

A Company dealing in logistics and distribution of FMCG products is looking for Internal Audit services from a qualified audit firm with good standings. The firm will have a designated staff(s) and will report on a monthly basis to the Board of Directors.

TERMS OF REFERENCE FOR INTERNAL AUDIT

1. Introduction

The purpose of this Terms of Reference (ToR) document is to outline the scope, objectives, methodology, and execution plan for the internal audit of a company. This audit aims to assess the effectiveness of internal controls and ensure compliance with financial and operational policies.

2. Objectives of the Internal Audit

The primary objectives of the internal audit are:

1. To review and assess the adequacy of internal controls over inventory, cash management, payments, and logistics.
2. To identify gaps, inefficiencies, and risks that may hinder the company's ability to meet its objectives.
3. To provide recommendations for improving internal control systems and risk management.
4. To ensure compliance with regulatory and financial reporting requirements.
5. To support the company in enhancing operational efficiency and financial transparency.
6. To provide real-time audit oversight through an embedded audit officer.

3. Scope of the Internal Audit

The internal audit will cover the following areas:

- Develop and implement a risk-based internal audit plan in consultation with the Board Audit & Risk Committee.
- Establish audit objectives, scope, and methodology aligned with the company's strategic goals.
- Evaluate the effectiveness of the company's risk management framework.
- Assess the adequacy and effectiveness of internal controls across financial, operational, and compliance areas.
- Identify control weaknesses and recommend corrective measures.
- Review financial and operational processes to detect fraud, errors, and non-compliance.
- Provide recommendations for regulatory risk mitigation.
- Conduct periodic financial audits to ensure integrity, accuracy, and completeness of financial records.
- Monitor key performance indicators (KPIs) and provide insights on operational effectiveness.
- Identify and assess fraud risks within the company.
- Conduct forensic audits where necessary and provide fraud mitigation strategies.
- Strengthen internal mechanisms to prevent, detect, and report fraud.
- Conduct training sessions for company staff to enhance risk awareness and compliance culture.
- **Inventory Management:** Reviewing stock movement, supplier reconciliations, and stock valuation.
- **Revenue Management:** Assessing cash and bank reconciliations, revenue recognition, and sales documentation.
- **Petty Cash and Expenses:** Evaluating expense management, petty cash usage, and reconciliations.
- **Payments and VAT Compliance:** Reviewing supplier payments, VAT compliance, and bank reconciliations.
- **Logistics and Distribution:** Analyzing trip records, delivery notes, and logistics cost efficiency.

4. Methodology and Approach

The audit will adopt a **risk-based approach** and include the following steps:

1. **Planning Stage**
 - Initial meeting with management to define scope and objectives.
 - Review of key documents such as financial statements, process manuals, and transaction records.
 - Risk assessment to identify key focus areas.
2. **Execution Stage**

- Conducting interviews with key personnel.
 - Reviewing transactions, reconciliations, and supporting documentation.
 - Performing sample testing to validate compliance with policies and procedures.
 - Identifying material weaknesses and deficiencies in internal controls.
3. **Completion and Reporting Stage**
- Discussing findings with management and obtaining clarification on key issues.
 - Drafting a report detailing audit observations, risks, and recommendations.
 - Presenting the final report to the Board of Directors.

5. Key Audit Areas and Procedures

1. Inventory Management

- Conducting physical stock verification.
- Reviewing stock movement schedules and supplier reconciliations.
- Checking stock valuation accuracy in the accounting system.
- Checking on the stock adjustment controls and support documentation

2. Revenue Management

- Reconciling cash and bank entries.
- Validating supplier statements and debit notes.
- Ensuring proper accounting for returns and rejected items.
- Ensuring discounts are properly issued and approved.

3. Petty Cash and Expenses

- Reviewing expense documentation and approvals.
- Verifying petty cash reconciliations.
- Ensuring proper recording of logistics-related expenses & documentation.

4. Payments and VAT Compliance

- Reviewing authorization of payments.
- Assessing VAT returns and reconciliations.
- Ensuring compliance with tax regulations and accurate reporting.

5. Logistics and Distribution

- Verifying trip records, delivery notes, and customer invoices.
- Checking mileage records and transport cost allocation.
- Reviewing logistics profitability and efficiency.

6. Deliverables

The internal audit will result in the following key deliverables:

1. Annual Internal Audit Plan – outlining audit areas, risk assessment, and proposed activities.
2. Quarterly Audit Reports – detailing key findings, recommendations, and management responses.
3. Special Audit Reports – for forensic, compliance, or investigative audits as needed.
4. Annual Risk Assessment Report – highlighting company-wide risks and control effectiveness.
5. Regulatory Compliance Reports – assessing adherence to legal and regulatory requirements.
6. Fraud Risk & Prevention Report – identifying fraud risks and mitigation measures.
7. Capacity Building Sessions – training materials and reports on knowledge transfer activities.
- Recommendations for Process Improvement – Practical solutions for addressing control gaps.
8. The embedded audit officer will operate within the company but remain accountable to the External Auditor.

7. Audit Execution Timeline

The audit will be conducted in **three phases**:

- **Phase 1 (Planning):** – Includes discussions with management and document review.
 - **Phase 2 (Execution):** – Fieldwork, testing, and analysis.
 - **Phase 3 (Reporting):** – Draft report preparation, review, and final presentation.
- a) Induction and testing 2 weeks from 1st March -14th March 2025
 - b) Presentation of the monthly report to the Board of Directors before the 10th day of every month commencing 1st April starting with the report for the month of March 2025.
 - c) To provide at least one dedicated staff member who will attend stocktaking and reconciliations of income and expenditure on a daily basis.

- d) Concerns by the Internal Auditor on any issue relating to internal controls to be flagged to the Directors immediately.

8. ETHICAL STANDARDS AND CONFIDENTIALITY

- The auditor shall adhere to professional ethical standards as prescribed by [Relevant Professional Body].
- All audit findings and company information shall be treated with strict confidentiality.
- Any conflict of interest must be disclosed and appropriately managed.

9. Client Responsibilities

The Company will provide:

- Access to financial and operational records.
- Availability of key personnel for interviews.
- Office space and logistical support for audit activities.

If interested share your quotation and profile to info@manaralogistics.com on or before 15th March 2025