The Retail Store Audit

Using Technology to Optimize the Audit Process

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Introduction

Retail store audit functions, challenged by resource and budget limitations, multiple business locations, and regulatory reforms, are turning to technology to manage the often vast quantities of information associated with store audits. While audit software has been available for several years and offers a viable solution for managing the store audit process, some retail organizations are not ready to take the electronic leap. Staffing priorities, such as assisting with the implementation of new regulatory processes, annual audit projects and limited man-hours, as well as strained budgets, keep some internal audit, loss prevention or store operations functions from venturing into the electronic store audit world.

Traditional Store Audits

Whether it is reducing shrink or complying with regulatory requirements, a rigorous store-level audit process is critical to protecting and substantiating company assets and reporting processes, as well as providing management with the real-time information necessary to focus on identifying and resolving issues. Traditional retail store audit methodologies include a visit from an internal auditor or loss prevention personnel; they then complete a formal audit work plan, which results in significant paperwork. The subsequent transfer of hand-collected data or paperwork into analysis tools often results in a substantial time lag between the audit and reporting of findings to management, slowing the decision process and resulting in missed opportunities to implement timely corrective action. Additionally, performing traditional audits alone often results in incomplete or infrequent coverage of stores due to resource constraints, limiting the efficiency and effectiveness of the store audit function.

The current, traditional method of conducting store audits would benefit from an innovative use of technology. In current times, businesses are immersed in a significant regulatory environment and desire process efficiencies that both produce cost savings and improve effectiveness. As a result of this paradoxical environment, two opportunities have evolved to satisfy these needs: control self-assessment and the technologies that support this process.

Store Self-Assessment

The first step to progressing toward a more effective and efficient store audit program is the implementation and acculturation of control self-assessment. Store self-assessment is a cost-effective and efficient alternative for organizations to expand their store audit coverage and improve their ability to meet executive management's internal audit and compliance objectives. Wider coverage is established through an organized and realistic self-assessment methodology, which leads to increased availability and timeliness of valuable information for executive management's use in managing and monitoring

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operational aspects of their business. Additionally, the self-assessment program raises accountability by engaging store managers, who are direct control owners, and places overall responsibility for control operations and assessment in their hands.

Can management really depend upon self-assessment results as an honest and complete store audit process? Store self-assessment alone does not create a complete or effective store-level audit program and should not be an organization's only auditing effort. However, self-assessment can be a more strategic and value-added use of your internal audit, loss prevention or store operations function when coupled with formal and statistically supported validation of the self-assessment results. It can lead to more robust audits of stores' compliance with laws, regulations, best practices, and company policies and procedures. When self-assessments coupled with validation also are complemented by proper training, development of remediation plans, and timely follow-up on issues identified during the self-assessment, store self-audits can be the first step toward a progressive and cost-effective method of consistently monitoring all stores, potentially improving the bottom line.

Technology – Enabling the Self-Assessment Program

The next step in building an effective self-assessment program is to ensure that data is collected, analyzed and reported in a timely fashion. Efficient audits no longer can be conducted by filling out paperwork at the store, and sending those paper audits back to the corporate office, where data is entered into a spreadsheet, and only then is a report manually created. Paper-based collections are fraught with inefficiency and error, not to mention being both time-consuming and redundant. The use of technological advancements can enable the creation and implementation of a self-assessment program through Web-enabled interactive tools. These tools facilitate the use of quantitative and qualitative questions that are weighted appropriately and have an automated, real-time mechanism for scoring and collection. Whether through the use of simple Web-based forms or more advanced mobile collection technologies, such as laptops, smart phones, or Pocket PCs, electronic delivery mechanisms can expedite immediately the store audit process. Such technology assists internal audit functions, management, and store managers in conducting consistent self-assessments that can meet both operational and regulatory objectives.

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Benefits of Audit Technology

Is an automated store audit solution really worth your investment? The answer to that question depends on many factors. Each individual company must explore its specific business priorities and the financial realities of the current audit process. Once a clear picture of the current situation emerges, the benefits and savings of an automated process also will become clear. The following sections detail three key benefits from audit technology: enhanced audit productivity, increased operational effectiveness and improved reporting capabilities.

Enhance Audit Productivity

- **Improve Consistency** – Uniform data collection from standardized questions provides the most useful information for analysis. Audit technology can enhance consistency through customized scoring models and predetermined response selections for specific questions. Advanced collection rules can pose questions in sequence to elicit accurate and relevant responses.

- **Minimize the Impact of Question Interpretation** – Everyone interprets audit questions from their own unique perspective, which can cause problems with accuracy and render subjective questions all but useless. Audit software is designed to keep audits on track, with downloadable support documentation, context-sensitive hints and "help text" to clarify management expectations.

- **Eliminate Data Reentry** – Existing paper-based processes can be slow and cumbersome. The response time is further delayed as data is sent to corporate headquarters for manual collation and synthesis before any further analysis. In an automated solution, data is entered only once at the store into a Web-based reporting system for real-time results, with no errors, no delays and no paperwork.

