

Auditing a Sales System

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The Aim

Auditing a Sales System aims at providing effective guidance for conducting the audit of Sales

The need

A sale is often referred to as the “BREAD & BUTTER” activity. In fact, for organizations engaged in manufacturing and/or trading activities it is a major source of income. All other sources are generally secondary. The very survival of the organization depends on how well it can engage itself in the Sales activity. Having understood the basic nature and the importance attached to this function it therefore becomes imperative for the auditor to ensure that the organization has sound internal, system and accounting controls and also that the necessary documentation is in place. This objective can be achieved only when:

- a. The clients business is understood properly, and
- b. The audit has been conducted systematically with the help of a well framed audit program.

Understanding the client’s business is not major difficulty as the client provides most of the information. However, difficulties are experienced in planning an audit and the related integrated checks so as to ensure that all relevant areas are covered.

The audit program presented is meant to serve as an attempt in attaining professional excellence in this regard.

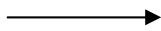
Introduction to the Program

An audit program comprises of a series of questions, which are laid down in a tabular fashion so as to enable a quick view over the various parts. All the parts of the program which are very important have been suitably given a grey background for immediate attention. The program primarily sets focus on systems/internal controls and other routine areas of audit. Due recognition has been given to various accounting standards, legal and other considerations also in the program. The program is designed to be used for working in step by step manner.

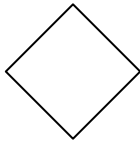
How and Where to Start.

As the need for a proper verification of the Sales is now clearly understood let us understand on how to fill the program or rather how to conduct audit using the given program.

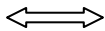
It isn't a bad idea to start with the main program and start answering the questions one by one and complete it quickly. No special skills would actually be required to do this. It is advisable that some reasonable and fair amount of time is spent in gaining an understanding of how a sales system generally looks or functions. This is achieved by using a flowchart, which clearly shows the flow/stages in a sales system and the related components. Undoubtedly, the system could have been explained in other better ways but a visual /graphical presentation is likely to have more impact than mere words. The flowchart is self explanatory. However, it is still necessary to understand meaning of some important symbols as used in the flowchart. They are explained below:



Flow arrows. Shows the movement from one event to another



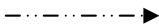
Diamond : Shows change of direction on happening or not happening of an event. Also a Decision Box at times.



Procedures that will be executed at the same time.



Abnormal / Irregular event occurs / happens.



Flow triggered in case of happening of an Abnormal / Irregular event. The events shown or connected by these arrows do not occur if the Abnormal / Irregular event does not occur.

Thereafter the main program begins with the verification and testing of system requirements but *it is certainly not expected that every time an audit is conducted the testing and checking of systems is mandatory. This can be decided based on the professional judgment as arrived at in course of the conduct of the audit.* However other areas will any way be required to be covered each time an audit is conducted for a year.

It is worth noting that before commencing any audit due importance should be given to understand the systems and the internal controls that are in existence in the organization. This is very important as if the systems and internal controls are not proper the same may lead to unimaginable errors and frauds. The entire exercise of audit would thus be a waste. Keeping this important point in view the audit program begins with a section called

