

What is a Stock Audit?

It is the physical verification of the inventory. However at times it may also include valuation of the inventory, this would depend upon the terms of reference or the engagement letter of the assignment.

Important thing to remember in a stock audit is the purpose for which the audit is being conducted. Different audits may have different approach to them, which would depend on the intention; for instance, somewhere it may be to ensure there is no pilferage (generally for smaller items) or to ensure that they are properly stored, for larger or damageable goods

Why is Stock Audit Conducted?

Stock Audit is conducted to ensure:

- i. Proper Preservation/Storage of Stock.
- ii. Whether obsolete and Non Moving stock has been separately identified?
- iii. Whether stock is adequately insured against all perils?
- iv. Whether the Physical Stock Value confirms with the Value shown in Bank Stock Statement?
- v. Whether the stock is owned by the borrower & finance is made available against the paid value of stocks only.
- vi. Whether the Age-wise & Party-wise Book debts analysis submitted to the bankers tallies with the books.

Here are some basic suggestions to get ready for the Stock Audit. Tailor them to your client. For some clients, these steps may be too much. For other clients, you may have to add steps. If the company is a repeat client, you'll have the prior year's work papers to help you. Otherwise, your audit team leader can provide further assistance.

1. **Identify inventory locations:** Find out from your client where it stores inventory. Is more than one location involved?
2. **Review Bank Agreement Letter:** Get a copy of the client's agreement with the bank (which lays out the policies and procedures for calculating and verifying the inventory), review it, and discuss with your client any modifications you want to make to the procedure.
3. **Tour the business:** Check out the warehouse or other storage areas before the physical inventory count so you know the layout of the land.

Documents Required:

(A) From the Bank Branch Officials:

- a. Sanction Letter
- b. Stock Statement certified by a CA. for the last month.
- c. Bank Statement for the last 3 months.
- d. Particulars of Collateral Security to be checked.
- e. In case of Company, Copy of Form No. 8 & 32 for creation/ modification of Charge.
- f. Balance Outstanding in All Accounts with the bank.

(B) From the Borrower:

- a. Stock Statement as on date of Verification
- b. Trial balance or Provisional Balance Sheet as on date of Verification.
- c. Copy of latest audited balance sheet.
- d. Insurance Policy (Incl. Bank Hypothecation Clause for primary as well as secondary Collateral Security).
- e. Figures of Purchase and Sales for last 6 months as well as for current month till date of Verification.
- f. Invoices of Purchases & Sales, Stock Register & other supporting Documents for verifying internal controls.
- g. Method of valuation followed for Inventory with detailed working.
- h. Copy of latest Excise/VAT/CST Returns filed.
- i. Break up of Sales into export and domestic.
- j. Details of non-moving and obsolete stock and also stock held for more than 6 months.
- k. ABC analysis of stocks based on the value of annual consumption of major items. (Only if Available)
- l. Products manufactured with details of licensed capacity, installed capacity and actual utilized capacity.
- m. Month wise details of purchases and sales, stock, debtors and creditors for last 6 months
- n. Copy of Constitution of the Entity.

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Your Views & Queries are solicited.

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