Food Retailing and Wholesaling Internal Audit Study

Presented by:

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Back by popular demand

- Update from the 2013 study
- 40-question survey
  - Developed in collaboration with the committee
- Fielding Oct-Nov
- Topics
  - Department structure
  - Productivity
  - Measuring effectiveness
  - The audit plan

Defining internal audit

"The function which is primarily responsible for assessing internal controls in any of these areas: effectiveness and efficiency of operations, reliability of financial reporting, compliance with laws and regulation and safeguarding of assets"

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Report and today's presentation

- Yielded 35 respondents, representing:
  - 26,260 stores
  - $804 billion in retail sales
  - 868 internal audit professionals
- All attendees will receive a free copy of the study
  - National benchmarks and breakouts by sub-segments
    - Number of stores operated
    - Number of audit professionals
    - Retailing versus wholesaling
- Today's agenda
  - High-level review of the data
  - Audience discussion, contributions and questions throughout

Size and turnover

Reporting structures

Education, certifications and continued education

Guest auditor, intern and rotational programs

Outsourcing

Inter-department collaboration

DEPARTMENT STRUCTURE

Size of the department

Five audit professionals for every 100 stores

6 Internal audit employees

Full-time	6
Part-time	0

Highest level

- 29% Director
- 24% VP
- 15% Sr. Director

Turnover

20% Audit department turnover

- Averaged over the past 3 years
- All full-time employees[1]: 12%
- All HQ/corporate employees[1]: 9%

1 Source: The Food Retailing Industry Speaks 2015

Reporting structure

Administratively

Internal audit department reports to:

- **62%** CFO/VP of Finance
- **12%** Audit cmte/equivalent
- **12%** CEO/President
- **15%** Other

Functionally

Internal audit department reports to:

- **52%** Audit committee or equivalent
- **30%** CFO/VP of Finance
- **6%** CEO/President
- **12%** Other

Audit committee

70% of companies have an audit committee

- Likelihood rises along with company size
- >75 stores: 83%

65% of audit committees meet quarterly

- Annually: 13%
- Other: 22%
  - Every month (mentioned several times)
  - Every two months (mentioned several times)
  - As needed
  - Semi-annually

FMI Food Retailing and Wholesaling Audit Study 2016

Formal education

52% have an accounting degree

- Down from 64% in 2013
- More prevalent in larger companies/teams
  (66% in >300 stores; 56% in teams of 11+ auditors)

23% have a general business degree

- More common among smaller companies/teams
- Other degrees:
  - Information systems/technology: 9%
  - Liberal arts: 3%
  - Engineering: 1%

Certificates

24% have a CPA certification

– More prevalent in larger companies (37% in >300 stores)

20% have a CIA certification

– More common among larger companies
– Other certifications:
  - CISA: 12%
  - CFE: 6%
  - CMA: 1%

Continued education

28 median hours of training/auditor/year

- Average of 31 hours
- Range 0-100 hours
- Higher number of hours in larger companies/teams (37% in >300 stores)

College intern programs

23% offer college internships

Fewer than 75 stores	18%
75-300 stores	33%
More than 300 stores	18%

Rotational programs

27% offer rotational programs to develop talent for other functions in the company

Fewer than 75 stores	18%
75-300 stores	36%
More than 300 stores	27%

Skills development includes:

- Advanced accounting skills
- Retail operations
- Data analysis
- Communication skills
- Technical skills
- Strategic thinking
- Leadership abilities

