Stock Audit Preparation Checklist

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Records, reconciliations and site access, set out in the order a stock audit actually asks for them rather than as a general list. Working through it beforehand shortens the engagement and stops small record gaps being written up as control failures. What it cannot do is improve the underlying records overnight.

A Records to Assemble

BEFORE THE VISIT

- [ ] Stock statement as filed with the lender for the period, together with its workings
- [ ] Any revised stock statement, kept alongside the filed version rather than in place of it — the filed version is the benchmark
- [ ] Stock register as maintained, in whatever form it is kept
- [ ] Bin cards at the rack
- [ ] Gate inward and outward register covering the cut-off period
- [ ] Purchase register either side of the cut-off
- [ ] Sales register either side of the cut-off
- [ ] Goods receipt notes for the cut-off period
- [ ] Dispatch documents and delivery challans for the cut-off period
- [ ] Valuation working — the basis on which stock has been valued
- [ ] Ageing schedule behind any provision carried
- [ ] Written provisioning policy as actually applied
- [ ] Sanction letter, and the stock audit clause it carries
- [ ] Quarterly returns already filed with the bank for the period

B Reconciliations to Run First

BEFORE THE VISIT

- [ ] Filed stock statement against the stock register for the same date, with differences explained
- [ ] Stock register against the books of account
- [ ] Quarterly returns filed with the bank against the books of account
- [ ] Stock held with job workers, on consignment or in transit listed separately, with confirmations sought
- [ ] Customer-owned, bonded and pledged stock identified on paper before it is segregated on the floor
- [ ] Open exceptions from the previous audit, with the action taken against each

C Cut-Off Controls

DAY BEFORE

- [ ] Cut-off moment agreed in writing with the audit team
- [ ] Receipts after the cut-off held aside, physically separated and labelled
- [ ] Dispatches before the cut-off cleared out of the despatch area
- [ ] Last document number recorded in each series — goods receipt note, invoice, delivery challan, gate pass
- [ ] Movement halted, or logged in full, for the duration of the count — weak cut-off is the most common cause of a difference that turns out not to be one

D Site Access and Logistics

DAY BEFORE

- [ ] Site list with addresses, including third-party, rented and overflow locations
- [ ] Named contact per site, with a number that will be answered on the day
- [ ] Entry passes and gate authorisation raised in advance for the audit team
- [ ] Safety induction, protective equipment and any height-access clearance arranged
- [ ] Access arranged to racking, cold storage, bonded areas and locked cages
- [ ] Your own count staff identified and released from other duties for the day
- [ ] Weighing scales calibrated and measuring equipment available at each site
- [ ] System extract prepared but held back until counting is complete

E On the Day of the Count

DURING

- [ ] Counting starts from what is present on the floor, not from a system extract handed over at the gate
- [ ] Independent test counts accommodated on lines your team has already counted
- [ ] Differences put to management as they arise, with the supporting document requested
- [ ] Each difference attributed to a named cause — timing, recording error, or genuine shortage
- [ ] Slow-moving, damaged and obsolete stock physically identified while the floor is open

F After the Count

REPORTING

- [ ] Draft findings reviewed for factual error inside the reply window
- [ ] Written management response prepared against each finding
- [ ] Reply recorded alongside the finding rather than replacing it
- [ ] Final signed report released to the lender that commissioned it

What Sits Behind This Checklist

CARO 2020, clause 3(ii)(a)

The auditor reports whether physical verification of inventory was conducted at reasonable intervals by management, whether coverage and procedure were appropriate, and whether discrepancies of 10 per cent or more in the aggregate for each class of inventory were noticed and properly dealt with in the books.

CARO 2020, clause 3(ii)(b)

Where working capital limits in excess of five crore rupees have been sanctioned in aggregate on the security of current assets, the auditor reports whether the quarterly returns filed with those institutions agree with the books of account. That is why section B asks for the returns as well as the books.

SA 501 — attendance at physical inventory counting

Where inventory is material, the standard expects attendance at the physical count, evaluation of the procedures management applied, inspection of the inventory and performance of test counts.

SA 530 — sample size and test checks

Selection is weighted to value: high-value lines are covered completely and the long tail is sampled. Repeated differences widen the sample rather than adjust the figure.

Where the requirement actually comes from

No statute orders a borrower to have a stock audit performed. The requirement arrives through the sanction letter, which converts the credit policy of the lender into a term of your facility. Reading a bank threshold as if it were law is the most common error here.

This checklist is general preparation guidance, not an audit opinion or professional advice on your facility. What a specific lender asks for is set by its sanction letter and its own credit policy. Patron Accounting, Pune.

Talk to the stock audit team

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