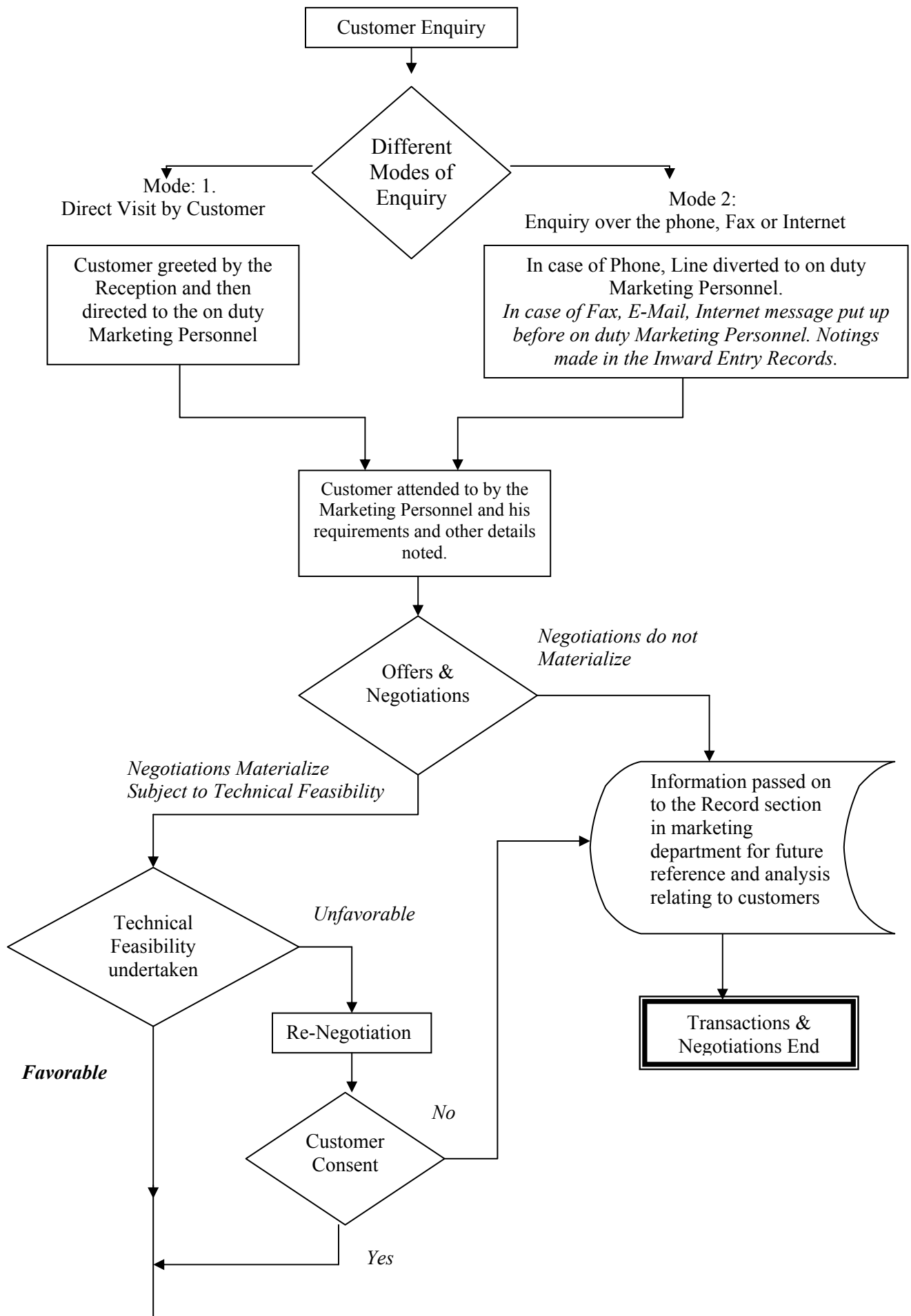
“Systems and Internal Controls”. Verification under the other sections must commence only after the completion of this section. This is very important as it gives the base, the amount and the level of checking that must be done at a later stage. e.g. if the procedures regarding Purchase Orders/ Order Confirmations, Dispatches, Raising and Accounting of invoices, Sales Receipts are proper perhaps the sample size for verification of the same may be reduced. Else, not only will the sample size increase but other controls on the same may also need to be observed. Before beginning with the other sections, a Start-up schedule must be prepared/obtained in the manner as laid down in the Schedule VI of the companies act and the same be numbered fusing a sub-code along with the main reference code at the top of every page. For e.g. M3, M4 etc. *(these numbers are only illustrative)*. The figures mentioned in this schedule must be confirmed as the audit progresses by answering all the other questions in the program. Different types of ticks may be used to identify the various tests conducted. In case any other detailed statement, schedule of verification are required to be attached a reference number must be given to the same. The number should be in continuous series with its earlier number and must be attached in sequential order in the file. All the other questions in the program must now be answered. Answers given to the adjoining questions should be supported by relevant documents/evidences as deemed necessary. Once all the questions in accordance with the program are answered, cross referencing made, and the same are duly initialed, the audit can be said to be complete.

