**Documentation Template**

Virtual inventory observations (VIOs)
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Engagement teams planning on attending physical inventory observations virtually should document their risk assessment and planning considerations in the following template for inclusion in the audit file.

The following template is used to document the engagement team’s assessment of the appropriateness of executing a VIO including the relevant risk assessment and execution considerations. Observing a VIO virtually is only appropriate when the following conditions are met:

* *we assess the risk of material misstatement of inventory quantities as normal (including any related fraud risks)*
* *historically, inventory records have been accurate*
* *there are no known control deficiencies or any other significant changes to management’s process that could impact the quality of the VIO such that our presence in person is required*
* *it is an existing client and the inventory is subject to the historical controls of the entity (i.e. it may not be appropriate to attend inventory observations virtually for new clients or for the inventory of an acquired entity of an existing client. Engagement teams should consider a consultation with Audit Services for VIOs in these situations. This documentation template should also be completed as a basis for the consultation.)*

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| Materiality | Document overall materiality, performance materiality and component materiality if applicable |  |
| Inventory balance by location | Provide detail on the expected overall inventory balance, a breakdown of the locations highlighting how each inventory observation will be performed (virtual, in-person, internal audit, etc). Types of inventory within locations should be detailed if it will impact the method of counting (RM vs. WIP vs. FG). |  |
| Nature of the inventory to be counted | Describe the inventory to be counted and the nature of the count procedures to be performed.* Are there any unique counting methods (e.g. weighing, measuring, etc.?)
* Is the inventory easily identifiable (or more difficult - e.g. small parts)?
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| Execution of observation procedures in addition to test counts | A VIO involves more than performing test counts. Document how the other elements of a physical inventory observation can be executed virtually including assessing:* condition of the inventory (the valuation assertion)
* accuracy of the inventory description
* quality of the company’s instructions
* organization of the warehouse
* quality and supervision of counters
* approval of the counts
* cutoff procedures and controls
* the completeness of the inventory counted (e.g., tests of tag control or similar procedures)

Documentation should include a plan for obtaining any incremental documentation required (count sheets, inventory tags, copies or reconciliations, etc).It is expected that the [Physical Inventory Observation Checklist](http://localhost/intranet/financial-audits/templates/OAG-Physical_Inv_Obs_Checklist_15506E.xlsm) template will be completed and reviewed.  |  |
| Risk assessment procedures and VIO considerations |
| Changes in inventory processes and controls | Describe any changes made to the client processes which could impact the accuracy of the physical quantity of inventory - including any changes to cycle or wall-to-wall count procedures. |  |
| Ability to verify location and understand the layout of the facility | Obtain an understanding of the facility where the inventory will be counted which will permit the counter to:* Confirm that the location of the VIO is correct on the day they attend
* Know their location at all times during the VIO
* Assess the organization and condition of all of the inventory included in the listing
* Select floor to sheet count items by independently directing the client to a location of the counters choosing.

This understanding may be obtained from our prior visits or site/floor maps of the facility. |  |
| Ability to live stream the observation procedure | Document the technology that will be used to conduct the VIO (we would expect to use applications that are standard and available to the public, such as FaceTime, Zoom, Google Meet, Webex, Skype, Microsoft Teams, etc.).A continuous and uninterrupted view of the observation similar to what we would experience if we were present in person is critical to maintaining the integrity of the VIO. In order to maintain the constant feed it best practice that:* Two members of OAG are on the feed in case one member gets disconnected; and
* A more senior member of the team attends the VIO to apply their experience, professional skepticism, and deal with issues on a real-time basis.
* A dry run to test the connection is done by the client using the technology that will be used during the actual VIO to confirm continued access in all areas of the facility.
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| Ability of the entity to facilitate virtual observation | We would need one or more competent entity employee(s) who is/are separate from the entity’s count teams to execute our instructions, such as what to recount and where to go within the facility. Best practice would be to have two employees present for each count team: one person counting and one person controlling the camera, to limit disruptions in the video feed. Document the processes the client will have in place to facilitate our VIO. |  |
| Ability to effectively observe the entire facility | An effective virtual technique would permit us to direct a tour of the facility, including observation of cutoff/segregation controls/areas, to confirm that there was no or limited movement of inventory during the VIO and to conduct a survey to see that all inventory has been counted. The tour needs to be comprehensive enough to observe whether any slow-moving/obsolete inventory appears to be present and to assess the condition of the inventory. Document any expected limitations and procedures to be performed to address the limitations. |  |