

Date: [Insert Date]

To: [Management Name/Board of Directors]

From: [Internal Audit/Compliance Department]

Subject: Internal Control Letter: Review of Inventory Valuation Practices

Dear [Name],

We have completed our review of the internal controls surrounding the organization's inventory valuation practices for the period ending [Date]. The objective of this review was to ensure that inventory is recorded accurately in accordance with [Accounting Standards, e.g., GAAP/IFRS] and that risks of material misstatement are mitigated.

1. Observation: Valuation Methodology

It was noted that [describe finding, e.g., the weighted average cost calculation was applied inconsistently across different warehouses]. This increases the risk of inaccurate COGS reporting.

Recommendation:

Management should implement a standardized automated calculation within the ERP system to ensure consistency across all locations.

2. Observation: Lower of Cost or Net Realizable Value (NRV)

The current process for identifying obsolete or slow-moving stock is [describe finding, e.g., performed manually and only on an annual basis]. This may result in overvalued inventory assets on interim reports.

Recommendation:

Perform a quarterly review of inventory aging reports and apply write-down adjustments for items where the market value has fallen below cost.

3. Observation: Segregation of Duties

We observed that the individual responsible for performing physical counts also has the authority to adjust unit costs in the inventory master file.

Recommendation:

Access rights should be restricted so that cost adjustments require independent approval from the Finance Department.

Conclusion:

While the existing framework provides a baseline for inventory management, the weaknesses identified above require prompt remediation to ensure the integrity of financial reporting. Please provide a formal response and action plan by [Insert Date].

Sincerely,

[Your Name]
[Your Title]