Utilizing Store Self-Assessments

Introduction

According to the *2008 National Retail Security Survey*, produced by Richard Hollinger at the University of Florida, U.S. retailers lost approximately $36.3 billion that year because of inventory shrinkage. Now, retailers, in the midst of the worst economic times since the Great Depression, find themselves in a new battle to reduce shrink.

Employee theft is still the largest source of shrink; however, organized retail crime is increasing and may have an impact on future shrink statistics. Additionally, the current economy has caused many retailers to make deep personnel reductions, resulting in increased risks to assets and jeopardizing adherence to company policies and regulatory requirements. These economic changes have led many retailers to implement a store compliance process to monitor and identify issues and resulting remediation properly. Whether the goal is to reduce shrink or ensure adherence with regulations, a rigorous store-level compliance process is essential for protecting and substantiating company assets.

Two Methodologies: Traditional Store Audits and Store Self-Assessments

Store audits are a proven way to maintain visibility into store compliance with regulatory requirements, as well as company policies and procedures. An effective store compliance process can be properly achieved through two methodologies: traditional store audits and store self-assessments. Performing traditional store audits alone often leads to incomplete or infrequent coverage of stores due to limited resources. In these economic times – when budgets are being cut and corporate audit personnel are traveling less – the risk of noncompliance has become greater. In addition, traditional audits are often costly, untimely and inefficient, and typically do not place the responsibility for controls with the proper individuals: store management.

A store self-assessment, also known as a control self-assessment (CSA), is a cost-effective and efficient alternative for organizations. It can help retailers to expand their store audit coverage and improve their ability to meet business objectives by leveraging store management to review and report results back to corporate.

Advantages to Adopting a CSA Approach

A CSA allows wider coverage, which leads to increased availability of valuable information for executive management's use when managing and making decisions on operational aspects of the business. Additionally, the self-audit program raises accountability by placing overall responsibility for controls in the hands of store managers, who are the direct control owners.

When properly performed, a CSA becomes another way to educate and train store personnel about company policies. But store self-assessment alone does not create a complete or effective store-level audit program and should not be a retailer's only auditing effort. A CSA, coupled with formal validation of the self-assessment results, development of remediation plans and timely follow-up on issues identified during the self-assessment, can be the most cost-effective method of monitoring all stores on a regular basis.

Proven self-assessment benefits include:

- Allowing for broader, more frequent coverage than possible with traditional store audits

- Providing more coverage of important issues because the experts – store managers who are more knowledgeable about store operations – can quickly focus on key risks and controls while being directed and monitored by a corporate audit team

- Offering a more productive means to evaluate "soft" controls, such as new hire practices

- Facilitating store managers' development of remediation plans for their specific situations, requiring corporate audit personnel to review and follow up with remediation only

- Helping store management understand and assume responsibility and accountability for effective control and risk management

- Educating store employees about required company policies and procedures through questions and links to policies, forms and other documents hosted on the intranet
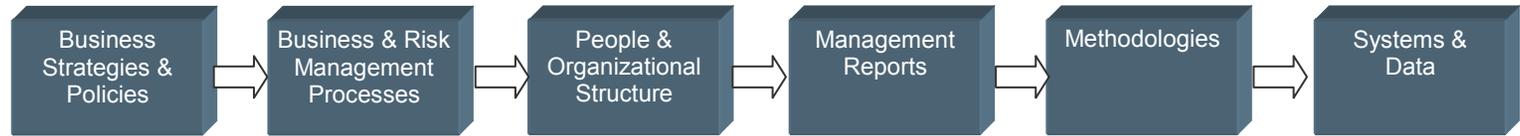
Developing a CSA Program

A CSA, when coupled with formal and statistically supported validation of the self-assessment results, becomes a more strategic and value-added use of internal audit, loss prevention or store operations functions. It can lead to more robust store compliance with laws, regulations, best practices, and company policies and procedures. When self-assessments and validation are complemented by proper training, development of remediation plans, and timely follow-up on issues identified during the self-assessment and validation audits, store self-audits can be the first step toward a progressive and cost-effective method of consistently monitoring all stores and potentially improving the bottom line.

The next step in developing an effective CSA program is creating a process for collecting, analyzing and reporting data in a timely manner. The use of web-enabled interactive tools can assist with this process. These tools facilitate the use of quantitative and qualitative questions that are weighted appropriately and have an automated, real-time scoring and collection mechanism. For the process maturity in the various elements of infrastructure based on store audit processes, refer to the Store Audits – Capability Maturity Continuum chart on the next page.

Conclusion

If technology is not leveraged to perform self-assessments at the store level, the store audit approach and process should be reviewed and streamlined. Too many companies are spending unnecessary time performing administrative and non-value-added tasks that are part of the traditional audit approach. By making store management a key part of the process with a CSA program, a cost-effective and efficient approach can be embraced.