Guest auditors

21% occasionally use guest auditors from other departments within the company

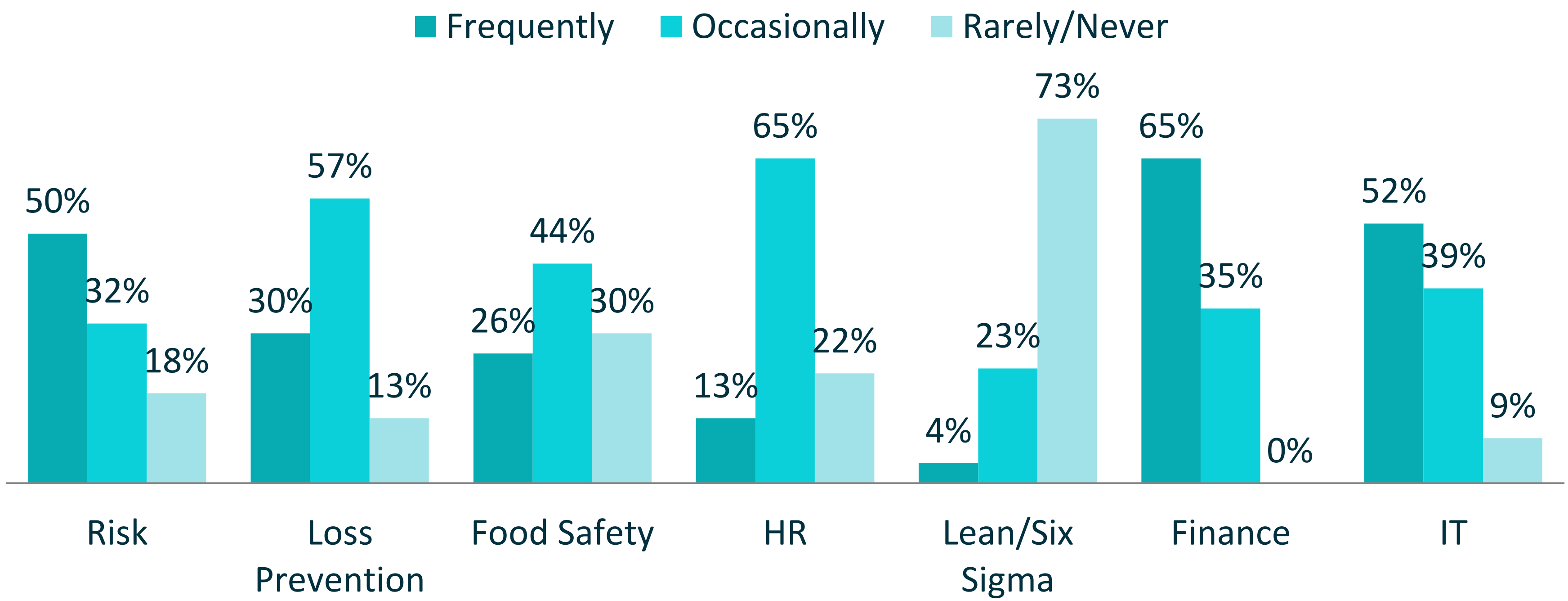
Fewer than 75 stores	18%
75-300 stores	33%
More than 300 stores	9%

Areas of guest auditors:

- Asset protection
- Compliance
- Human resources
- Information technology
- Risk management
- Retail operations
- Accounts payable
- Supply chain

Collaboration with other departments

Frequency of the audit team working with other departments in the execution of audit work



