

Hi, my name is Ron Kurian Roy, a master of professional accounting student.

Through this Project, I will be auditing the inventory records of XYZ company.  
I am doing this auditing project using Power BI to create visuals that would help me explain my findings in each slide. Additionally, I have imported data from excel as a CSV file (generated using Claude AI).

Main focus would be:

**1) Variance or shrinkage (the actual quantity required minus the quantity on hand).**

**2) Missing documentation.**

**3) Unusual patterns.**

Note: This is a basic level of auditing done for my personal interests to develop my auditing skills and understanding.

**-629K**

Sum of VarianceValue

**-21K**

Sum of Quantity

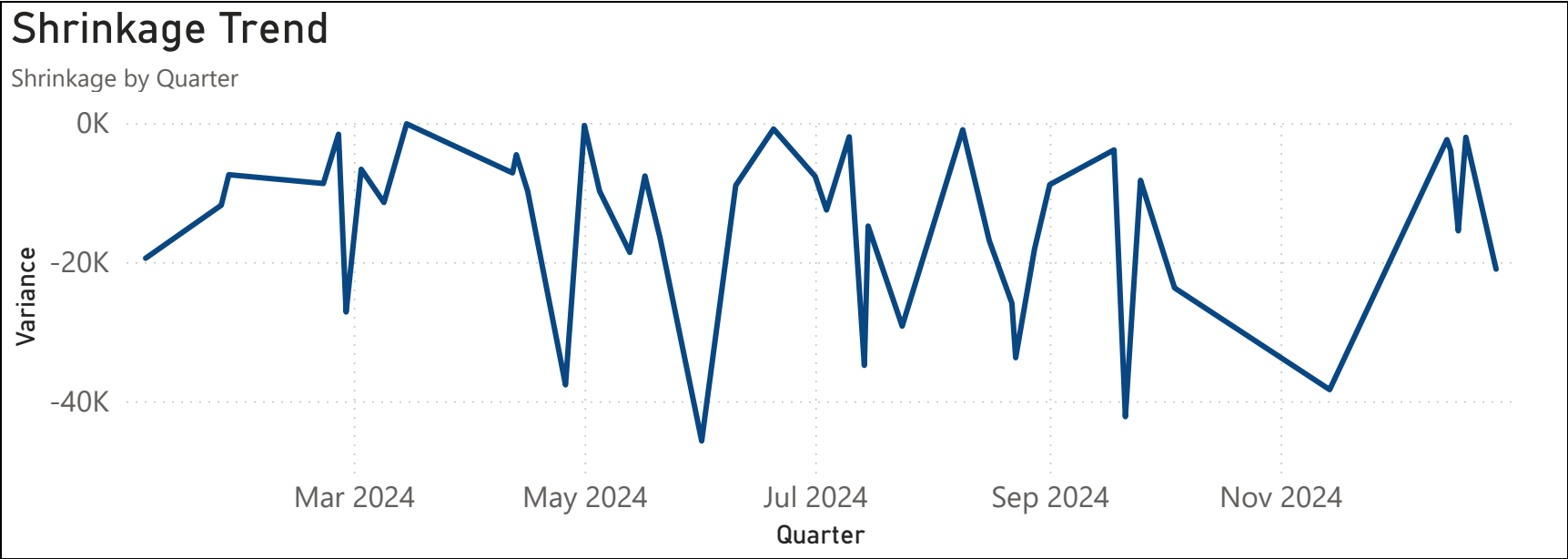
**Saturday, January**

**06, 2024**

Earliest AuditDate

Sum of Quantity	Sum of VarianceValue	Count of ItemID
-21060	-629,298.74	33

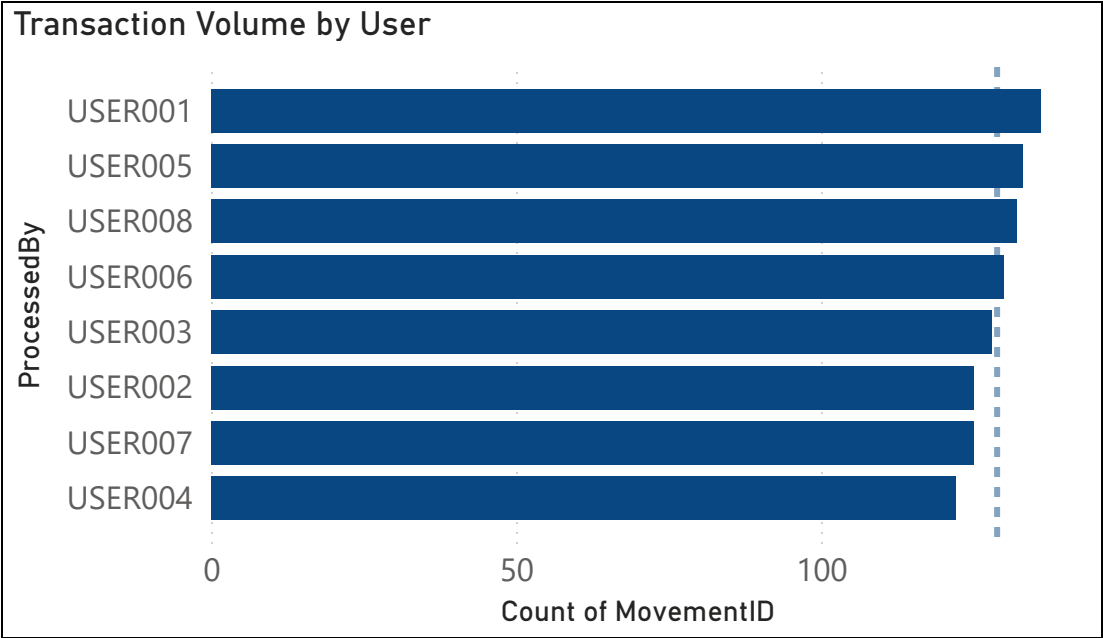
ItemName	Category	Sum of VarianceValue
Clothing Item 46	Clothing	-50,109.78
Clothing Item 54	Clothing	-46,950.12
Clothing Item 62	Clothing	-8,989.66
Electronics Item 1	Electronics	-8,711.12
Electronics Item 100	Electronics	-33,760.78
Electronics Item 11	Electronics	-15,076.50
Total		-629,298.74