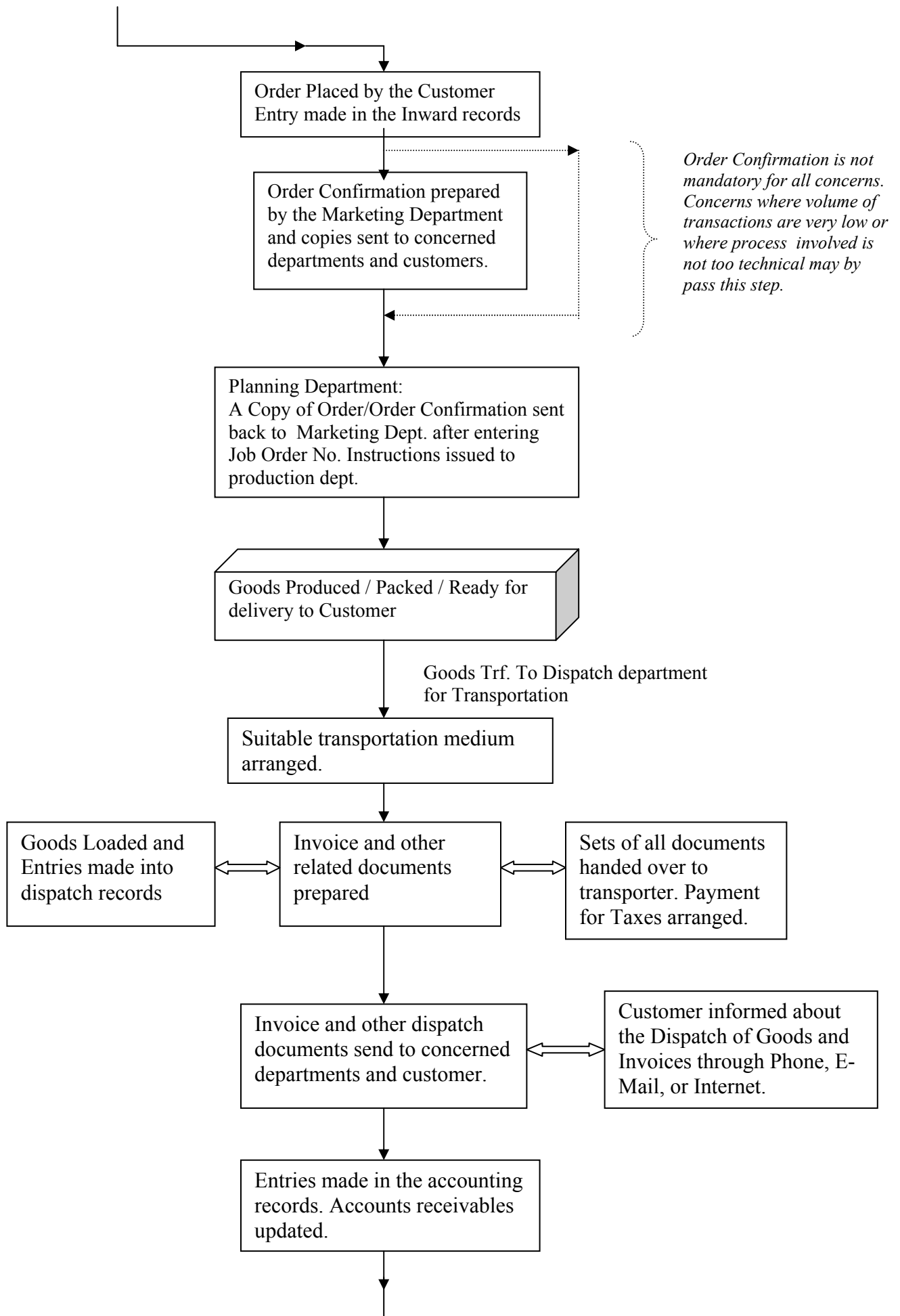
It is noteworthy that a considerable emphasis has been placed on the need for proper documentation with a view to gain proper audit evidence. Some people may be of the view that the level of documentation, which this program recommends, might not be necessary. But it must be remembered that to gain proper evidence and systematically maintaining the audit files is also one of the responsibilities of the auditors. Also note that even if the documents are maintained in proper electronic formats the compliance is still ensured and the controls are safely presumed to be in place. Accordingly wherever such electronic formats are in use it is certainly not necessary to use or maintain any hard copies as long as the basic purpose referred to is served.