Outsourcing and co-sourcing

88% use 3rd party services/vendors

– 100% of companies > 300 stores

76% < 10% of activities

21% 11-25%

70% Information technology

37% Finance/accounting

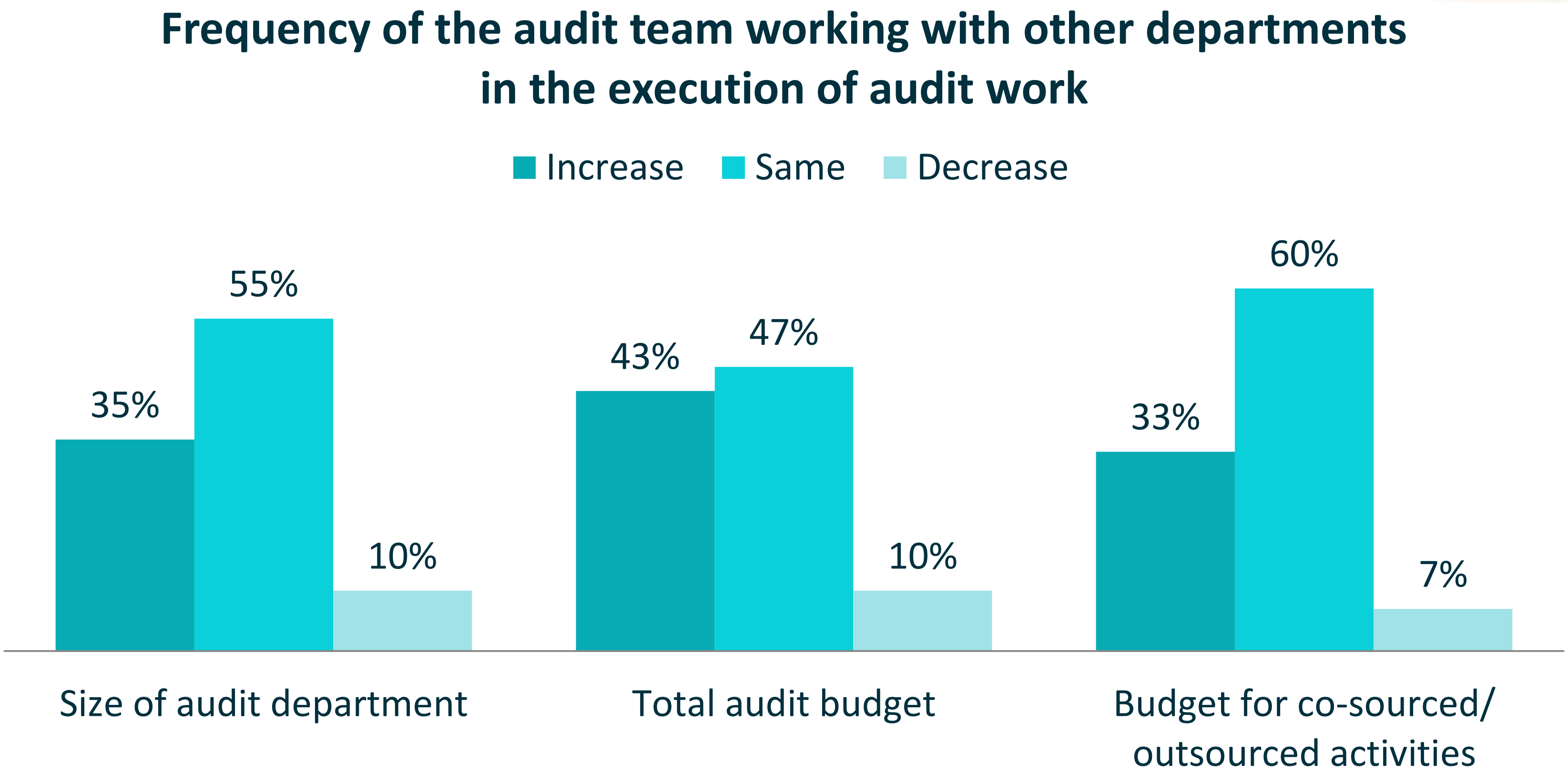
23% Operations

17% Taxes

17% Fraud

Other: lean/six sigma | food safety | specialty projects
insurance | HR

Departmental changes in next 5 years



Time allocation by functional area

Time allocation by type of audit

Reporting

Audit software and data analysis tools

Uncovering fraud / fraud hotline

QARs and ERM process

Code of Business Conduct/Ethnics Policy

PRODUCTIVITY

Rotational programs

44% of audit teams use POS exception reporting software

Fewer than 75 stores	38%
75-300 stores	44%
More than 300 stores	50%

Systems used:

- ACE
- Agilence Retail 20/20
- IBM POS
- Truno
- Internally created
- Profitect
- Secure
- etc

Time allocation to functional areas

Time allocation	2013	2016
	All	**All**
Retail operations	34%	35%
Finance	22%	26%
Information Technology	14%	13%
Merchandising	7%	7%
Supply chain	12%	7%
Human Resources	3%	5%
Marketing	1%	2%
Manufacturing	2%	2%
Legal	1%	2%
Other	5%	2%

Time allocation by type of audit

Time allocation	2013	2016
	All	All
Operational/Process	39%	38%
Financial controls	13%	20%
SOX/Internal control	17%	15%
Regulatory compliance	12%	15%
External audit support	6%	6%
M&A support/ due diligence	2%	2%
Other	11%	4%

