



Warehouse Audits

Opportunities for Non - Traditional Practice Areas
for CA's

6th October 2016
ICAI Towers
BKC - Mumbai

Today's Discussion



No



1. The Potential.
2. Depot Operations - Core
3. Depot Audits – Pre Site Visit.
4. Depot Audits –On Site Visit.
5. Depot Audits – Reporting.



The Potential

Distribution models



Direct Channel

- Producers sell the goods directly to the consumers, No middlemen involved.
- This may be through fully owned retail stores or door to door selling.
- Example Bata Shoes , Liberty & HPCL.

Indirect Channel

- Involves Middlemen – either wholesalers + Retailers or directly retailers
- Preferred mode of distribution if manufacturing is at large scale / too many SKU's
- Adopted in Most Pharma/FMCG Companies

Both of Such models offer Ample Audit Opportunities !!

What's Changing !!



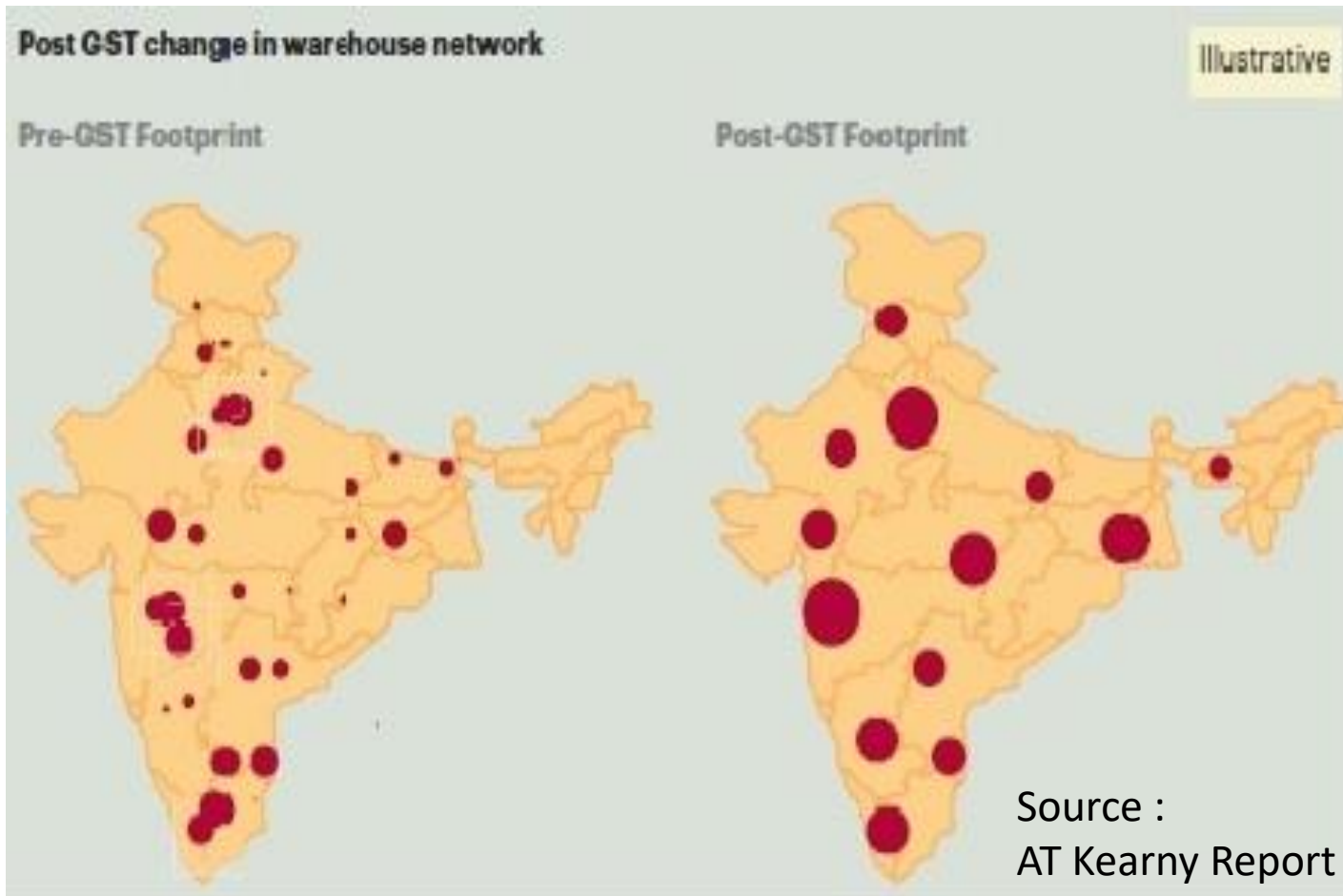
Economy

- Changing Customer behavior.
- Increased Variety to Customers.
- Improving Infrastructure.