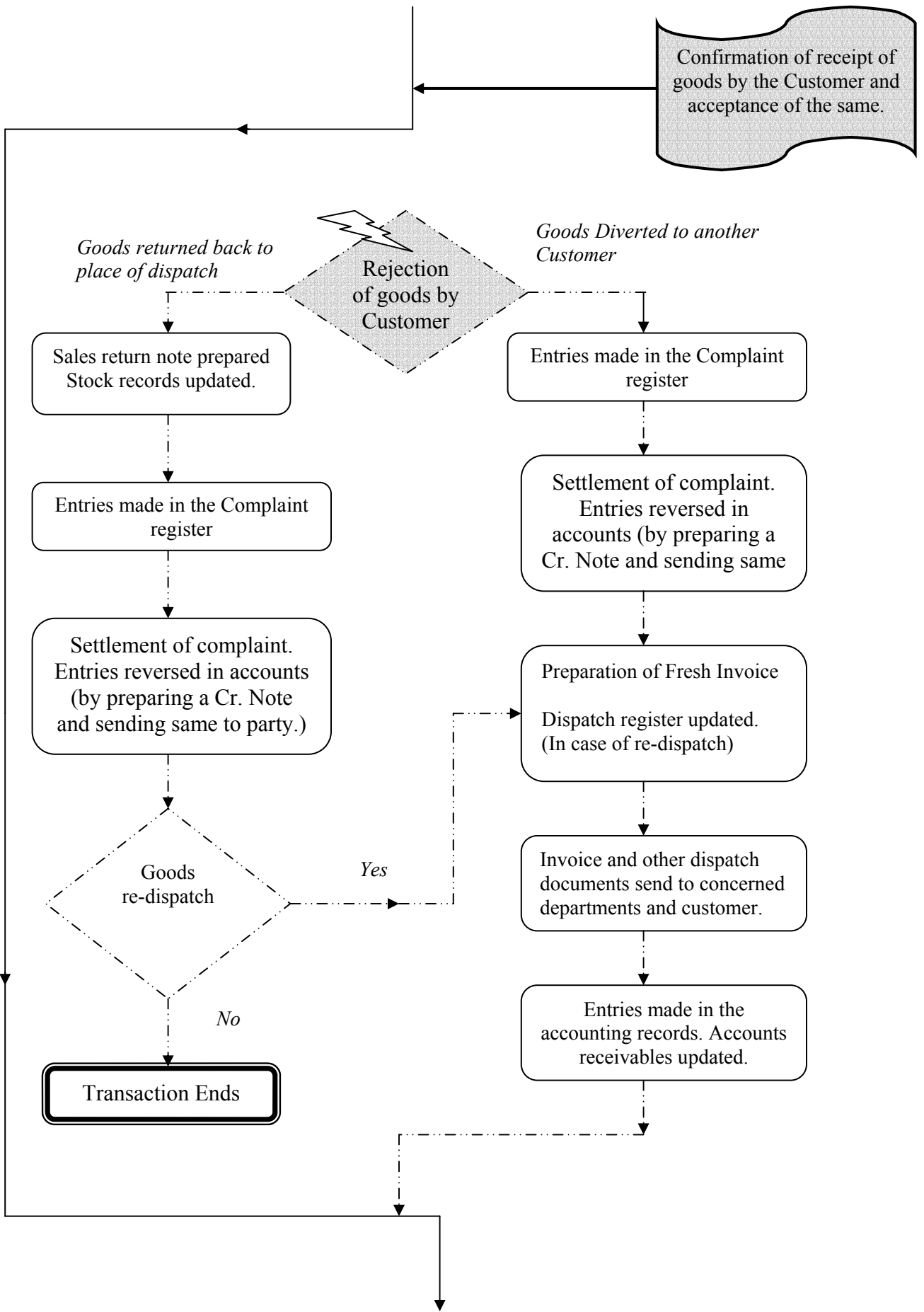
A brief layout of the Main Audit Program is as under:

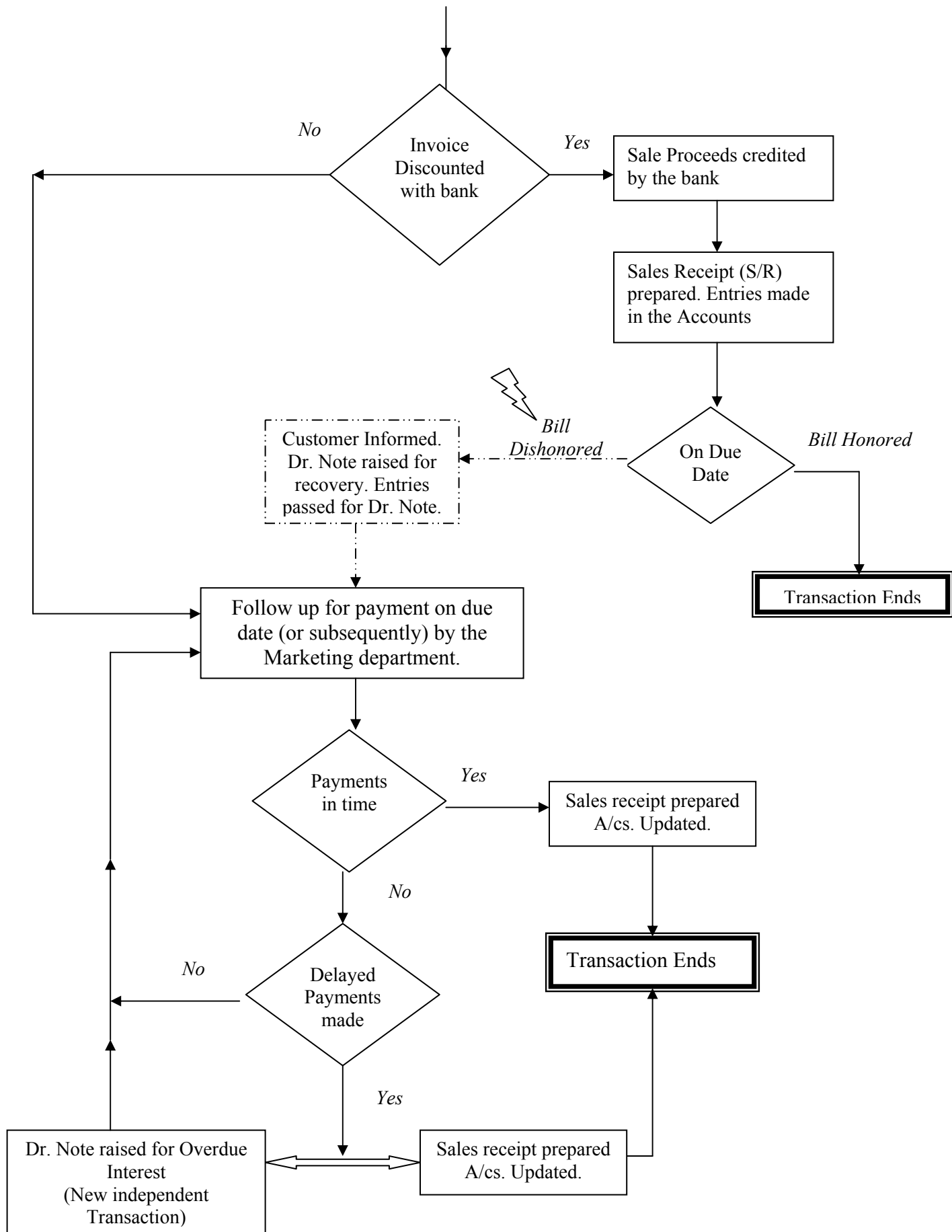
Group	Pertaining to	Ranging from question no.
A.	Systems and Internal Controls	1 - 32
B.	General Accounting & Other Tests	33 – 53

We now begin with the Flowchart:









For the sales systems audit program click [here](#).