**Client:** BCGG

**Workpaper Reference:** R-1

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**Purpose of the workpaper:**

Test the completeness of inventory and the valuation of inventory of the 2019 inventory data provided by client management by performing substantive analytical procedures to determine potential misstatement (AS 1215.05).

**Objective of the tests:**

The completeness test (inventory rollforward) will allow us to identify any potential items in the inventory that have not been accounted for. Through testing the lower of cost and net realizable value (NRV) we can determine whether the inventory ending balance is materially misstated based on our materiality assessment, this is also to further test valuation and find out if some inventory is not moving throughout the fiscal year (AS 1215.06).

**Deviation definition:**

Any deviations for the completeness test are defined as items (inventory quantities) that do not zero out after the following formula:

*Beginning inventory + purchases – cost of sales – ending inventory = 0*

Deviations for the valuation test occur when inventory is not listed at the lower of cost or net realizable value. This is calculated by subtracting the purchase price from the selling price. If the outcome of this formula is below zero, it shows that inventory is sold below cost and therefore it should be valued at its net realizable value. W-3B2\_FluxTest shows that there were no fluctuations in either purchase and sales price, therefore we can justify using the average purchase price to value ending inventory. This is a deviation for purposes of the valuation test.

**Definition of the population/data to be examined and/or sampled, including steps to verify and validate data:**

The client, BCGG, has provided the audit team with data for beginning inventory, purchases, sales, and ending inventory. The files provided are provided by name in the same order: BCGG\_BegInv6302019.csv, BCGG\_Purchases6302019.csv, BCGG\_Sales6302019.csv, and BCGG\_EndInv6302019.csv.

To verify the completeness of the data file, an inventory rollforward test (completeness) was ran and further explained below. A valuation test can then be ran to evaluate whether or not, based on our test and materiality threshold, the balance in ending inventory is overstated.

**Sampling technique:**

This test will cover 100% of the population, therefore sampling is not needed.

**Audit procedures performed:**

**Alteryx workpaper 1** – Completeness assertion

To verify completeness of data files: W-3A\_CompletenessInventory

Step 1: Recalculate balance of ending inventory

Step 2: Identify any inventory items that were not accounted for

Step 3: Inspect the rollforward and determine if any discrepancies showed up

**Alteryx workpaper** 2 – Valuation assertion

To identify potentially misstated inventory balance: Workpaper: W-3B\_InventoryValuation

To identify fluctuations: Workpaper: W-3B2\_FluxTest

Step 1: Subtract purchase price from selling price

Step 2: Determine if certain brands are sold below cost

Step 3: Determine the valuation of ending inventory

Step 3B: Purchase and sales price fluctuation test

Step 4: Compare to actual and determine whether discrepancy is material

**Results:**

Results from the completeness test show that there were no deviations, since the rollforward for each brand equals 0. This shows that each item is accounted for and that the data files are complete.

The valuation test resulted in inventory being valued at $12,213,064 which does not tie out to the financial statements for the year ending June 30, 2019. The difference in our test’s balance and the client’s balance is $2,216,594 which can be seen as the other outcome of the test. Based on our defined materiality threshold, it is considered immaterial in amount. This difference is ending inventory that was also on the books at the beginning of the year. This amount represents inventory that did not move all throughout the year, but it was still added in to inventory that sold throughout the period.

**Error Analysis:**

N/A

**Root cause of errors:**

N/A

**Conclusion:**

Further audit procedures are necessary to determine the reason for the discrepancy in valuation between our valuation test and the BCGG’s financial statements for the year ended June 30, 2019. Management should consider reevaluating the $2,216,594 in inventory since it did not move throughout the fiscal year and therefore, we think that this inventory should be revalued by client’s management to make sure that it is not obsolete or impaired.

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