- Key audit observations include:**
- 1) Total shrinkage value is high and pose a financial risk to the business.
  - 2) High-risk items has been identified and they may require enhanced physical security and cycle count frequency.
  - 3) Trending shrinkage patterns indicate control weaknesses requiring management attention.
  - 4) Variance spikes may signal theft, process failures, or inadequate supervision.

ProcessedBy	ADJUSTMENT		IN	OUT	Total
USER001		44	52	40	136
USER002		40	49	36	125
USER003		48	32	48	128
USER004		41	39	42	122
USER005		37	55	41	133
USER006		40	44	46	130
USER007		41	30	45	125
Total		339	355	337	1031

USER 001 TO USER 008 have all done entries for IN, OUT and adjustments which is a violation of segregation of duties.

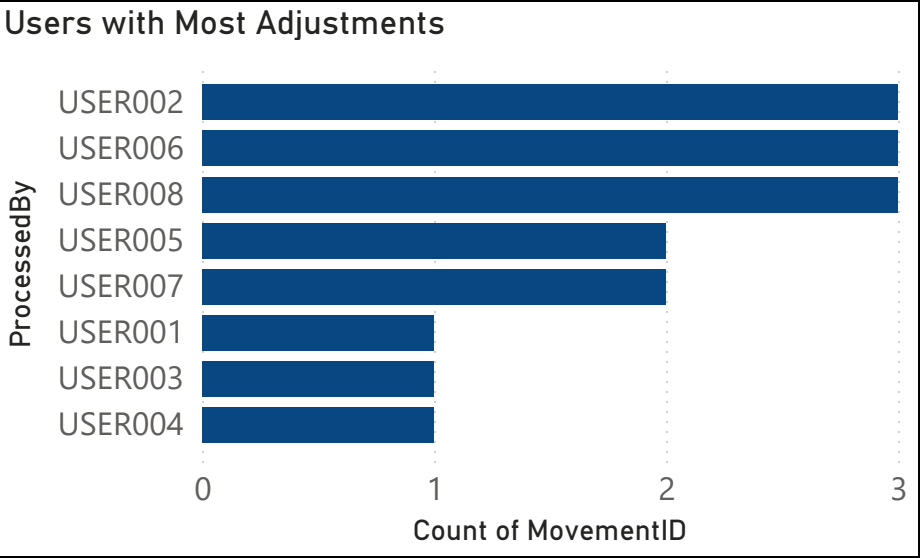


8  
SOD Violations



Negative Inventory Balance (Control Failure)			
ItemName	Category	Sum of Quantity	
Clothing Item 62	Clothing	↓	-272
Clothing Item 93	Clothing	↓	-738
Electronics Item 63	Electronics	↓	-357
Electronics Item 67	Electronics	↓	-345
Electronics Item 72	Electronics	↓	-207
Furniture Item 26	Furniture	↓	-1016
Furniture Item 28	Furniture	↓	-229
Office Supplies Item 2	Office Supplies	↓	-341
Total			-5987