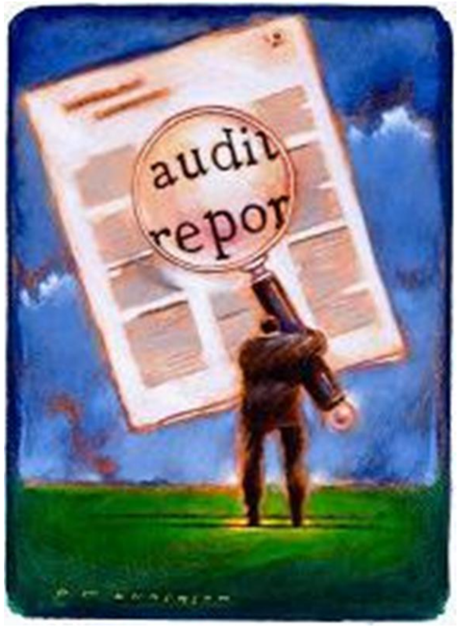
Anticipated changes

All respondents	Current time allocation	Anticipated time allocation in five years	Change
Operational/Process	38%	34%	↓
Regulatory compliance	15%	20%	↑
Financial controls	20%	20%	=
SOX/Internal control	15%	15%	=
External audit support	6%	5%	=
Other	4%	4%	=
M&A support/due diligence	2%	2%	=

Audit reporting

14 average days to issue an audit report

– Range from handful to 38 days



Written report on overall internal control for sr. management

- **52%** Yes
  - **20%** On request
  - **55%** Annually
  - **25%** Other
- **48%** No

Uncovering fraud in fiscal year 2014

Uncovered fraud in fiscal year 2014?	
Yes	37%
No	63%

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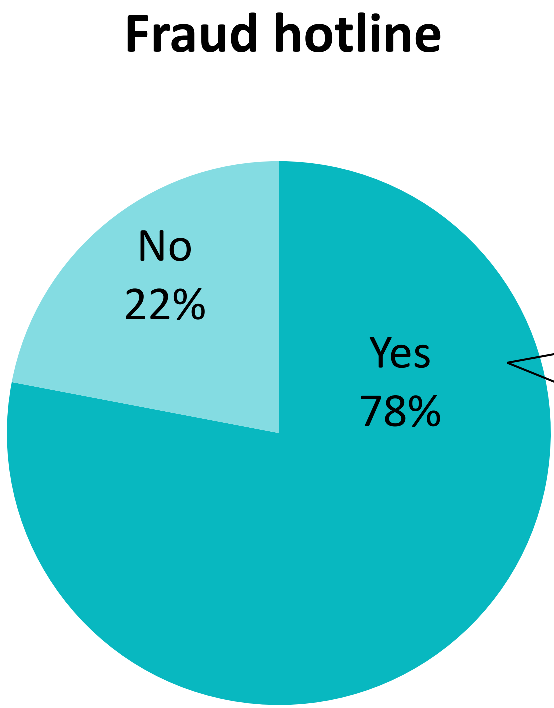
If so, in what area(s)?	
Operations	73%
Financial	27%
Accounting	12%
Procurement	10%

From 29% in 2013

Fraud hotline



Average number of tips in 2014 for:

