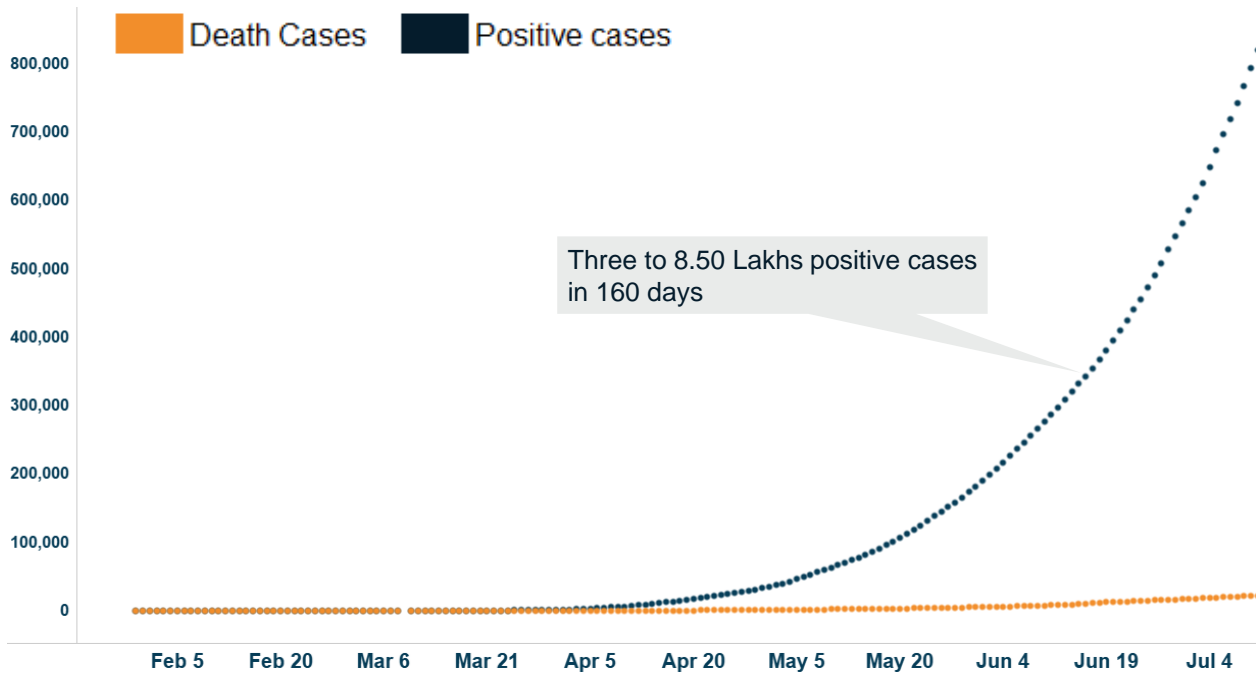


Covid19 - Considerations for Inventory physical verification process

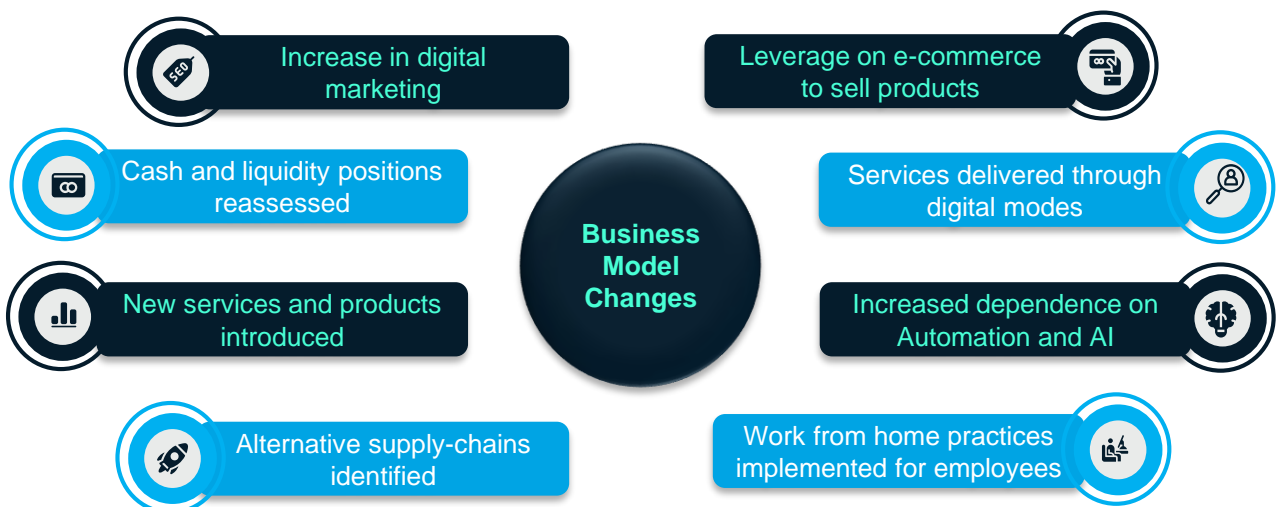


In about 6 months since the outbreak of Covid-19 began in Wuhan, China, the virus has affected the entire world including India. Every state and union territory in India has reported confirmed cases of the virus with a steady increase in the numbers, the active cases as of 12 July 2020, crossed **8.5 Lakhs cases**.



After 75 days of lockdown, the Government of India announced various stages of measures for restoration of public life and normalcy which was called Unlock 1.0 and 2.0.

Covid-19 has forced organizations to reassess its priorities, its working style, its business model, employee engagement, and what not!