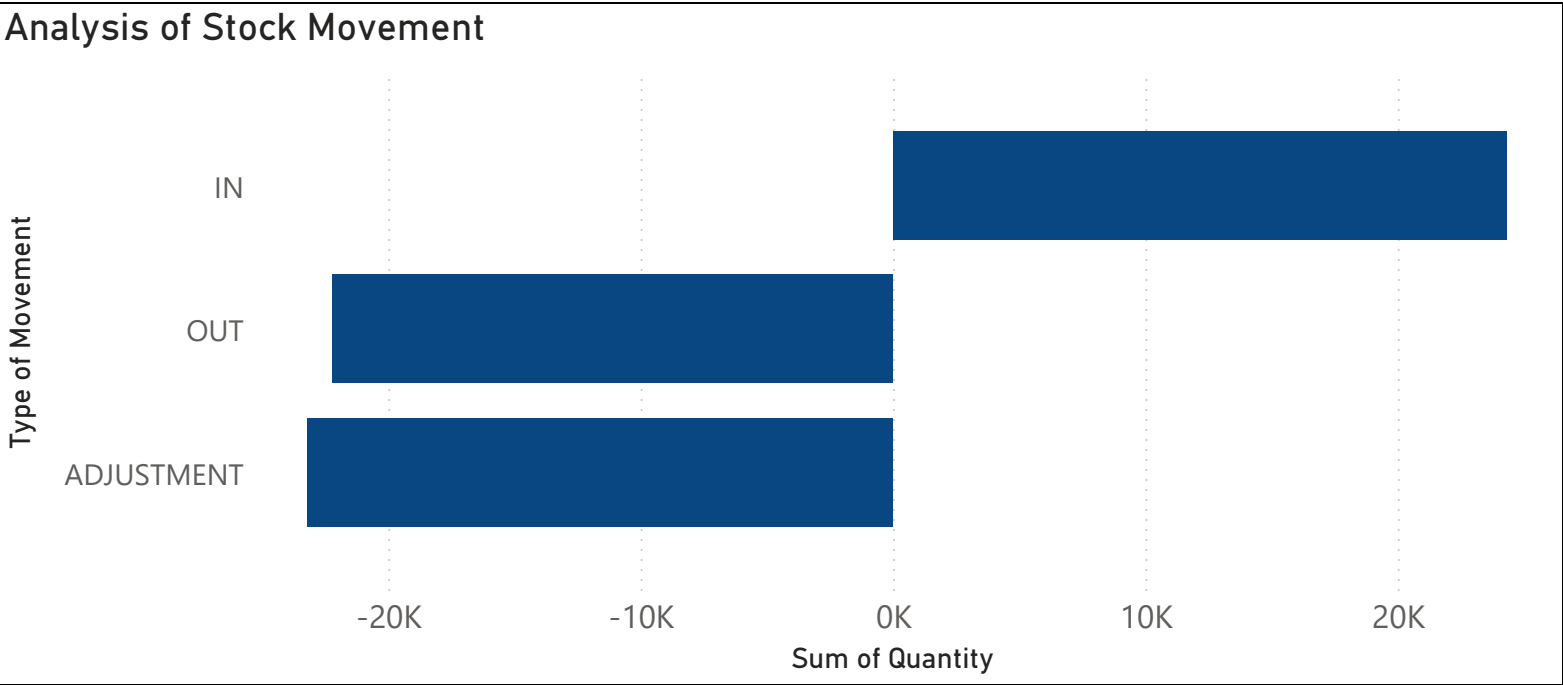
Suspicious Large Adjustments above 200									
Year	Quarter	Month	Day	ItemID	WarehouseID	Sum of Quantity	ProcessedBy	Notes	
2024	Qtr 3	September	28	ITM0066	WH005	-204	USER001	Found	
2024	Qtr 2	May	19	ITM0093	WH004	-206	USER002	Lost	
2024	Qtr 3	August	20	ITM0072	WH005	-207	USER002	Expired	
2024	Qtr 1	February	23	ITM0028	WH004	-229	USER004	Damage	
2024	Qtr 2	June	13	ITM0062	WH003	-272	USER005	Found	
2024	Qtr 1	January	23	ITM0066	WH004	-320	USER006	Lost	
2024	Qtr 1	February	13	ITM0032	WH001	-331	USER006	Expired	
2024	Qtr 2	April	26	ITM0002	WH004	-341	USER008	Expired	
2024	Qtr 2	June	12	ITM0067	WH004	-345	USER007	Damage	
2024	Qtr 3	July	30	ITM0063	WH004	-357	USER002	Found	
Total						-5987			