Fraud: 4

Dishonest behavior: 24

Audit-specific software

44% use audit software package

44% Use of audit software packages

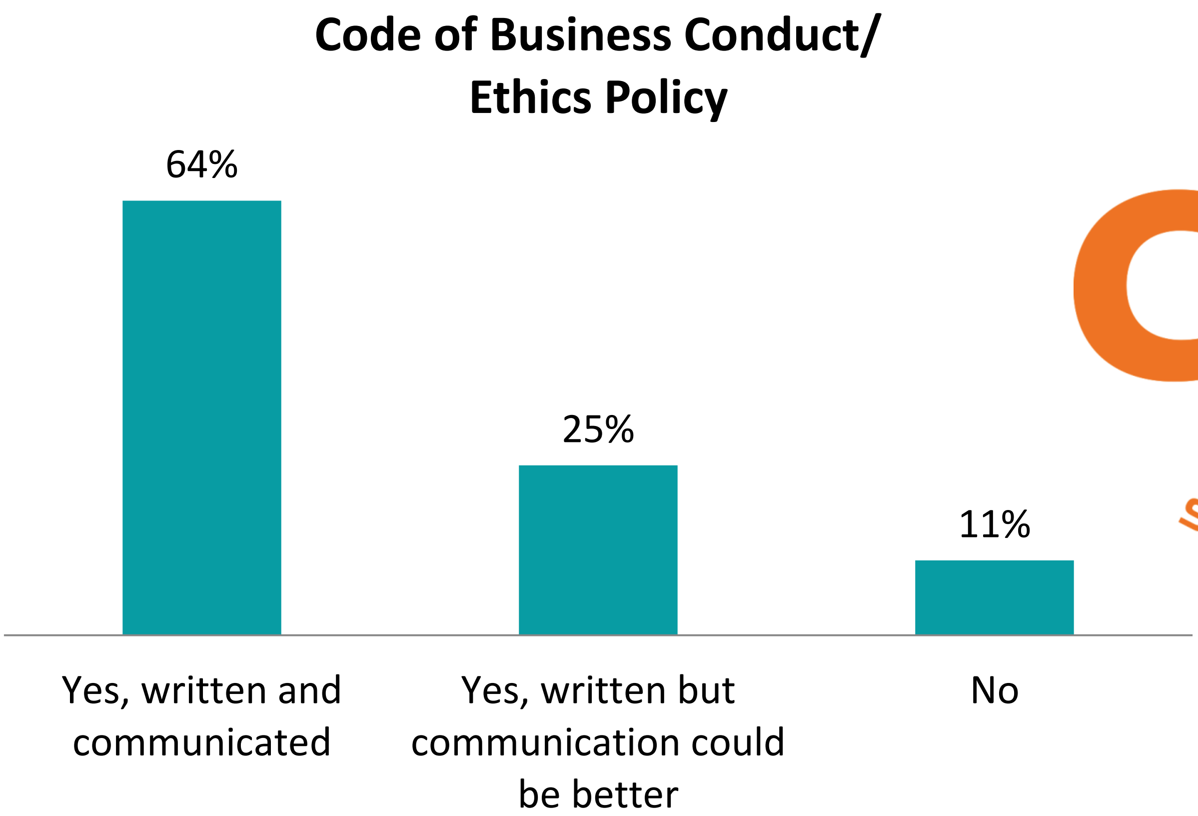
- 3% MetricStream
- 3% Protivity
- 36% Accelus/ Paisley
- 27% TeamMate
- 27% ERP
- 0% SAS
- 4% Other Software

Data analysis tools

93% use data analysis tools

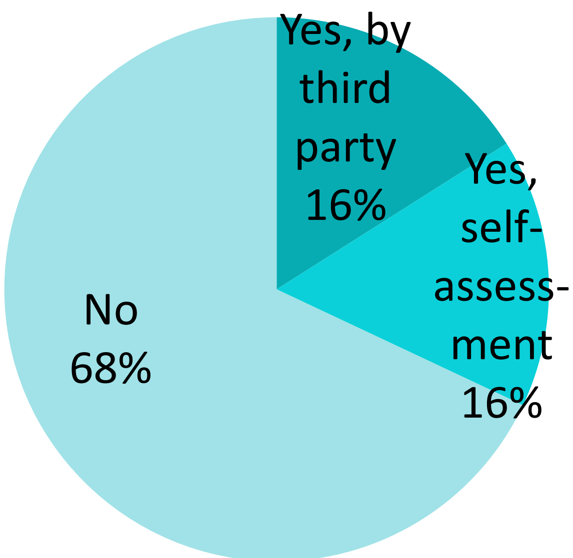
- Tools used:
  - 79% Excel
  - 43% ACL
  - 21% Access
  - 14% IDEA
  - Other: SQL | PeopleSoft | LavaStorm | Tableau | StatDisk Python | Excel add-on modules