Legislation

- GST
- Fiscal Incentives

GST Impact on Warehousing

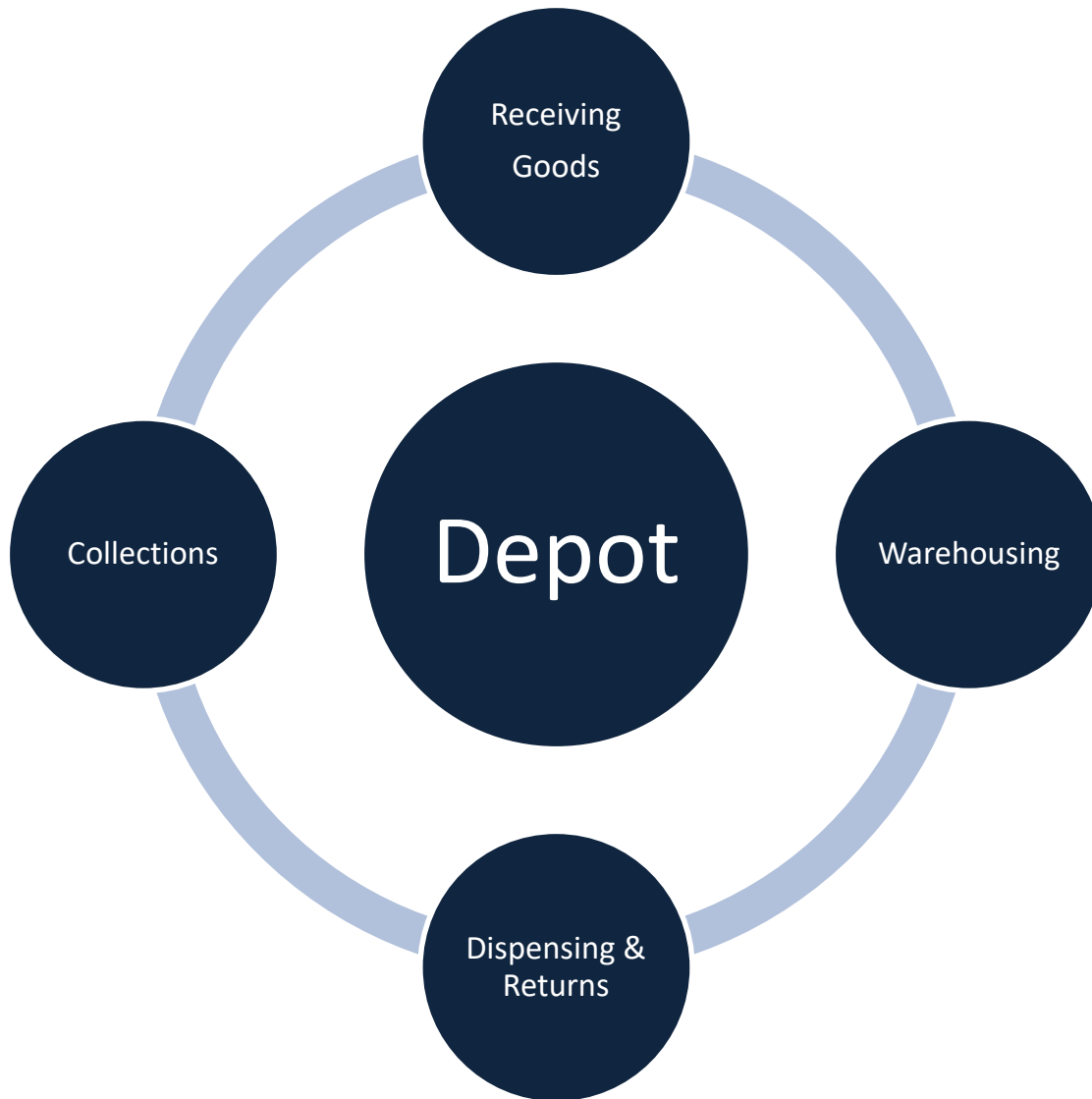


No of Warehouse points likely to shrink from 30 to 13 !!