Data Source: www.ourworldindata.org/coronavirus

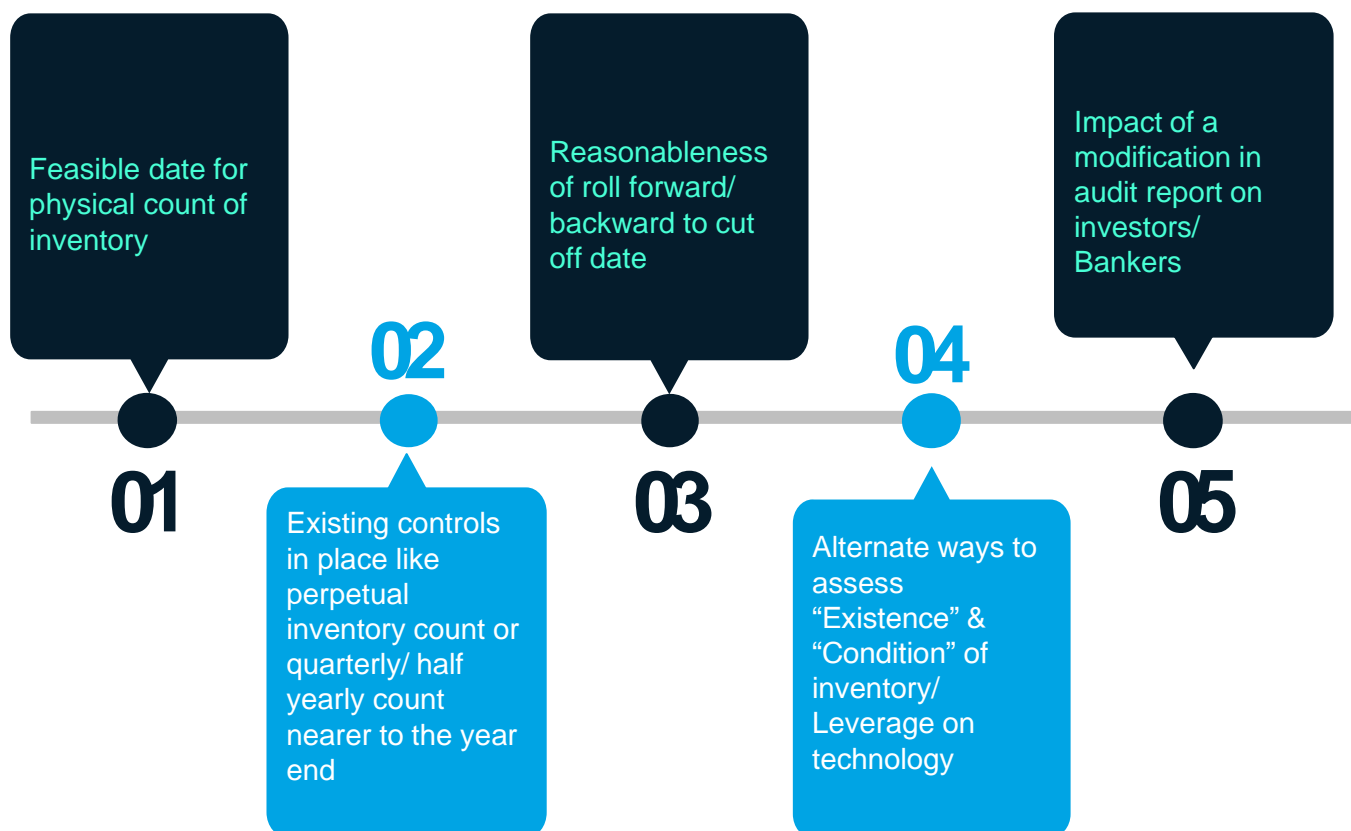
Role of Management:

Primarily, it's the management's responsibility to assess how the Company would satisfy itself regarding the existence and condition of available inventory and consequently impacting its valuation. While its important to assess the feasibility of a physical count, its also important for the management to do a cost benefit analysis in using technology or work of experts for inventory counts.

As per **Company Auditor's Report Order (CARO) 2016**, auditors are required to comment on

- Whether at reasonable intervals the management has conducted physical verification of inventory
- If any material discrepancies were noticed on physical verification, whether it has been accounted for in books of accounts.

Critical areas for consideration of the management



Key focus areas for Statutory Auditors

01

Materiality of inventory value

06

Roll back and Roll forward if PV could not be performed on cut off date

02

SA 510 – Audit evidence specific considerations

07

Work already performed by auditors during the year in assessing effectiveness of controls

03

Use of technology for performing in physical counts

08

Discuss with those charged with governance in advance on impact in audit report

04

SA 600/ 610/ 620 - Use of other auditors/ internal auditors/ experts

09

When PV not performed, is this reasonable or a scope restriction by management

05

Existence of alternate controls in place

10

Assess impact of SA 705/ 706 in audit report

Re-visit the risk assessment process considering the significant impact of Covid 19, discuss with the management on how the management obtained comfort on the specific assertions of existence and valuation on year end inventory and ensure “No surprise element” at the fag end of audit. All these are imperative for a successful audit completion. **It is definitely not business as usual.**

While there are challenges in performing the traditional audit procedures for inventory verification and deriving comfort, it is important to adequately manage this and adopt alternate innovative procedures including leveraging technology

About Finstein

Finstein is the next generation consulting firm, we leverage heavily on innovative technologies and some amazing minds to provide insights and value addition to our clients. We are severely passionate to deliver outstanding quality

Visit us:

India

First Floor, New no 43, Old no 65
South West Boag Road
T Nagar, Chennai, India 600017

Singapore

No.3, Shenton Way, # 15-10,
Shenton House,
Singapore 068805

Reach us on:

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Insights

Contact



Vaidyanathan N A

Practice Leader: Financial Reporting and Tax Advisory

E: Vaidy@Finstein.ai

M: +91 98409 00152