited Balance Sheets.
- 16) Audited/ Provisional Balance Sheet as on cut-off date to 30th Sept,
- 17) Trial Balance of the Company as on cut-off date to 30th Sept,

- 18) Details of any slow moving/ non-moving stocks identified by the company.
- 19) Procedure and treatment of rejected goods.
- 20) List of group companies/ concerns/ companies under the same management.
- 21) Method of valuation of inventories while submitting stock statements to bank and copies of last six months stock statements submitted to the bank.
- 22) Cost sheet of Work-in-process and finished goods.
- 23) A B C analysis of stock.

An early reply will be appreciated since we would like to commence the work at the earliest.

Soliciting your Co-operation.

Yours faithfully

CHARTERED ACCOUNTANTS

C.C. to :

The Chief Manager
_____ Bank
New Delhi.

A) INDEX

Sl. No.	PARTICULARS	Page No.
A	INDEX	1
B	BORROWER'S PROFILE	2
C	TERMS OF REFERENCE	
D	METHODOLOGY	
E	CREDIT FACILITIES AVAILED	
F	PROFILE OF THE ASSOCIATE CONCERNS/FAMILY CONCERNS	
G	OBSERVATIONS :-	
	i) Physical Verification	
	ii) Records maintained	
	iii) Basis of Valuation of Stocks (Net of Cenvat)	
	iv) Valuation of stocks as on (cut off dates)	
	v) ABC Analysis of Stocks	
	vi) Calculation of Drawing Powers	
	vii) Verification of Stock Statements	
	viii) Inventory Norms	
	ix) Existence of slow moving/obsolete inventory	
	x) Inventory Management and Control Policy	
H	ANALYSIS OF BOOK DEBTS :-	
	i) Records	
	ii) Debtors Policy	
	iii) Age-wise classification of total debtors as on	
	iv) Ageing of Major Debtors	
I	COMMENT ON OVERALL CONTROL & RELIABILITY :-	
	i) Stock Turnover Ratio	
	ii) Debtors Turnover Ratio	
J	INSURANCE	
K	STATUTORY PAYMENTS	
L	COMMENTS ON NOTES OF AUDITORS/ MANAGEMENT	
M	CHARGES WITH ROC	
N	SHAREHOLDING PATTERN	

B. BORROWER'S PROFILE

1.	Name of Concern		
2.	Constitution		
3.	a) Registered Office Address		

	b) Corporate Office Address		
	c) Works/ Factory & Godowns' Address		
4.	Name of Directors	a)	
		b)	
		c)	
		d)	
5.	Nature of activities and Products Manufactured		
6.	Date of Incorporation		
7.	Dealings with Bank (which has appointed us)		Since
8.	Other Banks and facilities being enjoyed	a)	Bank of India
		b)	Oriental Bank of Commerce
9.	Name & Address of Statutory Auditors		M/s ABC & Co. Chartered Accountants
10.	Name of the Branch Officials contacted/ discussed		
11.	Borrower's Representative, contacted/ discussed		
12.	Duration of Audit		From to No. of days visited/deployed :
13.	Value date of stocks		dd/mm/year

C. TERMS OF REFERENCE

Vide letter No. _____ of _____, _____ (City), terms of reference are as follows :-

1. Reconciliation of the stock statements submitted to Bank by the Company with their accounting records.
2. Physical Verification of Stocks, excluding obsolete/damaged/defective goods, covering 100% of high value items, 50% to 75% of medium value items and 10-20% of low value items.