High Risk Transactions Detected

16

Suspicious Transaction Count



ItemID	Sum of Quantity
ITM0011	879
ITM0085	102
ITM0054	57
ITM0042	51
ITM0099	15
ITM0058	-44
ITM0031	-88
ITM0013	-150
ITM0065	-365
ITM0007	-378
ITM0000	-100
Total	-21060

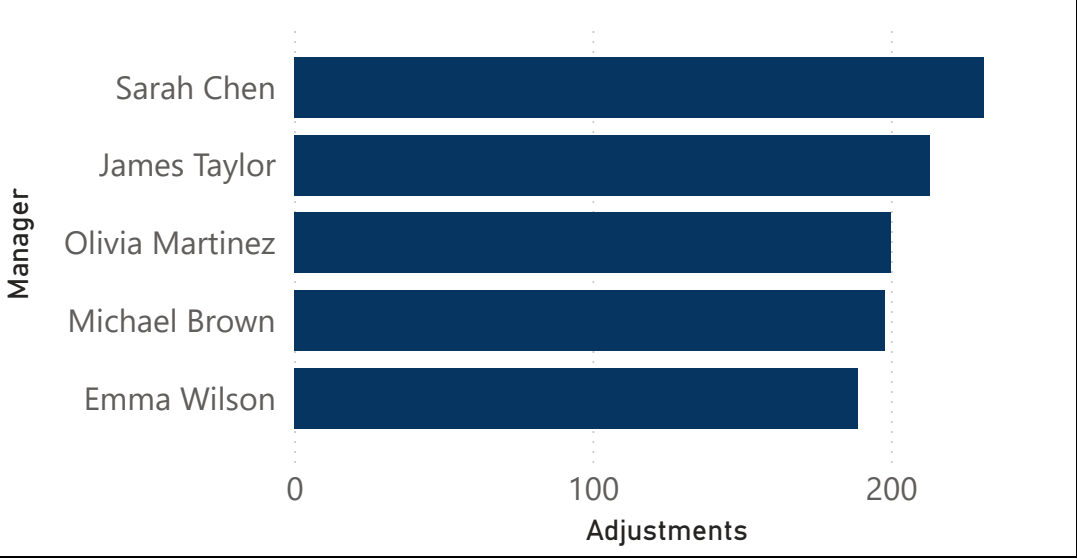
Analysis of stock movement transactions to identify unusual patterns and control gaps:

- 1) IN movements should be supported by purchase orders and receiving documents.
- 2) OUT movements must have corresponding sales orders or authorized requisitions.
- 3) ADJUSTMENT transactions are high-risk and require proper authorization & justification.

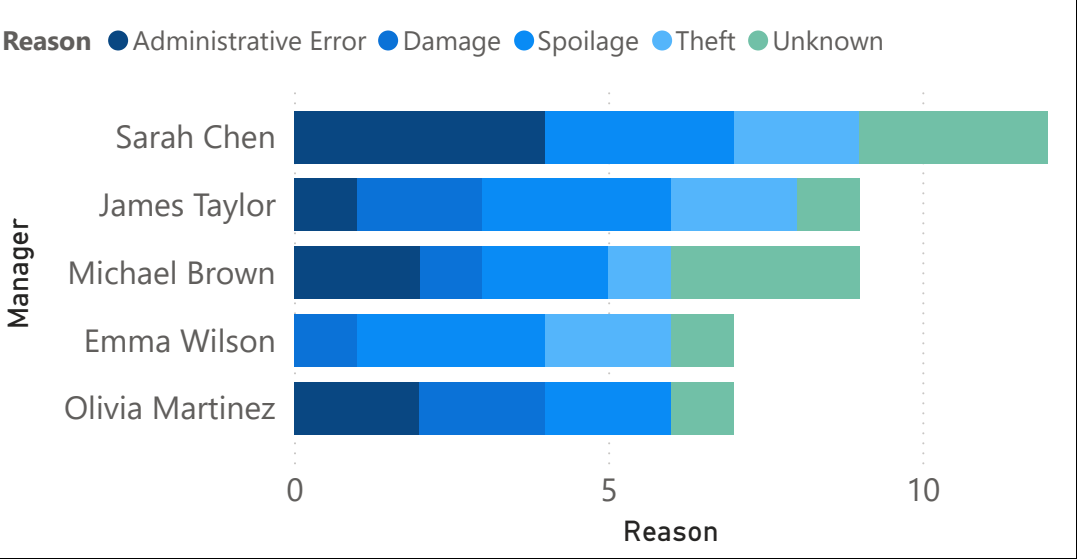
**High-volume adjustment activity requires investigation for potential manipulation.**



