

ABC Biosystems, Inc.
Control Matrix – Corporate Inventory & COGS Cycle

Control Objectives	FS	CAVR	Risks	CONTROLS				
	Assertions (PERCV)			Controls in Place (Key Controls are Bolded)	Frequency of Control **	Manual or Automated	Preventive or Detective	Tests of Controls
4.1 Ensure that there are formal inventory policies & procedures.	Existence Completeness Rights & Obl Valuation Presentation	Completeness Accuracy Validity Restricted	Non-productive/inefficient daily operations.	There are documented procedures/work instructions.	Trans.	Both	Both	Discuss with Internal Audit Manager the existing policy and procedures and adherence to these procedures. Results of audit steps performed as listed below.
Inventory Valuation								
4.2 Ensure that Bills of Materials (BOM) are properly established to reflect the current costs of production and materials.	Completeness Valuation	Completeness Accuracy	Costs may be outdated and not accurately reflect current production process/costs.	Standard costs are reviewed; Material costs-semi-annual & labor/overhead-quarterly. Labor & Overhead Rate Analysis reviewed by management on a monthly basis.	Qtr/Semi Ann. Month	Manual Manual	Detective Detective	Select a sample of standards (material costs) review/adjustment and review if materials that were different from the last standard were adjusted. Select a sample of standards (labor & overhead rates) review/adjustment and review if labor and overhead rates that were materially different were revised. Select a sample of labor and overhead rates analysis and review for reasonableness and verify that these were reviewed by management
4.3 Ensure an adequate valuation process exists for excess & obsolescence reserves.	Valuation	Accuracy	Inventory may be overstated.	Reserves for excess & obsolete inventory monitored and adjusted on a quarterly basis.	Qtr.	Manual	Detective	Review a couple of quarterly excess and obsolete reserves analysis for reasonableness and adequacy.
Production Planning								
4.4 Ensure that the production, development of production build schedules, and labor requirements are based on an approved sales forecast (production plan).	Completeness Existence	Completeness Validity	Unauthorized production may lead to excess levels beyond authorized levels and to unsaleable inventory.	Production build schedule based on approved production plan.	Qtr.	Manual	Detective	Select a sample of work orders from the open work order listing and review for reasonableness that the work order was related to the build of products per the applicable approved production plan. Obtain a production build plan for a month and note that it was approved accordingly.
4.5 Ensure that the inventory	Completeness	Completeness	Unauthorized	Inventory	Qtr.	Manual	Detective	From the sample selected in 4.4 above,

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control planning & material requirements are based on an approved sales forecast (production plan).	Existence	Validity	purchases of inventory may lead to excess inventory beyond authorized levels and to excess and/or obsolete inventory.	procurements based on approved production plan.				review for reasonableness that the applicable materials if applicable, were procured as necessary.
Purchase Inventory								
4.6 Ensure that all inventory purchases are supported by a purchase order (PO).	Existence Completeness Rights & Obl	Completeness Accuracy Validity	Unauthorized inventory purchases.	All inventory purchases are procured with PO's.	Trans.	Automated	Preventive	Select a sample of paid inventory purchase invoices from the Accounts Payable department to test the following attributes; 4.6 An approved Purchase Order (PO) was issued. 4.7 Approval of PO was consistent with Expenditure Authorization List. 4.10 Payment for inventory receipt matched PO, and receiving form.
4.7 Ensure that all inventory purchases are approved by a person with appropriate approval level.	Existence Completeness Rights & Obl	Completeness Accuracy Validity	Unauthorized inventory purchases.	There is a Signature Authorization listing that pertains to the approval of inventory purchases. Authorizations must be obtained prior to the purchase of inventory and are tied to an approval hierarchy based on \$ thresholds.	Trans.	Manual	Preventive	Select a sample of paid inventory purchase invoices from the Accounts Payable department to test the following attributes; 4.6 An approved Purchase Order (PO) was issued. 4.7 Approval of PO was consistent with Expenditure Authorization List. 4.10 Payment for inventory receipt matched PO, and receiving form.
Receive Inventory								
4.8 Ensure that all inventory receipts are recorded.	Existence Completeness Rights & Obl Valuation	Completeness Accuracy	Inventory receipts are not recorded.	Use of system generated, pre-numbered receiving forms and all receipts	Trans.	Manual/ Automated	Detective	Select a sample of receiving forms from the Receiving Log in the Shipping and Receiving department and trace recording into the general ledger.

