

HOW TO AUDIT WAREHOUSE INVENTORY: A COMPLETE CHECKLIST

You and your colleagues have done a fantastic job of wrestling through the growing pains involved in streamlining your supply chain, but now that you have plenty of inventory to fulfill the needs of your customers, it's time to put it through an exhaustive audit. Even if you have the most seamless inventory system available, you must still perform counts, conduct interviews with workers, and cross-check all safety practices to ensure that you don't run into issues that might slow your process in the future. Here is a list of basic steps that you must take to thoroughly cover all bases in your auditing process.

PRE-AUDIT PLANNING: Action Steps

DEFINE OBJECTIVES: Consult with colleagues to create an audit objective that reflects the current needs and future plans for your inventory.

COMPILE PAST DATA: Familiarize yourself with past audit numbers.

CONDUCT RESEARCH FOR CHANGING REGULATIONS: Consider changes in laws or regulations. Cross-check that all safety protocol training is up-to-date before the official audit starts.

SCHEDULE INTERVIEWS: Secure value facetime with at least one worker representing each department or job title.

READY YOUR INVENTORY SYSTEM: If your inventory system doesn't already allow you to alter information about the items, such as the count and condition, take the necessary steps to upgrade your system.

SET A CUTOFF POINT: Most companies put a temporary hold on accepting new orders and shipping of customer orders to ensure the most accurate inventory counts.

SEGREGATE SLOW-MOVING INVENTORY FOR VALUATION: Slow-moving inventory may have lost value, so separating these items from regular inventory allows auditors to perform valuation testing to determine if these items should be marked down. (In general, inventory with a market value less than the original cost of the item should be marked down – the lower of cost or market rule.)

CONDUCT INVENTORY COUNTS: Action Steps

SELECT YOUR COUNT METHOD: Your count method will depend on the volume, complexity, and unique organization of your inventory. Take these factors into consideration and either choose a partial count, where you strategically count items due to demand, location, etc., or a full count, where every single item is counted.

INPUT COUNT DATA INTO THE INVENTORY SYSTEM: If possible, have an assistant confirm the numbers as you work.

MAKE NOTES OF MISPLACED INVENTORY: If you see that inventory is misplaced, do not re-organize it until after the count is complete. Instead, make note of it so as not to confuse the final count.

TESTING FOR VALIDITY AND ACCURACY: Action Steps

CONDUCT TEST COUNTS: In most cases, you'll rely on several team members to perform manual inventory counts. To ensure accuracy, auditors often conduct several test counts and compare their findings with the figures recorded by counters.

TEST ERROR-PRONE ITEMS, HIGH-VALUE ITEMS, AND INVENTORY IN-TRANSIT: Review transfer documentation to ensure that any inventory in-transit is properly accounted for, and test error-prone items and high-value items to validate valuation and verify accounting documentation.

TEST ITEM COSTS AND REVIEW FREIGHT COSTS: Review a selection of freight invoices to ensure that freight costs are accounted for in a consistent manner. Compare amounts in a selection of supplier invoices to the costs recorded in inventory valuation records.

PERFORM OTHER INVENTORY VALUATION CHECKS: Conduct a finished goods cost analysis, direct labor analysis, overhead analysis, and work-in-process testing as applicable to the warehouse's operations. Verify that consistent documentation and accounting methods are used to apply these costs to inventory and that the figures recorded are accurate.

OBSERVE WAREHOUSE OPERATIONS: Action Steps

ACT AS A WITNESS FOR EACH WAREHOUSE SHIFT: When doing so, take notes of any possible changes that could speed up your current processes.

PAY CLOSE ATTENTION TO SAFETY: Is each worker following proper safety protocol? If not, pay attention to the specifics and schedule a time for further training.

ENSURE THAT EACH SHIFT IS PROPERLY STAFFED: Double-check that your workers' strengths are showing and that they are performing the tasks to the best of their abilities. If you see rushing and confusion, make a note to consider upping your employee count.

INTERVIEW KEY WAREHOUSE EMPLOYEES: Action Steps

MEET WITH TEAM MEMBERS: Interview a member from each department, from shift managers all the way down to pickers.

ASK THE RIGHT QUESTIONS: Ask questions about safety concerns, theft, and any and all recommendations they might have that could improve efficiency.

DOCUMENT FEEDBACK: Keep detailed records of interviews, feedback, recommendations, and any other qualitative data obtained from staff interviews.

SYNTHESIZE INVENTORY DATA: Action Steps

INPUT COUNT DATA: If you haven't had the opportunity to input data in real-time during your audit, this is the time to type it into your system.

ADD OBSERVATION AND INTERVIEW NOTES: Don't just keep this information to yourself; add all notes on efficiency or safety snags into your system so that all relevant colleagues can get a feel for the current conditions of the warehouse.

EVALUATE THE INVENTORY DATA RESULTS: Action Steps

CONSIDER YOUR COST CONTROLS: Do any of your current cost controls need modification when put to the test of your warehouse's existing practices?

SUGGEST IMPROVEMENTS: Make moves to implement new practices that could speed up productivity.

PROPOSE UPDATES: If needed, make a proposal for any software or hardware updates.

REVIEW YOUR SCHEDULING: Make necessary alterations to shifts and/or employee counts if productivity is an issue.



Of course, every business is different, so make sure that you add to this checklist as needed to guarantee that you are considering all areas as you examine your unique inventory and inventory processes.