Adjustments made by Manager



Reason for Adjustment made by Managers



This page highlights patterns with elevated fraud risk indicators:

- 1) High number of adjustments could indicate issues with the corresponding managers expertise or approval level.
- 2) Repeated small adjustments below approval (Unknown) thresholds suggest deliberate avoidance or mistake in management.

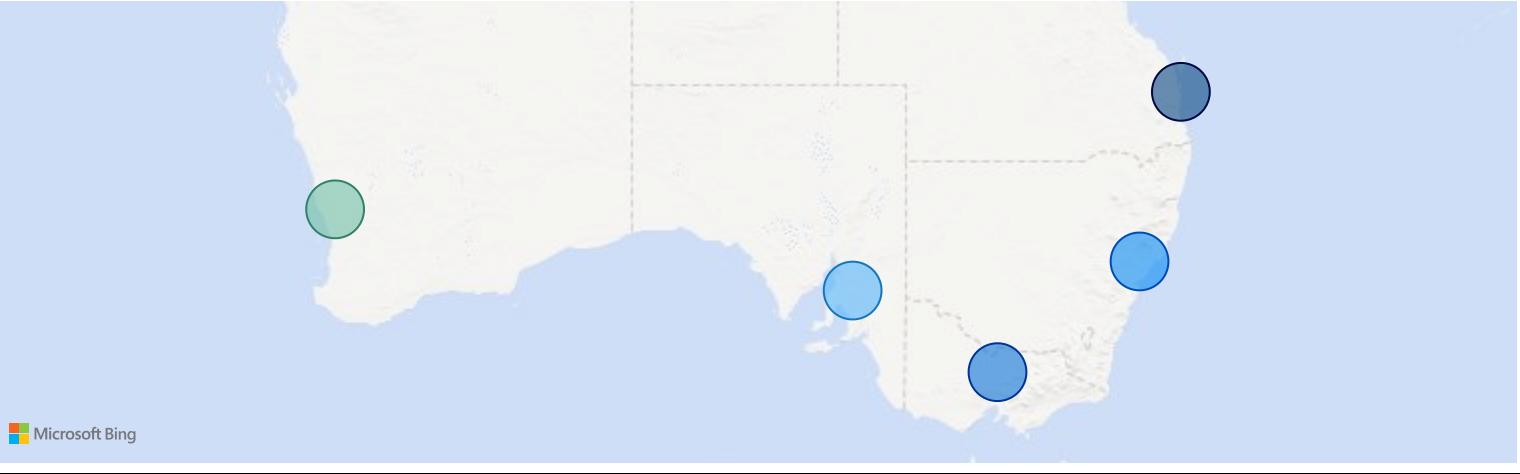
**Require detailed documentation and potential inquiry or investigation referral:**

- 1) Sarah Cohen has made the highest amount of adjustments with many of them recorded for administrative error and without documentation.
- 2) Michael Brown has made adjustments without documentation as well, and this needs to be investigated as well. However all Managers have made adjustments without documentation, and administrative error. So, there needs to be an investigation regarding the training provided and the cause of breach behind adjustments.
- 3) Olivia Martinez as manager has avoided to make any adjustments due to theft, so the warehouse under her management needs to be studied as model for potential implementation.

