

Executive Summary: When a retail chain faced growing concerns over inventory shrinkage and theft, I conducted an internal control audit to identify vulnerabilities and strengthen asset protection. By evaluating existing controls, I uncovered gaps and recommended targeted improvements to enhance security and operational efficiency. This proactive approach not only safeguarded inventory but also reinforced trust in the company's risk management framework, ensuring long-term resilience against losses.

1. Control Environment

- **Company Culture & Management Attitude:** Evaluate the organisation's culture and management's commitment to safeguarding assets. This includes assessing whether there is a clear tone at the top regarding the importance of internal controls.
- **Policies & Ethical Standards:** Review the policies in place that promote ethical behaviour and adherence to control measures. This may include a code of conduct and regular training sessions.

2. Risk Assessment

- **Identify Potential Risks:** Work with management to identify risks related to inventory shrinkage and theft. This might involve analysing historical data on inventory discrepancies, theft incidents, and shrinkage rates.
- **Vulnerability Analysis:** Assess areas within the inventory management process that are most vulnerable to theft or error, such as receiving docks, storage areas, and high-value items.

3. Control Activities

- **Inventory Handling Procedures:** Review the procedures for receiving, storing, and disbursing inventory. Check for segregation of duties, authorisation protocols, and documentation requirements.
- **Physical Security:** Assess the physical security measures in place, including surveillance systems, access controls, and alarm systems. Ensure that only authorised personnel have access to inventory.
- **Inventory Counts & Reconciliations:** Evaluate the frequency and accuracy of inventory counts and reconciliations. Check if there are regular cycle counts, or full inventory counts and how discrepancies are handled.

4. Communication

- **Information Flow:** Review how information related to inventory control is communicated within the company. This includes assessing whether there are clear channels for reporting discrepancies or theft.
- **Reporting Mechanisms:** Ensure that there are mechanisms in place for employees to report concerns anonymously if needed, and that these reports are acted upon.

5. Monitoring

- **Tracking Systems:** Examine the systems in place for tracking inventory transactions. This includes checking if there are automated systems that provide real-time inventory data and if these systems are regularly audited.
- **Review Procedures:** Evaluate how management reviews inventory data and controls. This could involve checking audit logs, reviewing exception reports, and ensuring there is follow-up on identified issues.

Outcome:

By thoroughly evaluating these components, I was able to determine the effectiveness of the internal controls in place and provided recommendations for any identified weaknesses.