Depot Operations - Core

Depot Operations Core





Pre Site Visit

Pre Site Visits



Approach

- Up to 65 % of the audit effort gets over in this phase.
- Advocate Extensive use of Data Analytics

Advantages

- Minimizes Travel.
- Allows Focused Testing at Sites.
- Allows Inter Site Benchmarking.

Pre Site Visits

What Data
Analytics Can
Tell you ?

Receiving :

1. Is this Depot having above average Detentions ?
2. Stocks in Transit are higher or lower ?
3. Transporters with Maximum and Minimum penalties ?
4. Top 5 products having damages ? Location v/s All India

Warehousing:

1. Where does the depot rank in terms of its in-house damages?
2. Inter Site “ ALOSL” Comparison.

Dispensing & Returns

1. % of Sales taking place at the fag end of the period.
2. Customers with High Sales /Sales Return Ratios.
3. Top Customers/Top Products/Top Returns.

Collections

1. Parties having same identity numbers (PAN/VAT etc).
2. Credit limits /Sales ratio skewed.
3. Substantial increase in credit limits

Pre Site Visits

What can
Inquires tell you
?

1. Business model of the Company /Industry?
2. Standard operating procedures of the company , Written or un written ?
3. Does any party that belong to the CFA is also a stockiest or Transporter or associated with the company in any other capacity ?
4. Does this depot have any history of fraud etc. ?
5. Local laws applicable to the entity
6. Any local level issues that are typical to that place ?
7. Important contracts and details like
 1. Floor Space agreed ?
 2. Broad terms of remuneration ?
 3. Re-imburements permissible ?
 4. Through put of the depot ?

What should be ready before you leave ?

1. All results of Analytics.
2. Basic Information about the depot



Depot - On Site Visit



Approach

- Ensure that Sampling is drawn from Analytics .
- Use More of Observation & Discussion based Approach.

Advantages

- Audit is more towards collection of evidence to support the findings.
- Allows More time to observe and establish more support to the findings

What can
Observations tell
you ?

Receiving :

1. On Detention– are they not stacking the goods till adequate height / is the security register properly maintained to record all the incomings at the right time ?
2. On Damages – Are they lifting the material properly from the truck ?
3. Are they weighing the packaging's whose outer is open ?



What can
Observations tell
you ?

Warehousing

1. Inspect the entire facility including the roof and other peripheries to cover risk of unaccounted inventories.
2. Look at Hygiene of the Depot by looking at
 1. Condition of fire extinguishers
 2. Stocks arranged Sales frequency wise
 3. Pest controls done
 4. Goods not stacked to the wall
 5. Temperature controls
 6. Non Saleable goods separately stored
 7. Stacking height of goods
3. Get the sample weighments done for packaging's to ensure that pilferage is detected.
4. See if Security has a process of frisking all the employees /visitors coming in our going out

What can
Observations tell
you ?

Dispensing and Returns

1. Deep Scan the genuity of the Sales orders , specifically in the discount /scheme driven sales scenario.
2. Correlate the throughput of the Depots with month end sales to deep scan the “MIND” Sales.
3. Verify period end sales to understand “ Transit Billings”.
4. Compare the genuity of the “ Lorry Receipt” Dates & Locations entered in the system with the ones actually written on the LR and the location of Dispatch.
5. Inspect the quality of Returns – Damaged V/s Genuine Sales returns.
6. Check the controls over packaging materials supplied by the company at the Depot .
7. If expired materials are received , check rates taken for Credit notes v/s rates on the physical materials.
8. Do the original invoice to return invoice price check.

What can
Observations tell
you ?

Collections

1. Blank Cheques Collection.
2. Accuracy in Entering the Realisation Dates.
3. Actions Taken against long overdue outstanding's.
4. Black Listed parties back in the system via new address
5. Location V/s Outstation – Credit period check.
6. Parties funding from Return of Expired materials/Sales Returns.
7. Reconciliation with corporate bank accounts on realisations reported at Bank V/s Reported in system.