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				are logged into a receiving log.				
4.9 Ensure that all inventory receipts are recorded in the correct period.	Existence Completeness Rights & Obl Valuation	Completeness Accuracy	Inventory receipts are not recorded in the correct period.	Use of system generated, pre-numbered receiving forms.	Trans.	Manual/ Automated	Detective	Select a sample of receiving forms from the Receiving Log in the Shipping and Receiving department and trace recording into the general ledger.
4.10 Ensure that only inventory received is paid for.	Existence Completeness Rights & Obl Valuation	Completeness Accuracy Validity	Paying inventory bills for inventory that has not been received.	Inventory receipts are compared to vendor packing list & PO, recorded onto MAS receiving form and these forms sent to Accounts Payable.	Trans.	Manual/ Automated	Preventive	Select a sample of paid inventory purchase invoices from the Accounts Payable department to test the following attributes; 4.6 An approved Purchase Order (PO) was issued. 4.7 Approval of PO was consistent with Expenditure Authorization List. 4.10 Payment for inventory receipt matched PO, and receiving form.
Incoming Inspection Quality Control (IQC)								
4.11 Ensure that defective or non-conforming inventory is identified, segregated from inventory and that it is returned and that the credit is received.	Existence Completeness Valuation	Completeness Accuracy	Defective and or non-conforming inventory is accepted and included in inventory.	Inventory receipts are inspected for visual damages at time of receipt. Additional IQC process performed subsequent to physical receipt and defective/non-conforming inventory are reported on Non Conforming Material Report Form.	Trans.	Manual	Preventive	Select a sample of Non Conforming Reports filed/processed from Materials Review Board and note that disposition was approved and properly recorded into the general ledger.
Inventory Movements & Transfers								

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4.12 Ensure that transfers of inventory from raw materials into production is accurately tracked.	Existence Completeness Valuation	Completeness Accuracy Validity	Missing inventory. Inventory is misclassified.	Materials issued for production are issued on system-generated (pre-numbered) work orders.	Trans.	Automated	Preventive	Select a sample of work orders from an open work order listing and note that transfers of raw materials to production manufacturing were evidenced by a Work Order.
4.13 Ensure that inventory transfers between locations and/or other issuance are accurately tracked.	Existence Completeness Valuation	Completeness Accuracy Validity	Missing inventory. Inventory is misclassified. Cost of sales misstated.	An approved Material Transfer/Request form is utilized for transfers/issues of materials.	Trans.	Manual	Preventive	Select a sample of material issues of inventory for internal consumption and note that the issues of raw materials were evidenced by an approved materials transfer/issue form.
4.14 Ensure that completed production is accurately transferred into Finished Goods inventory.	Existence Completeness Valuation	Completeness Accuracy	Inventory is misclassified. Loss of sales.	Periodic reviews of open production work orders/investigation of old open work orders.	Monthly	Automated	Detective	Obtain and review an open work order listings and discuss with applicable materials management personnel for reasonableness.
Customer Product Returns								
4.15 Ensure that customer product returns are authorized and inspected for appropriate disposition.	Existence Completeness Rights & Obl Valuation	Completeness Accuracy Validity	Products returned from customers may not be valid/authorized.	Field Service personnel fills out a North American Field Shipping Form to identify information on product return (i.e. customer name, location, product, quantity & serial #).	Trans.	Manual	Preventive	Obtain and review a couple of product returns and note that a North American Field Shipping Form was properly filled out to document authorization of the return. Additionally, note that the return was recorded properly into the general ledger.
Perpetual Inventory Accounting								
4.16 Ensure that an inventory cycle count system is implemented and that all high volume or high value parts are cycle-counted on a consistent schedule.	Existence Completeness Rights & Obl Valuation	Completeness Accuracy Validity	Missing inventory, inaccurate general ledger account balance, missed production schedule, missed	Cycle counts are conducted on a periodic basis. Results are reviewed by management.	Month/Qtr/ Ann	Manual	Detective	Obtain a couple of cycle counts compilation reports and note that all variances were properly reconciled and necessary adjustments (to perpetual and general ledger) were properly recorded.

