**MOMENTUM SPORTS**

*"Built for the Journey"*

**AUDIT FINDINGS & MANAGEMENT RESPONSE**

Internal Audit Report

Financial Year 2025

Report Date: January 15, 2026

**CONFIDENTIAL**

# EXECUTIVE SUMMARY

This internal audit report presents the findings from our comprehensive review of Momentum Sports' operations, financial controls, and compliance framework for the financial year ending 2025. The audit covered key operational areas including revenue recognition, inventory management, supply chain controls, information security, and regulatory compliance across our North American, European, and Pacific operations.

Overall, the audit confirms that Momentum Sports maintains a strong control environment with effective operational processes supporting our $109.8M annual revenue. However, several areas have been identified where improvements would strengthen our internal controls and mitigate operational risks.

**FINDINGS SUMMARY**

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| --- | --- | --- |
| **Risk Level** | **Count** | **Key Areas** |
| **High Risk** | 2 | Inventory valuation, Segregation of duties |
| **Medium Risk** | 3 | FX risk management, Reseller contracts, Information security |
| **Low Risk** | 2 | Supplier documentation, Policy updates |

Management has provided responses to all findings with committed action plans and target completion dates. The executive team has demonstrated strong commitment to addressing identified risks and implementing recommended improvements.

# HIGH RISK FINDINGS

## Finding 1: Inventory Valuation Controls

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| **Risk Level:** | **High** |
| **Area:** | Operations / Finance |
| **Finding:** | The audit identified that physical inventory counts for slow-moving components and accessories are not conducted with sufficient frequency. Of the 397 SKUs in the portfolio, approximately 85 slow-moving items representing $1.2M in inventory value have not undergone physical verification in over 12 months.  Additionally, the current process for assessing net realizable value (NRV) and obsolescence does not adequately account for aging inventory or technological changes in the cycling industry. This poses risk to the accuracy of inventory valuation on the balance sheet. |
| **Risk Impact:** | • Material misstatement of inventory value on financial statements  • Inability to identify and write-off obsolete inventory in a timely manner  • Reduced cash flow from capital tied up in unsaleable inventory  • Non-compliance with Australian accounting standards (AASB 102) |
| **Recommendation:** | 1. Implement quarterly cycle counting program covering 100% of SKUs annually, with priority on slow-moving items  2. Develop formal inventory aging report and NRV assessment process  3. Create obsolescence reserve policy based on inventory age and turnover metrics  4. Assign responsibility for quarterly inventory valuation review to Finance Controller |

### Management Response

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| **Response:** | Management agrees with the finding and recommendations. We acknowledge that our current inventory counting frequency does not adequately cover slow-moving items and that our NRV assessment process requires formalization. |
| **Action Plan:** | 1. Warehouse & Logistics Manager will implement quarterly cycle counting schedule by March 31, 2026  2. Finance Controller will develop inventory aging report template and NRV assessment procedure by April 15, 2026  3. CFO will establish obsolescence reserve policy with specific criteria for write-downs by April 30, 2026  4. Finance Controller will conduct first quarterly inventory valuation review in May 2026 |
| **Responsible:** | Quinn Taylor (Warehouse & Logistics Manager), Casey Brown (Finance Controller), Taylor Singh (CFO) |
| **Target Date:** | May 31, 2026 |

## Finding 2: Segregation of Duties Limitations

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| **Risk Level:** | **High** |
| **Area:** | Finance / Operations |
| **Finding:** | Due to the lean organizational structure of 16 core employees, several critical financial processes lack adequate segregation of duties. Specifically, the Finance Controller has the ability to both create vendor records and process payments without independent verification.  While this structure is common in organizations of this size, the lack of compensating controls (such as regular management review of vendor additions or transaction monitoring) creates opportunity for error or fraud. The audit noted no issues in practice, but the control gap represents significant risk given the volume of transactions (121,253+ annually). |
| **Risk Impact:** | • Potential for fraudulent vendor creation and payment processing  • Increased risk of payment errors going undetected  • Weakness in internal controls for financial audit purposes  • Difficulty detecting unauthorized or duplicate payments |
| **Recommendation:** | 1. Implement monthly CFO review and approval of all new vendor additions  2. Require dual authorization for payments above defined threshold (e.g., $10,000)  3. Implement automated duplicate payment detection controls in accounting system  4. Conduct quarterly vendor master file review to identify anomalies |

### Management Response

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| **Response:** | Management agrees with the finding. While we maintain confidence in our current team's integrity, we recognize that proper segregation of duties is a fundamental internal control principle. We acknowledge the need for compensating controls given our organizational size constraints. |
| **Action Plan:** | 1. CFO will establish monthly vendor addition review process effective February 2026  2. Finance Controller will update payment approval matrix requiring dual authorization for payments over $10,000 by March 15, 2026  3. CTO will configure duplicate payment detection rules in accounting system by March 31, 2026  4. CFO will conduct first quarterly vendor master file review in April 2026 |
| **Responsible:** | Taylor Singh (CFO), Casey Brown (Finance Controller), Charlie Nguyen (CTO) |
| **Target Date:** | April 30, 2026 |