Store Audits – Capability Maturity Continuum

		Business Strategies & Policies	Business & Risk Management Processes	People & Organizational Structure	Management Reports	Methodologies	Systems & Data
Realization of Value Proposition	**Optimized**	Formal policies and procedures exist and are communicated to stores. These policies are also included on the company intranet where they are accessible to all store personnel.	Adherence to policies and procedures is reviewed at all stores through a web-based self-assessment process. Independent validation audits are performed at select locations. An automated process exists to follow up on the status of necessary corrective actions as determined by the self-assessment and/or follow-up audit.	The web-based self-assessment is completed by store managers. The process is facilitated by independent audit personnel. The facilitators work closely with store operations and loss prevention to ensure accurate and appropriate information and processes are reviewed during the self-assessment.	Self-assessment results are web-based and in real time. Predefined and custom reports that compare stores, previous audits and questions are available. In real time, all predefined personnel can view status of an open self-assessment or open action items. Additionally, historical data exists to create comparative reports that show progress.	An annual risk assessment and ongoing communication across various departments, including store operations and loss prevention, are used to identify new risks that should be covered at the store level. A web-based self-assessment is the primary method used to quantify store-level risk. Coverage includes 100% of stores multiple times per year.	The store audit program is operated using a web-based system. The system tracks all necessary information. Follow-up of outstanding management action items is managed through automated reminders. The results of the audit, including exceptions, are captured and available in real-time management reports.
	Managed	Formal policies and procedures exist and are communicated to stores. Stores are required to maintain and make available to store personnel hard copies of the most recent policies as they are communicated.	A paper-based self-assessment program has been established to monitor compliance with established policies and procedures. A formal procedure is developed to follow up on the status of necessary corrective actions as determined by the self-assessment.	A labor-intensive self-assessment is facilitated by independent audit personnel. The group works closely with store operations to ensure accurate and appropriate information and processes are reviewed during the store audits.	Self-assessment results are centrally maintained in a database by independent audit personnel. Results are manually entered and then electronically compiled. Well-defined reports exist as well as ad hoc reporting capabilities. Some historical data exists to create comparative reports. Results are reported to stores and executive management.	Ongoing communication across various departments, including store operations and loss prevention, are used to identify new risks that should be covered at the store level. A self-assessment is the primary method used to quantify store-level risk. Coverage includes 100% of stores at least once per year.	The self-assessment program is paper-based. All results are stored in hard copy and manually entered into a database for reporting. The results of the audit, including exceptions, are captured using manually created management reports. Ad hoc reports from the database are available to management upon request.
Process Maturity	**Defined**	Formal policies and procedures exist and have been formally communicated to store personnel. Additionally, policy changes and updates are formally communicated to store personnel.	Store audits are performed to monitor compliance with established policies and procedures. The audits are scheduled based on a predefined, rotational schedule.	There are dedicated independent audit personnel available to perform scheduled store audits. The material covered during the audit is determined by the audit manager.	Store audit results are manually entered and centrally maintained in spreadsheets by independent audit personnel. Limited predetermined reports are created. A limited number of additional reports can be created upon request. Results are reported to executive management.	Ongoing communication across various departments, including store operations and loss prevention, are used to identify new risks that should be covered at the store level. A paper-based independent audit is the primary method used to quantify store-level risk. Coverage includes 100% of stores on a rotating basis.	A spreadsheet is used to compile audit results and action items. Predefined reports are identified and created. There is some ability to create custom reports through the data accumulated.
	Repeatable	Informal policies and procedures exist. Policies are not consistently communicated or available to store personnel.	Informal procedures and standards exist. Store audits to monitor compliance are performed periodically or upon reports of inappropriate actions.	There are dedicated independent audit personnel available to perform periodic or ad hoc store audits. No formal audit work program exists.	Store audit results are manually entered and centrally maintained in spreadsheets by independent audit personnel. Little reporting other than individual results is available.	New risks that should be covered at the store level are identified as they are discovered by personnel. A paper-based independent audit is used to quantify risks after they are discovered. Number of stores covered is not pre-established.	A spreadsheet is used to compile audit results and action items. Predefined reports are identified and created, but there is very little ability to create custom reports through the data accumulated.
Risk of Failure	**Initial / Ad hoc**	Store-level policies and procedures do not exist, or those in existence are vague. The organization provides little review of store risks and controls.	Documented store-level procedures do not exist. Review of actual store procedures is reactionary and not addressed as a strategic opportunity.	No formal store audit function exists. Store audits or reviews are performed by available personnel as determined necessary.	Reporting of any store reviews completed is sporadic and ad hoc. Store audit results are maintained independently of each other and do not allow for comparative reporting.	Stores are responsible for ensuring they are in compliance with company policies and procedures. No independent review is performed.	Data is stored in paper format and duplicate entry efforts are often required. Analysis is manual and labor-intensive. There is no ability to track performance trends. Exception-based reporting and analysis are not available.

Case Study: An Audit Challenge

A 500-store retailer wanted to efficiently manage and administer the Excel-based auditing of all stores. The company decided to implement the Protiviti proprietary audit tool to facilitate self-assessment by store management and subsequent validation by internal audit.

By implementing the Protiviti proprietary audit tool, the company was able to:

- Administer and monitor a high-shrink store program, resulting in a year-over-year improvement in shrink of more than 50 basis points.

- Reduce administration time by almost 40 percent.

- Measure the adherence of new standard operating procedures and identify improvement opportunities at stores.

About Protiviti

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit, and has served more than 35 percent of FORTUNE 1000® and FORTUNE Global 500® companies. Protiviti and its independently owned Member Firms serve clients through a network of more than 70 locations in over 20 countries. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies.

Protiviti has more than 60 locations worldwide and 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.

About Protiviti's Retail and Consumer Packaged Goods Practice

Retail and consumer packaged goods companies must move at the speed of consumer preferences. Meeting consumer demands requires a careful focus on growing pressures and risks, starting with brand creation, speed to shelf, trade-spend effectiveness, flawless customer service and beyond.

Protiviti's Retail and Consumer Packaged Goods practice includes professionals with deep industry experience in retail and consumer products. Our professionals can work with you to find approaches to improve and establish strategies, as well as manage risks within the many complex processes and integrated systems that ultimately drive efficiency and profitability.

For additional information about the issues reviewed in this white paper or Protiviti's services, please contact:

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