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the appropriate period.	Valuation		appropriate period.	revenue shipments to the list of customers with cost of sales recorded to verify the validity of the cost of goods sold recorded in MAS200 for systems shipments.				of sales noting that cost of sales recorded appropriately as noted per the Quarterly Revenue Estimate report.
4.21 Ensure that costs on all shipments of product sales are recorded.	Existence Completeness Valuation	Completeness Accuracy	Costs on shipment of product sales not recorded.	Sales orders are sequentially numbered & the sequence of orders processed is accounted for.	Trans.	Automated	Preventive/ Detective	Review a file of monthly sales transaction journals and note that the sequential order of the sales orders/invoices generated. Select a sample of product revenue shipments from the Shipping & Receiving department shipping log, verifying that the shipment was properly invoiced and recorded.
4.22 Ensure that management periodically reviews gross margin analysis.	Completeness Valuation	Completeness Accuracy	Standard costs are not correct. Inventory values are misstated. Cost of Goods Sold is misstated.	Management reviews gross margins analysis of product sales on a monthly basis.	Month	Manual	Detective	Obtain and review a couple of months gross margins analysis and note that the actual results were properly investigated and documented.
4.23 Ensure an adequate review of scrap and rework/refurbishment costs.	Completeness Valuation	Completeness Accuracy	Cost of Goods Sold is misstated. Misappropriation of inventory.	Weekly Materials Review Board reviews of scrap and rework/refurbishment costs.	Wk	Manual	Detective	Select a sample of Material Issues for scrap from the materials management file noting that the transaction was properly approved and recorded.
Inventory Control								
4.24 Ensure that only authorized personnel have access to the inventory system.	Existence	Restricted	Potential for errors and irregularities on reporting increases as access is widely disbursed.	Username and passwords are required to access the inventory system and only granted to appropriate employees.	Trans.	Automated	Preventive	Obtain a listing of employees that have authorized access into the inventory management/transaction module and sample test access of several usernames and related passwords.
4.25 Ensure that	Completeness	Completeness	Inventory misstated.	All adjustments are	Month	Manual	Preventive/	Select a sample of journal entries

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			revenue/shipping schedules.					
4.17 Ensure that all inventory is physically counted periodically.	Existence Completeness Rights & Obl Valuation	Completeness Accuracy Validity	Missing inventory.	Physical count conducted as follows; Monthly-Consumables (100%) Quarterly-Consumables (100%) Systems (100%) Annual-Consumables (100%) Systems (100%) Results are reviewed by management.	Month Qtr. Ann.	Manual Manual Manual	Detective Detective Detective	Obtain the latest physical count compilation report and note that major variances were reconciled and necessary adjustments (to perpetual and general ledger) were properly recorded.
4.18 Ensure that the perpetual inventory records are reconciled to the general ledger.	Existence Completeness Rights & Obl Valuation	Completeness Accuracy Validity	Missing inventory. Inaccurate general ledger account balance.	The perpetual inventory system is reconciled to the general ledger on a monthly basis.	Month	Manual	Detective	Review a couple of month-end inventory reconciliations noting that the reconciliations were performed on a timely basis and that reconciling differences were properly investigated and necessary adjustments recorded.
Cost of Goods Sold								
4.19 Ensure that management consistently reviews standard costs and manufacturing variances, that any variances above set percentages are reviewed with upper management and that corrective action is consistently undertaken.	Completeness Valuation	Completeness Accuracy Validity	Standard costs are not correct. Inventory values are misstated. Cost of Goods Sold is misstated.	Monthly management reviews of inventory adjustments, purchase price variances (PPV) and manufacturing variance of over/under absorption.	Month	Manual	Detective	Review a couple of month-end variance analysis noting that major differences were investigated and resolved.
4.20 Ensure that costs of inventory sold is recorded in	Existence Completeness	Completeness Accuracy	Cost of sales not recorded in the	Comparison of customers with	Month	Manual	Preventive/ Detective	Review a couple of month-end period close in connection with recording cost

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adjustments to inventory is reviewed for reasonableness and/or accuracy.	Valuation	Accuracy	Cost of sales misstated.	reviewed by management.			Detective	reflecting adjustments noting appropriate approvals.
4.26 Ensure that no employee has complete control over the planning, purchase, receipt, storage, movement, shipment, cycle counting, setting of cost standards and cost accounting of inventory.	Existence Completeness Rights & Obl Valuation	Completeness Accuracy Validity Restricted	Unauthorized transactions. Fraudulent transactions.	Inventory duties are appropriately segregated between inventory management and costing/valuation.	Trans.	Automated	Preventive	Review the Company's org chart and note that duties and responsibilities are appropriately segregated between inventory management and costing/valuation.