# MEDIUM RISK FINDINGS

## Finding 3: Foreign Exchange Risk Management

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| **Risk Level:** | **Medium** |
| **Area:** | Finance |
| **Finding:** | Operating across North America, Europe, and the Pacific exposes Momentum Sports to significant foreign exchange (FX) fluctuations. The audit found no formal FX risk management policy or hedging strategy currently in place.  While the company naturally hedges some exposure through matching revenues and costs in the same currencies, approximately 40% of revenue is subject to currency conversion risk. The absence of formal FX exposure monitoring and hedging policies could result in unexpected profit volatility. |
| **Risk Impact:** | • Unpredictable earnings volatility from currency movements  • Potential margin erosion on international transactions  • Difficulty in accurate financial forecasting and budgeting  • Competitive disadvantage if currency movements favor competitors |
| **Recommendation:** | 1. Develop formal FX risk management policy defining acceptable exposure limits  2. Implement monthly FX exposure reporting by currency  3. Evaluate hedging instruments (forwards, options) for material exposures  4. Consider natural hedging strategies through supplier currency alignment |

### Management Response

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| **Response:** | Management agrees that formalizing our FX risk management approach would provide better visibility and control over currency exposure. We will prioritize developing policy and reporting frameworks before considering hedging instruments. |
| **Action Plan:** | 1. CFO will draft FX risk management policy for board approval by May 31, 2026  2. Finance Controller will create monthly FX exposure reporting template by April 30, 2026  3. CFO will engage with banking partners to evaluate hedging options during Q3 2026  4. Supply Chain Manager will assess opportunities for natural hedging through supplier currency alignment by June 30, 2026 |
| **Responsible:** | Taylor Singh (CFO), Casey Brown (Finance Controller), Samir Noor (Supply Chain & Procurement Manager) |
| **Target Date:** | June 30, 2026 |

## Finding 4: Reseller Contract Documentation

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| **Risk Level:** | **Medium** |
| **Area:** | Commercial & Sales |
| **Finding:** | Of the 701 reseller partners, approximately 180 (26%) operate under outdated or unsigned agreements. The audit review identified that 95 specialty bike shop agreements have not been updated in over 3 years, and 85 newer warehouse partners are operating under purchase orders without formal reseller agreements in place.  This creates potential ambiguity regarding pricing terms, territory rights, return policies, and warranty obligations. Given that the reseller channel represents 73% of revenue ($80.5M), incomplete contract documentation represents material commercial risk. |
| **Risk Impact:** | • Commercial disputes over pricing, returns, or territory rights  • Difficulty enforcing contractual obligations or remedies  • Revenue recognition challenges for unsigned agreements  • Reputational risk from inconsistent partner treatment |
| **Recommendation:** | 1. Develop updated standard reseller agreement template for all partner types  2. Prioritize execution of agreements with top 50 resellers by revenue  3. Implement contract management system to track agreement status and renewal dates  4. Establish policy requiring signed agreement before processing first order for new partners |

### Management Response

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| **Response:** | Management agrees this represents a priority area for improvement. We recognize that rapid growth in our reseller network has outpaced our contract administration capabilities. We will dedicate resources to systematically address contract gaps. |
| **Action Plan:** | 1. Sales Director and Channel Manager will develop updated agreement templates for each reseller type by April 15, 2026  2. Channel Manager will execute agreements with top 50 resellers (representing 65% of channel revenue) by June 30, 2026  3. CTO will implement contract management module to track agreement status by May 31, 2026  4. Sales Director will establish new partner onboarding policy requiring signed agreement by March 31, 2026 |
| **Responsible:** | Riley Chen (Sales Director), Morgan Davis (Channel/Reseller Manager), Charlie Nguyen (CTO) |
| **Target Date:** | June 30, 2026 |

## Finding 5: Information Security Documentation

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| **Risk Level:** | **Medium** |
| **Area:** | Technology & Product |
| **Finding:** | While the company has implemented reasonable technical security controls (firewalls, antivirus, access controls), the documentation supporting these controls is incomplete. The audit noted absence of formal incident response plan, disaster recovery procedures, and business continuity documentation.  Additionally, user access reviews for critical systems are not performed regularly, and there is no formal process for promptly removing access for departing contractors or casual workers. |
| **Risk Impact:** | • Inadequate response to security incidents or data breaches  • Extended business disruption in event of system failure  • Unauthorized access by former contractors or casual workers  • Non-compliance with data protection regulations (Australian Privacy Act, GDPR) |
| **Recommendation:** | 1. Develop formal incident response plan with defined roles and escalation procedures  2. Document disaster recovery and business continuity procedures including backup/restore processes  3. Implement quarterly user access reviews for all critical systems  4. Create standardized offboarding checklist ensuring timely access removal for departing staff |