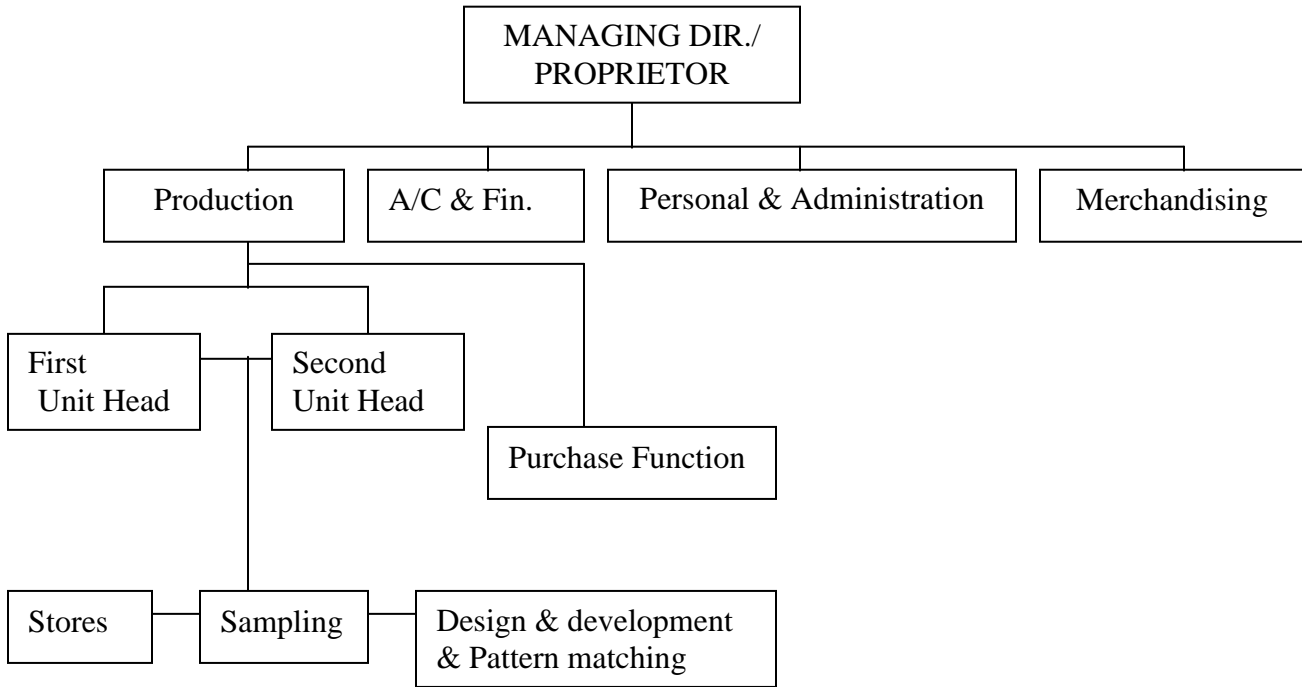
3. Valuation of Inventory at the cost price or market price whichever is lower indicates both the cost and market price with comments on weighted average purchase price of main raw material.
4. Condition and location of storage, godown – whether open or covered, owned or rented. Verifying items in transit/lying with third parties/ on consignment basis/ with processing houses/ customers warehouses.
5. Age, quality, holding levels and method of valuation of different items of Inventory. Also Comparison with the Audited Balance Sheet as on 31st March, ...
6. Inventory management and control policies, method of procurement, maintenance of records of issue and receipt of stock. Sourcing of Raw Material and credit available. Proportion of Cash and credit sale and average period of credit. Extent of purchases made from the sister/ allied concerns and its genuineness.
7. Age-wise and value-wise verification and evaluation of Receivables/ debtors. Reasons for non-payment of long standing debts, if any.
8. Verification and evaluation of Sundry Creditors relating to stocks and other creditors.
9. Verification & Correctness of registration/ modification of Bank's charge with ROC.
10. Sufficiency and currency of Insurance policies and risk covered.
11. General attitude of Promoters/ staff for safety of stock and recoveries of receivables.
12. Comments on overdue statutory liabilities, demand/ supply and markets of products.
13. Examination of Shareholding Patterns etc.

D. METHODOLOGY

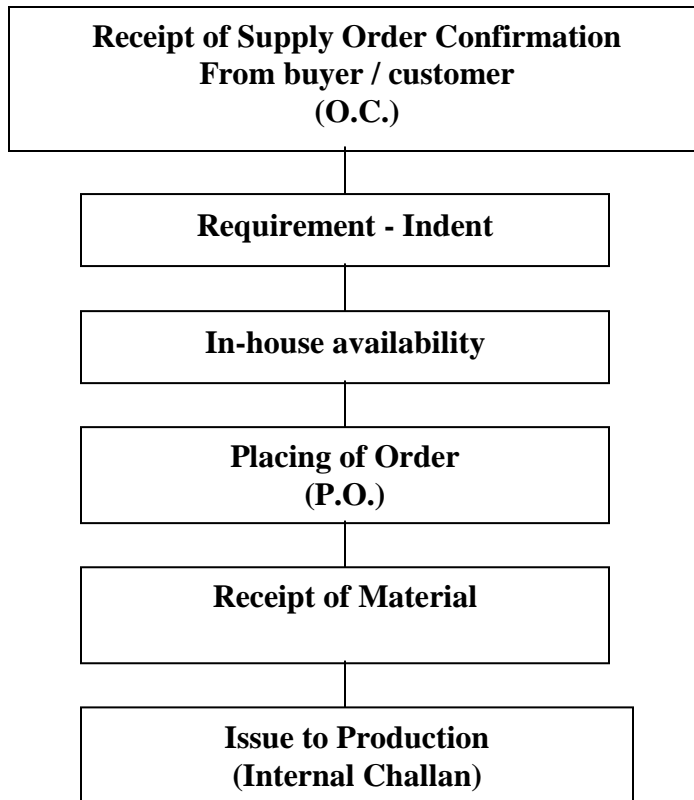
As required by the terms of reference of letter of the Bank, the following methodology is adopted by us for carrying stock audit :-