- **Increase Location Coverage** – In a large population of stores spread over a wide area, sheer volume demands audits targeted at specific stores, and some important locations may be lost in the rush. Self-assessment, coupled with improved productivity from an automated solution, can increase the amount of time available to expand audit coverage to new topics, new stores, distribution centers and emerging trouble spots.

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Increase Operational Effectiveness

- **Generate Action Items Automatically** – The audit process assists retailers in understanding where a particular store is failing in terms of operational controls. However, the onus rests on the management team to ensure identified issues are addressed. Audit technology allows the retailer to implement a proactive approach to areas identified as needing remediation. For all questions where an unsuitable response is recorded, the user can be prompted immediately to assign an action item. E-mail reminders and action reports provide an effective management tool to ensure timely follow-up.

- **Manage Shifts in Responsibility** – Utilizing a configurable user interface, administrators are able to tightly control security privileges and user functionality and oversee changes to the organizational hierarchy by adding and moving stores in the company's structure.

- **Enhance Communication to the Field** – A news bulletin board can provide management with a centralized portal to create and distribute relevant updates to users of the audit application. Furthermore, automated action item notification ensures tasks are assigned consistently to the appropriate users, improving productivity and communication among all team members.

Improve Reporting

- **Reduce Cycle Time From Data Entry to Reporting** – Information bottlenecks are a silent killer of organizational strategy. Without timely data, leaders are left to make decisions with an insufficient understanding of performance. Audits completed electronically are available automatically; there is no need to fax, transcribe or e-mail audit data. By accelerating the audit life cycle, management can make informed decisions about targeting low-performing stores and implementing meaningful change.

- **Improve Visibility of Key Performance Metrics** – With the audit technology, management has the ability to assess key performance metrics in real-time. Armed with this intelligence, management can identify operational issues and respond with swift, corrective action.

- **Eliminate Data Redundancy and Enhance Security** – In the traditional paper-based system, audits are distributed via fax or e-mail, which places data in multiple locations and enhances the probability that redundant data will be stored on disparate, unprotected systems. With audit technology, data is synchronized upon completion and saved on a secure, centralized server, limiting the opportunity for erroneous data to make its way into reports or the wrong hands.

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- **Store Manager Performance Trending** – High-performing store managers are moved often to help remediate lower-performing store locations. With audit technology, data can be readily accessible to compare any specific store manager's performance, even when the manager has been at various locations.

- **Store Performance Trending** – Audit technology not only can allow management instantaneous feedback on current store performance, it can provide insight into compliance trends, allowing organizations to detect and resolve ongoing problem areas in order to improve the overall performance of the organization. Additionally, the data allows management to rank stores and districts based on audit performance, and, if desired, to create a competition for the best level of ongoing compliance.

Key Questions to Ask Before Implementing Audit Technology

Implementing a new technology can be a daunting process for any organization. Retail companies should consider the following questions, among others, before designing and implementing the self-assessment program and related audit technology.

Management

- Who will own the store audit process: internal audit, loss prevention or store operations?

- How frequently will the self-assessment occur? What will be the scope of follow-up? Who will monitor remediation efforts?

- Is management willing to review current practices in order to identify and prioritize company objectives, risks and controls to be addressed at the store level?

- Will the use of technology in the audit process be a shift in corporate culture? If so, is management willing to take a top-down approach and be the driver behind the new process?

Information Technology

- What are you looking to solve by automating the store audit process?

- Will the audit software seamlessly integrate into your company's technology infrastructure while adapting to the idiosyncrasies of your audit process?

- Is there reliable web access at the store level?

- What is the anticipated budget for implementing the audit technology? What is the time frame for implementing a solution? Has an ROI been completed to estimate the potential savings and benefits resulting from using the audit technology?

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Creating Conditions for Change

The change from traditional audit to self-assessment and paper audit to electronic audit can result in a cultural shift in any organization. Careful and conscientious creation of the conditions required to facilitate the change are necessary for a successful implementation. Like all corporate change, the tone of any project starts with executive management. Executive management will need to establish efficient and effective lines of communication, proper training, and most importantly, involve all affected levels of the organization in the implementation process. Once the self-assessment program and technology are implemented, executive management will need to make a concerted effort to reinforce the necessity of the program's ongoing use. From the scope of the audit and scoring model to accountability and follow-up, each element of the program must work in unison to reinforce the program. It will be executive management's responsibility to create the conditions that will allow the acculturation necessary to make the implementation a success.

About Protiviti Inc.

Protiviti (**www.protiviti.com**) is a leading provider of independent risk consulting and internal audit services. We provide consulting and advisory services to help clients identify, assess, measure and manage financial, operational and technology-related risks encountered in their industries, and assist in the implementation of the processes and controls to enable their continued monitoring. We also offer a full spectrum of internal audit services to assist management and directors with their internal audit functions, including full outsourcing, co-sourcing, technology and tool implementation, and quality assessment and readiness reviews.

Protiviti, which has more than 50 locations in the Americas, Asia-Pacific and Europe, is a wholly owned subsidiary of Robert Half International Inc. (NYSE symbol: RHI). Founded in 1948, Robert Half International is a member of the S&P 500 index.

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