Statutory Compliance

1. Shops and Establishment Act.
2. C forms and F Forms Status
3. Labour law compliances

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Depot Visits - Reporting

Reporting



Conventional

- Offers Flexibility to Report individual instances , typical to the location.
- Ideal for situations where company does not have a clear SOP

Scorecard Based

- Quantifies the Queries into marks allowing flexibility to assign marks as per risks.
- Ideal when there are homogenous process across all units.
- Facilitates pan location coverage

Reporting



Overall Scoring.

Marks assigned
on Risk Ratings

Area	Sub process	Marks Allotted.
1.0	Receiving Procedure.	05 Marks.
2.0	Storage Procedure.	10 Marks.
3.0	Dispatch Procedure.	50 Marks.
4.0	Expiry / Breakage / Spoilage.	10 Marks
5.0	Collections Procedure.	20 Marks.
6.0	Others.	05 Marks.
Total		100 Marks.

Reporting



Receiving Procedure – 05 marks.

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5.0	Collections Procedure.	20 Marks.
6.0	Others.	05 Marks.
Total		100 Marks.

Tests to be applied	Marks Allotted.
Batch wise discrepancy not reported.	20/100
Expiry/MRP & Quantity Differences not Reported in Incoming Report.	50/100
Timely Preparation of Incoming report (Within 24 hours).	25/100
Storing of loose units.	05/100
Total Marks for Receiving Procedure.	100/100

Reporting



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Total Marks for Receiving Procedure.	100/100

Test : Batch wise Discrepancy not reported.

Test	Sample	Particulars	Marks
Batch wise discrepancy not reported	20 Arrivals Based on Analytics	More than 20 batches not reported.	No Marks.
		10 to 20 batches not reported.	10 Marks.
		Less than 10 batches not reported.	20 Marks.

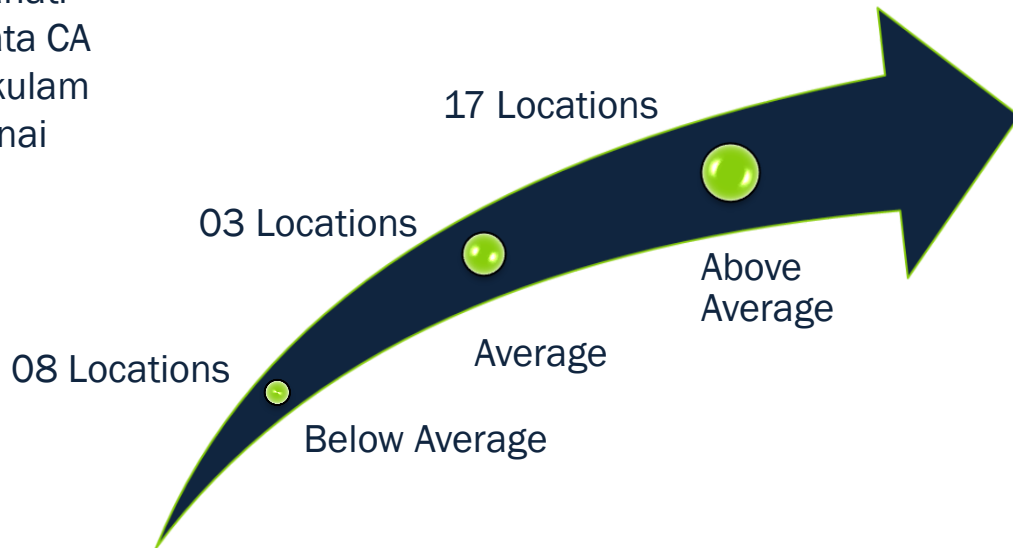
Reporting



- Vijaywada
- Chandigarh
- Bhiwandi
- Rudrapur
- Guwahati
- Kolkata CA
- Ernakulam
- Chennai

- Howrah
- Hyderabad
- Pune

- Bengaluru-1
- Bengaluru-2
- Ghaziabad
- Gorakhpur
- Jaipur
- Jammu
- Lucknow
- New Delhi
- Raipur
- Vadodara
- Zirakpur
- Nagpur
- Indore
- Ambala
- Cuttak
- Patna
- Ranchi



Reporting



Area	Total Score	March-15	October-15	March-16
Receiving	05	3	4	4
Storage	10	6	9	9
Dispatch	50	35	42	43
EBS	10	7	8	9
Collections	20	15	18	19
Others	05	3	2	3
	100	69	83	87

Questions ??





Thank you