1. Discussion held with Mr. _____, Relationship Manager of _____ Bank, _____ (Branch).
2. Required documents and information were obtained from the Bank.
3. Visit of factory from _____ to _____ .
4. Detailed discussion held with the concerned officers and necessary documents and information was obtained.
5. Last Physical verification of the stocks of the company was carried out on _____.
6. Verification of books of accounts, excise records, stores and other records to check the information provided to the Bank.

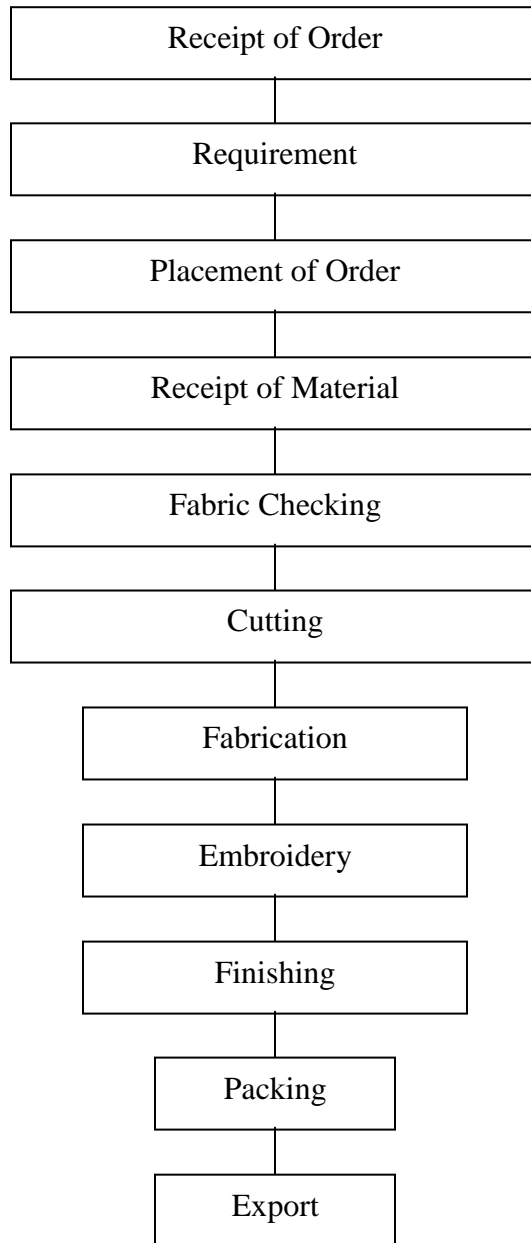
MANAGEMENT INFORMATION CHART



PURCHASE PROCESS



MANUFACTURING PROCESS



E. CREDIT FACILITIES AVAILED

Sl. No.	PARTICULARS	LIMIT (Rs. in lacs)	MARGIN	D.P.	Bal. As on (Cut-off date)

1. FROM _____ BANK (Appointing Authority) :

A) FUND BASED :

- a) Cash Credit (Hyp)
- b) Cash Credit (BD)
- c) EPC
- d) _____

TOTAL FBWC

W.C.T.L.

Term Loan

TOTAL – (A)

B) NON FUND BASED :

- a) L.C./ F.L.C.
- b) B.G.
- c) Usance Bills
- d) _____

TOTAL – (B)

TOTAL (A + B)

2. FROM _____ BANK

(A)

(B)

3. FROM _____ BANK

(A)

(B)

TOTAL (A + B)

A. Primary Security :

- a) Against Fund Based Limits
- b) Against Non Fund Based Limits

B. Collateral Securities :

F. PROFILE OF THE ASSOCIATE CONCERNS :

1. Name of the Concern :
2. Constitution :
3. Activity :
4. Bankers :
5. Conduct of Account : Standard/ Sub. Standard/ Doubtful
6. Limits enjoyed :
 - a) C.C. (Hyp.)
 - b) C.C. (B.D.)
 - c) WCTL
 - d) LC/ FLC
 - e) Term Loan
7. Investments in Group Concerns :
 - a) Investment in _____
 - b) Investment in _____
8. Remarks : The Company has leased out _____ sq. ft. of Factory building to _____ (associate concern) on monthly rentals of Rs. _____ with the permission of the Bank.