### Management Response

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| **Response:** | Management agrees that information security documentation requires improvement. While we maintain strong technical controls, formalizing our procedures and review processes will strengthen our overall security posture and regulatory compliance. |
| **Action Plan:** | 1. CTO will develop incident response plan and obtain executive approval by May 15, 2026  2. CTO will document disaster recovery and business continuity procedures by May 31, 2026  3. CTO will conduct first quarterly access review in April 2026 and establish ongoing schedule  4. HR Manager will create standardized IT offboarding checklist integrated with termination process by April 30, 2026 |
| **Responsible:** | Charlie Nguyen (CTO), Finley Adams (HR Manager) |
| **Target Date:** | May 31, 2026 |

# LOW RISK FINDINGS

## Finding 6: Supplier Contract Documentation

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| **Risk Level:** | **Low** |
| **Area:** | Operations |
| **Finding:** | Supplier contracts are generally well-maintained, but the audit identified approximately 12 smaller suppliers representing less than 5% of procurement spend where formal written agreements are not on file. These suppliers provide mainly accessories and specialty components.  While the company maintains good working relationships with these suppliers and has documented pricing via purchase orders, lack of formal agreements creates minor risk around warranty terms, product liability, and dispute resolution. |
| **Risk Impact:** | • Minor ambiguity on warranty and product liability terms  • Limited remedies in case of supply disruption or quality issues  • Potential delays in dispute resolution without contractual framework |
| **Recommendation:** | 1. Develop standard supplier agreement template for smaller suppliers  2. Execute agreements with identified 12 suppliers over next 6 months  3. Establish policy requiring written agreement for all new supplier relationships |

### Management Response

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| **Response:** | Management agrees this represents good practice for contract completeness. We will address these gaps as part of broader supplier relationship management improvements. |
| **Action Plan:** | 1. Supply Chain Manager will develop standard supplier agreement template by April 30, 2026  2. Supply Chain Manager will execute agreements with identified 12 suppliers by July 31, 2026  3. COO will establish new supplier onboarding policy by May 31, 2026 |
| **Responsible:** | Samir Noor (Supply Chain & Procurement Manager), Jordan Lee (COO) |
| **Target Date:** | July 31, 2026 |

## Finding 7: Employee Policy Documentation Updates

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| **Risk Level:** | **Low** |
| **Area:** | People & Culture |
| **Finding:** | The Employee Handbook and several HR policies have not been updated in 18 months. While the existing policies remain substantially compliant with current Australian employment law, several references are outdated (e.g., references to pandemic-related working arrangements that no longer apply).  Regular policy review ensures alignment with evolving employment regulations and organizational practices. An annual or biannual review cycle would be appropriate. |
| **Risk Impact:** | • Minor employee confusion from outdated policy references  • Potential gaps between documented policy and actual practice  • Administrative inefficiency from outdated procedures |
| **Recommendation:** | 1. Conduct comprehensive review of Employee Handbook removing outdated references  2. Establish annual policy review schedule  3. Communicate policy updates to all employees and contractors |

### Management Response

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| **Response:** | Management agrees that maintaining current policy documentation is important for employee clarity and compliance. We will prioritize this update and establish regular review schedule. |
| **Action Plan:** | 1. HR Manager will conduct Employee Handbook review and update by April 30, 2026  2. HR Manager will establish annual policy review calendar by May 15, 2026  3. HR Manager will communicate updated policies to all staff by May 31, 2026 |
| **Responsible:** | Finley Adams (HR Manager) |
| **Target Date:** | May 31, 2026 |

# CONCLUSION

This audit has identified seven findings across high, medium, and low risk categories. The findings reflect opportunities to strengthen internal controls and operational processes as Momentum Sports continues to scale operations across three continents.

Management has demonstrated strong commitment to addressing identified issues with concrete action plans, assigned responsibilities, and realistic timelines. The proposed remediation activities are appropriate and, when implemented, will materially strengthen the control environment.

We commend the executive team for maintaining effective operations with a lean organizational structure while managing significant transaction volume and multi-channel complexity. The control framework is fundamentally sound, with the identified findings representing opportunities for enhancement rather than critical deficiencies.

**NEXT STEPS**

• Management will implement action plans according to stated timelines

• Internal audit will conduct follow-up review in Q4 2026 to verify implementation

• Status updates will be provided to executive team quarterly

• Board of Directors will receive summary report upon completion of remediation activities

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**Internal Audit Team**

January 15, 2026

# DOCUMENT CONTROL

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