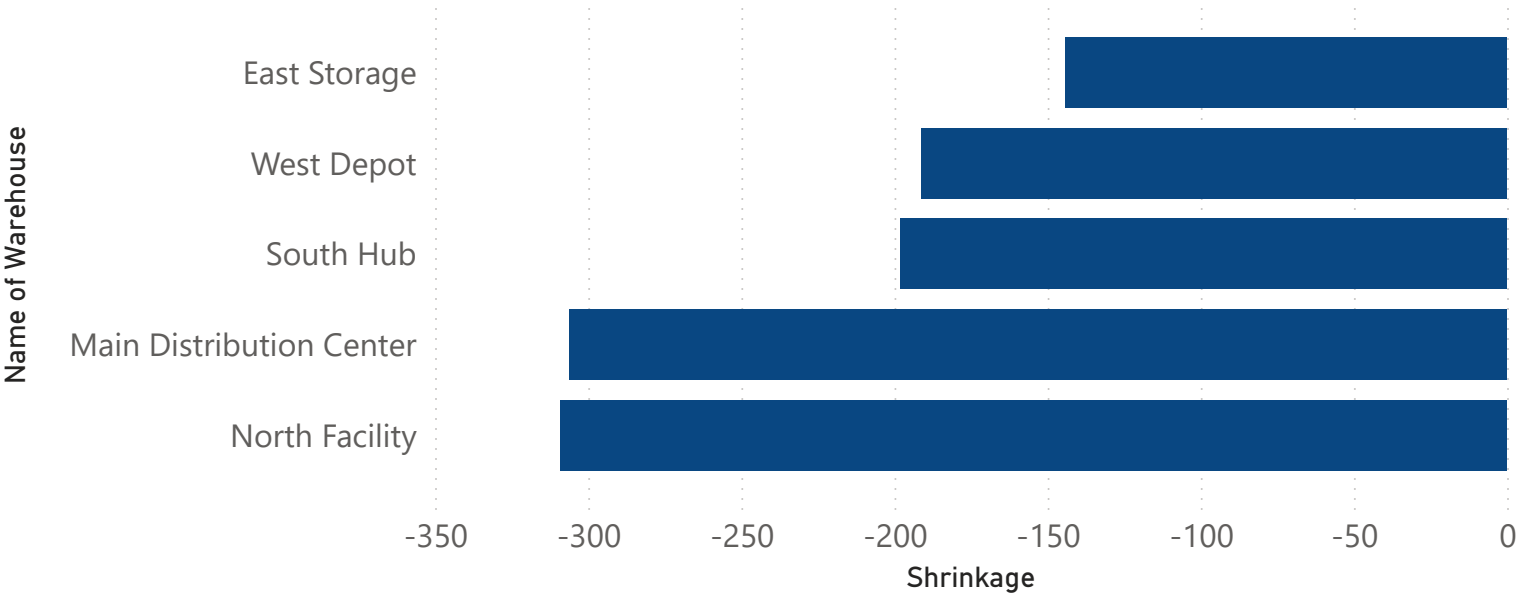
⚠ This visual type is being retired soon. Contact your admin to upgrade.

### Location of Warehouses

**Warehouse** ● East Storage ● Main Distribution Center ● North Facility ● South Hub ● West Depot



### Shrinkage by Warehouse





#### **ACCOUNTING CONCEPTS APPLIED:**

- Materiality Assessment: Identified significant variances requiring management attention.
- Conservation Principle: Highlighted potential losses and control weaknesses.
- Internal Controls: Evaluated preventive and detective controls over inventory.

#### **ANALYTICAL TECHNIQUES USED:**

- Trend Analysis: Detected patterns in shrinkage and transaction volumes over time.
- Exception Reporting: Flagged outliers (large adjustments, negative

#### **AUDIT PRINCIPLES FOLLOWED:**

1. Professional Skepticism
  - Questioned unusual patterns and anomalies in transaction data (high number of adjustments).
  - Investigated high-risk indicators without assuming good faith (items that were assigned high risk score for shrinkage).
  - Applied critical thinking to identify potential fraud schemes.
2. Risk-Based Approach
  - Focused resources on areas with greatest material misstatement risk.
  - Used risk scoring to identify audit priorities (shrinkage, SOD violations)

### **AUDIT CONCLUSION**

This audit of inventory operations reveals material control deficiencies resulting in significant asset losses and fraud risk exposure. Analysis of 3,000+ transactions identified \$629,000 in shrinkage, multiple segregation of duties violations, and suspicious adjustment patterns concentrated in high-risk items and specific warehouse locations.

While the company demonstrates operational capability, the absence of adequate preventive controls, including proper access restrictions, mandatory adjustment approvals, and regular reconciliation procedures. All this creates substantial vulnerability to theft, error, and potential fraud.

Immediate implementation of recommended controls (SOD, Documentation Records, Manager training, Physical control of Inventory, Regular Reconciliation, and Semi-Annual Inventory Audit) is essential to protect company assets, ensure financial statement accuracy, and maintain stakeholder confidence.