G. OBSERVATIONS :

1. Physical Verification
2. Records Maintained
3. Basis of Valuation of Stocks (Net of Cenvat)
4. Valuation of Stocks as on (cut off date) and Last Audited Balance Sheet.
5. ABC Analysis of Stocks
6. Calculation of Drawing Power
7. Verification of Stock Statements
8. Inventory Norms
9. Existence of slow moving/ Non moving Inventory
10. Inventory Management and Control Policy

H. ANALYSIS OF BOOK DEBTS :

1. Records
2. Debtors Policy
3. Age-wise classification of total Debtors as on (cut off date)
4. Ageing of Major Debtors :

Sl. No.	Name of Debtor	0-60 days	60-90 days	90-180 days *	Over 180 days	TOTAL
1						
2						
3						
4						
5						

5. Remark : The above debtors constitute 65% of total outstanding debtors if vigorous follow up for recovery can improve its liquidity and improve profitability by lowering Interest Cost of O/S debtors.

I. COMMENT ON OVERALL CONTROLS :

1. STOCK TURNOVER RATIO :

To be calculated as per Audited Accounts :

Particulars	2009-10	2010-11	2011-12
Cost of Goods sold			
Opening Stocks			
Closing Stocks			
Average Stocks			
Stock Turnover Ratio			

If STR is increasing every year that means efficiency is improving and if it is decreasing that may mean more non/slow moving stocks or unusable stocks.

Similarly Sales to closing stocks should be worked out :

Particulars	2009-10	2010-11	2011-12
Sales			
Average Monthly Sales			
Closing Stock			
Closing Stock/ No. of months sale			

The closing stock to sale ratio is to be analyzed considering general trends in the industry and to indicate non saleable closing stocks or higher inventory which should be critically commented.

2. DEBTORS TURNOVER RATIO (DTR) :

To be worked out as per last Audited Accounts :

Particulars	2009-10	2010-11	2011-12
Sales			
Opening Debtors			
Closing Debtors			
Average Debtors			
Debtors Turnover Ratio			

Lower DTR indicates undue long credit being allowed to customers – Comment on the trend keeping market forces in mind.

Sales to Debtors ratio as per last audited accounts :

Particulars	2009-10	2010-11	2011-12
Sales			
Average Monthly Sales			
Closing Debtors			
Debtors in No. of months sale (X)			

This (X) should be analyzed with the terms of sanction of Book Debts/ Bill Discounting limits and excess period should be properly analyzed in calculating Drawing Power.

J. INSURANCE :

1. Adequacy of Insurance in force
2. Whether stocks at all works/ godowns including stocks lying in third party godowns are covered.
3. Nature and details of risk coverage
4. Verification of adequacy of insurance with stocks statements of the last 6 months since under insurance may result into proportionate claim settlement.

K. STATUTORY DUES :

Since dues to the CROWN are first charge on Assets of the Borrower, outstanding statutory dues beyond the due date may be reduced from the value of Current Assets to ascertain DP.

L. COMMENTS ON NOTES OF AUDITORS/ MANAGEMENT :

Previous 2 years audited accounts may be perused and Auditor's / Management notes should be thoroughly scrutinized. Any Comment/ note resulting into contingent liability/ outstanding statutory dues under litigation/ non fulfillment of commitment should be reviewed and commented upon.

M. CHARGES WITH ROC :

Date of Registration with details of all charges should be thoroughly perused. The date of registration of the charge will conclusively decide the priority of creditor.

Hence proper comments on availability of security against charge created and registered should be verified and reasons for non registration of charges be reported since non registration of charge converts a **secured creditor into an unsecured creditor**.

N. SHAREHOLDING PATTERN :

Shareholding pattern as per last audited accounts be reviewed with terms and conditions of sanction letter if any regarding sale/ transfer/ mortgage of shares by Promoters/ promoter company/ associate concern and any deviation should be reported.

The shareholding pattern may be reported as follows :

Sl. No.	Name of Shareholder	No. of Shares	Paid up Value	%age holding
A	Directors and their Family Members			
B	Promoter Company (ies)			
C	Associate Concerns & Group Companies			
D	Institutional Investments			
E	NRI Investments			
F	Friends and Relatives			
G	Others (Public)			