Internal control

Chapter 6: Internal control in the business processes

B. Stock Cycle

B. Inventory cycle

1. Risks regarding stock/inventory

- Not being able to produce/deliver in time
- Excess stock
- Theft, damaging, ageing
- Incorrect registration of stock movements

2. The warehouse

- Centralized or decentralized
- Conditions that have to be met:
  - Closed/secured area
  - Only release and acceptance when authorized
  - Warehouseman needs to have information about stock movements
- Open warehouse

B. Inventory Cycle

3. Description of the inventory process

3.1. Release of goods

- Release document (= authorisation) coming from sales or production (purchasing?)
- Copy of release doc goes to stock/inventory records department

3.2. Acceptance/reception of goods

- Authorisation from purchasing (sometimes sales)
- Warehouseman should evaluate quantity and quality
- Warehouseman creates reception document
  - 1 □ warehouse
  - 1 □ purchasing
  - 1 □ invoice control
  - 1 □ stock/inventory records
- To write off or destroy stock □ approval/authorisation needed!

B. Inventory Cycle

3. Description of the process

3.3. Keeping track of mutations

- Independent from stock/inventory records

2.3.4. Stock/inventory records

- Administration of stock items – quantity **and** value

- Purpose:
  - Being able to permanently determine the theoretical stock ☐ to calculate cost of goods sold ☐ intermediate result
  - Keeping track of stock mutations to determineand evaluate the correctness and value of the stock
  - Provide purchasing, sales and production with information regarding stock (levels and value)
  - Provide 'invoicing' with information
  - Indicating excess stock and aged/obsolete stock

- Role: applying valuation methods to stock (Lifo, Fifo, …)

B. Inventory Cycle

2.4. Inventory – stock count

- To check whether the stock as mentionned in the balance sheet/stock records exists.

- By warehouseman, together with someone from a financial or controlling department (not stock

- Differences should be explained

- Stock records should be adjusted

- Methods
  - Partial rolling stock count
  - Full stock count