



Study Circle Meeting

J B Nagar CPE Study Circle of WIRC of ICAI

Session II
Stock Audit of Borrower Accounts

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Agenda

Objective

- **Stock & Debtors Audit**
- **Guidelines**
- **Checklists**
- **Reporting Formats**



■ Stock & Book Debts Audit



Standards on Auditing – SRS 4400

- Standards on Related Services (SRS)
- SRS 4400 – Engagements to Perform Agreed-upon procedures Regarding Financial Information – Text
- Applicable for all AUP engagements beginning on or after April 1, 2004
- In an engagement to perform AUP Auditor has to issue report of factual findings, based on specific procedures performed on specified subject matter.



Stock & Debtors Audit – Objective

- **Checking physical existence of stock & debtors as per books of accounts**
- **General overview of borrowers unit, its operations**
- **Check security cover is adequate**
- **Correctness of data declared in Stock statements**
- **To check quality of goods, in particular to detect the slow moving or non-moving goods inclusive of rejections etc.**
- **To check validity of prime security**



Stock & Debtors Audit – Objective

- **To check whether books of accounts are updated**
- **To check system of stock issue / reconciliation with physical quality**
- **To check conformity with other records such as excise register / VAT register, etc.**
- **Pricing of materials including WIP, F/Goods etc. and how for they are reasonable based on the consistent practice followed.**
- **Confirmation of the balances of book debts by the respective parties.**
- **Verify creditors figures to ascertain unpaid stock**



Stock & Debtors Audit – Checklist

- Regularity of the borrower in submitting the stock statements to the bank.
- Regularity of the bank staff in inspecting the borrower's unit to verify the physical stocks vis a vis book figures.
- The present system of stock taking.
- The methodology adopted in the valuation of the stocks (LIFO, FIFO, or average rate).



Stock & Debtors Audit – Checklist

- **Identification of slow moving and non-moving stocks and to assess its quality.**
- **Verification of the debtors' list against the debtors' ledger and prepare age wise breakup of debtors and to assess the prospects of recovery of debt, if it is doubtful.**
- **Stock Audit Report Format (Bank)**



Stock Audit Report – Requirements of SRS 4400

The Report of AUP engagement needs to describe the purpose and the agreed – upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of work performed.

The report should also clearly mention that no audit or review has been performed.

Report should contain:

- **Title**
- **Addressee**
- **Identification of financial or non financial information to which AUP have been applied**
- **Statement that procedures performed were those AUP with client.**



Stock Audit Report – Requirements of SRS 4400

- A statement that procedures performed do not constitute either audit or review and as such no assurance is expressed.
- A statement that had the auditor performed additional procedures, audit or review, other matters might have come to light that would have been reported.
- A statement that the report is restricted to those parties that have agreed to the procedures to be performed.
- A statement that the report relates only to the elements, accounts, items or financial and non financial information specified and that it does not extend to the entity's financial statements taken as a whole.



Stock Audit Report – Points to remember

- ✓ Read the appointment letter carefully
- ✓ Engagement Letter – [Format 1](#)
- ✓ Issue requirement checklist to branch & Client
- ✓ Verify Loan files at Branch
- ✓ Document process for verification & testing.
- ✓ Obtain SAAE for your findings
- ✓ Points in Report Format – obtain document / evidence in working papers
- ✓ Discuss all the findings with branch officials and Minute the discussion, specific observations and get it signed by branch officials.
- ✓ Address reports as per the appointment letter
- ✓ Stock Audit Report – [Format 2](#)

Questions???





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