

# SOP: Cycle Counting and Periodic Inventory Audits

This SOP details the process for **cycle counting and periodic inventory audits**, including methods for scheduling counts, conducting physical inventory verifications, reconciling discrepancies, and maintaining accurate inventory records. The objective is to ensure inventory accuracy, reduce stock variances, improve inventory management, and support operational efficiency through regular and systematic inventory reviews.

## 1. Purpose

To outline standardized procedures for conducting cycle counts and periodic inventory audits to maintain inventory accuracy and integrity.

## 2. Scope

This SOP applies to all personnel involved in inventory management and control within the organization's warehouses and storage locations.

## 3. Responsibilities

- **Inventory Manager:** Oversees scheduling and compliance with the SOP.
- **Cycle Counters:** Carries out physical counts and data recording.
- **Supervisors:** Reviews discrepancies and approves adjustments.
- **IT/ERP Team:** Ensures the inventory system reflects accurate data.

## 4. Definitions

Term	Definition
Cycle Count	The periodic counting of a subset of inventory items on a rotating schedule, rather than all items at once.
Inventory Audit	A physical check and validation of inventory records against actual stock on hand.
Discrepancy	A difference between the recorded inventory amount and the physically counted quantity.

## 5. Procedures

### 5.1 Scheduling Cycle Counts

1. Determine high-value, fast-moving, or critical inventory items for more frequent cycles (ABC analysis).
2. Create and maintain a cycle count calendar, ensuring all SKUs are counted at least quarterly.
3. Notify relevant staff of upcoming counts at least 24 hours in advance.

### 5.2 Preparing for Physical Counts

1. Print or generate inventory count sheets/lists from the inventory system.
2. Segregate new receipts or shipments to prevent count interference.
3. Assign trained staff to counting teams and brief them on count protocols.

### 5.3 Conducting the Count

1. Physically count each item or location as per the count list.
2. Record quantities on the count sheets or mobile devices; initial by counter.
3. Note and photograph discrepancies, damages, or misplaced items.

### 5.4 Reconciliation and Investigation

1. Compare counted quantities with system records.
2. Document and investigate all discrepancies above the defined tolerance threshold.

3. Report findings to the Inventory Manager for review and corrective action.

## **5.5 Adjustments and Reporting**

1. Prepare and submit adjustment forms for review and approval by authorized personnel.
2. Update inventory records in the system upon approval.
3. Generate and distribute inventory variance and audit reports to management.

## **6. Documentation and Records**

- Maintain all count sheets, discrepancy forms, and reconciliation logs for a minimum of 2 years.
- Store records securely in both digital and physical format, as required.

## **7. Review and Continuous Improvement**

- Conduct quarterly reviews of cycle counting accuracy and process effectiveness.
- Update the SOP as necessary to address process gaps and enhance inventory accuracy.

## **8. References**

- Inventory Management Policy
- ERP System User Manual
- Audit and Compliance Standards

## **9. Appendices**

- Appendix A: Cycle Count Schedule Template
- Appendix B: Inventory Discrepancy Form
- Appendix C: Sample Inventory Adjustment Approval Form