Code of Business Conduct/Ethics policy

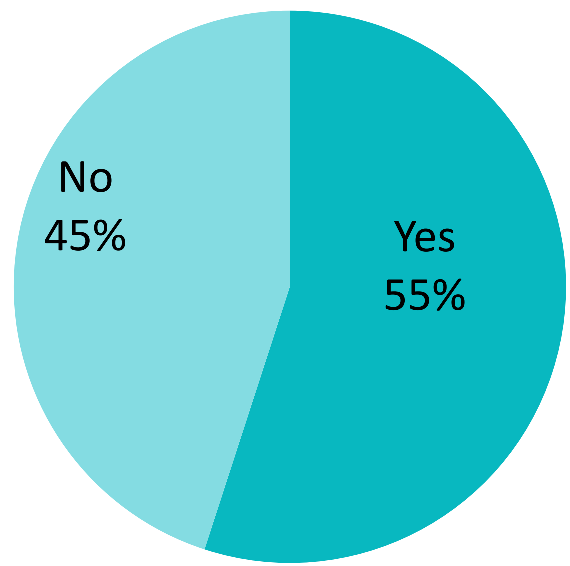


QARs and ERM process

Quality Assurance Review



Enterprise Risk Management Process



Formally assessing success

Goals by metric

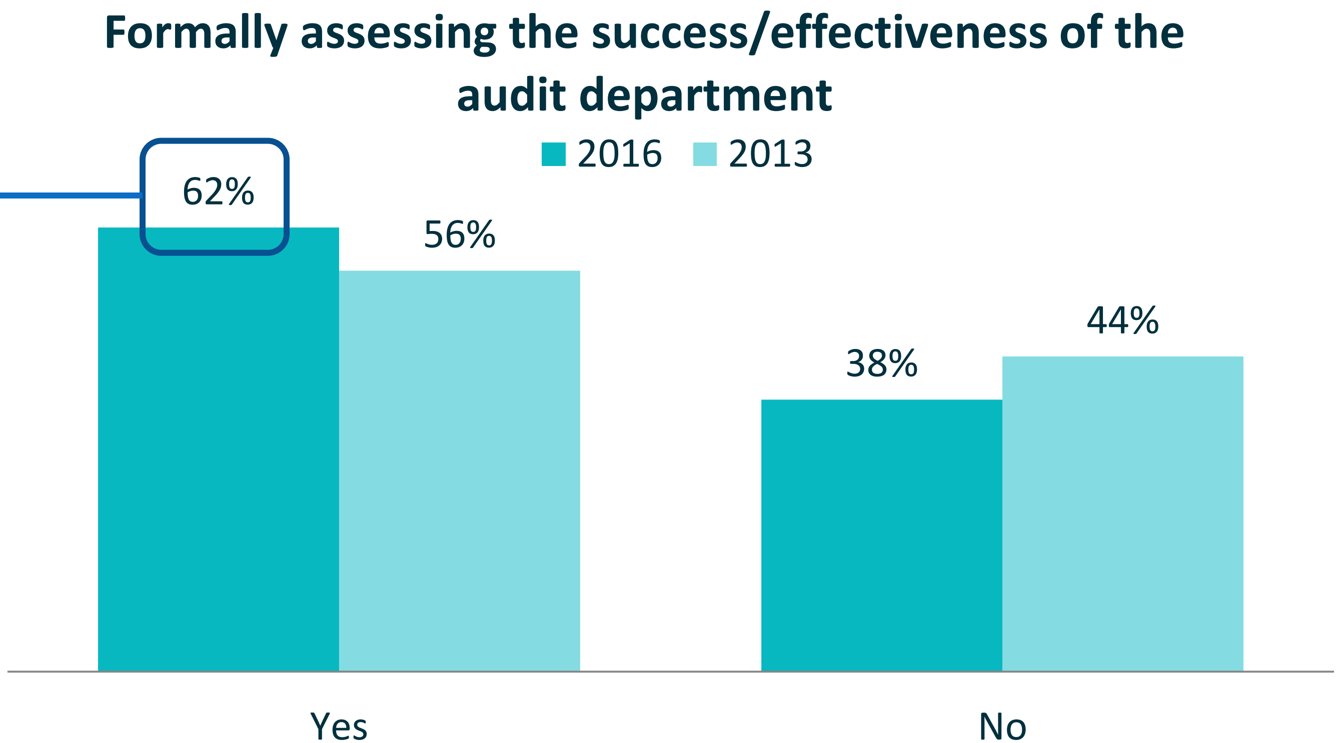
Staff assessments

Follow up post report release

MEASURING EFFECTIVENESS

Measuring effectiveness

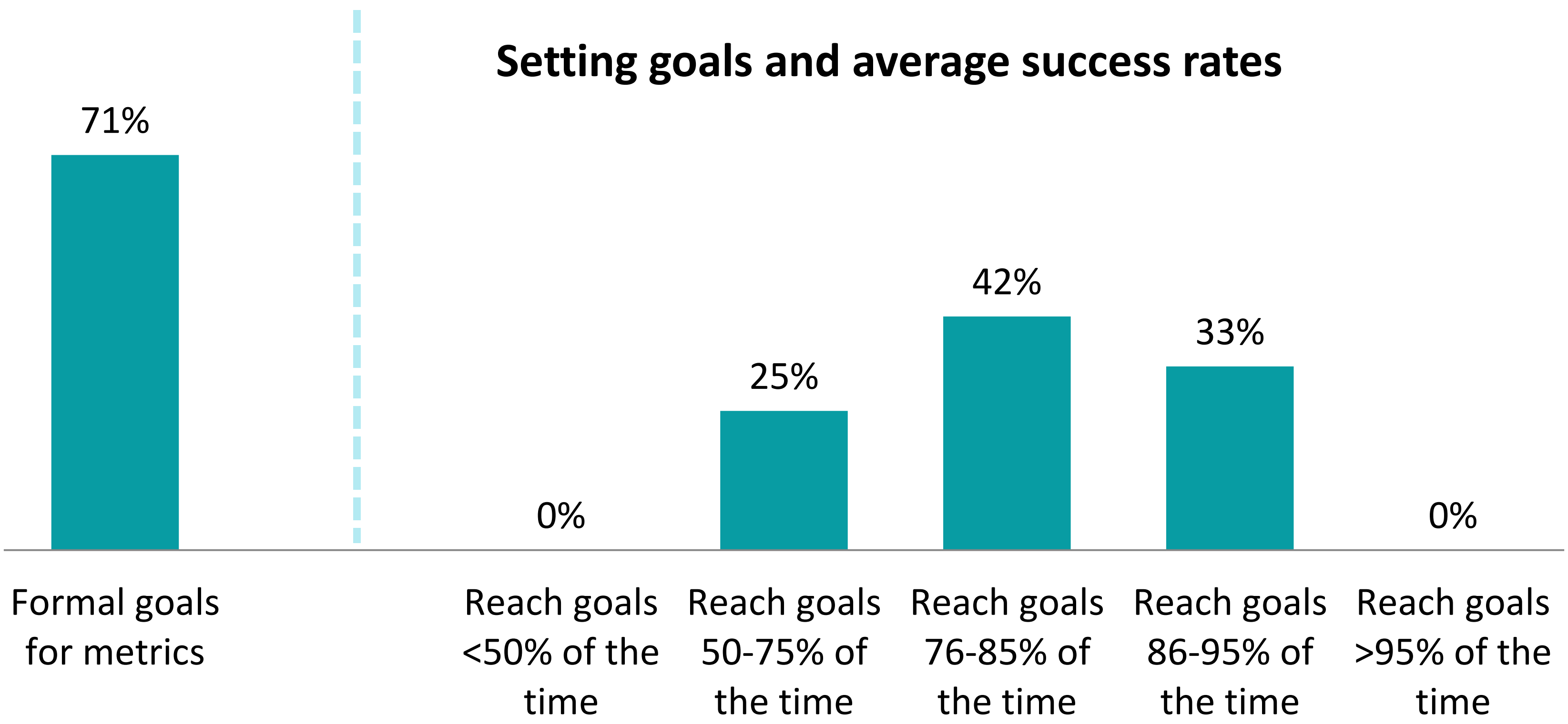
82%
of >300 stores



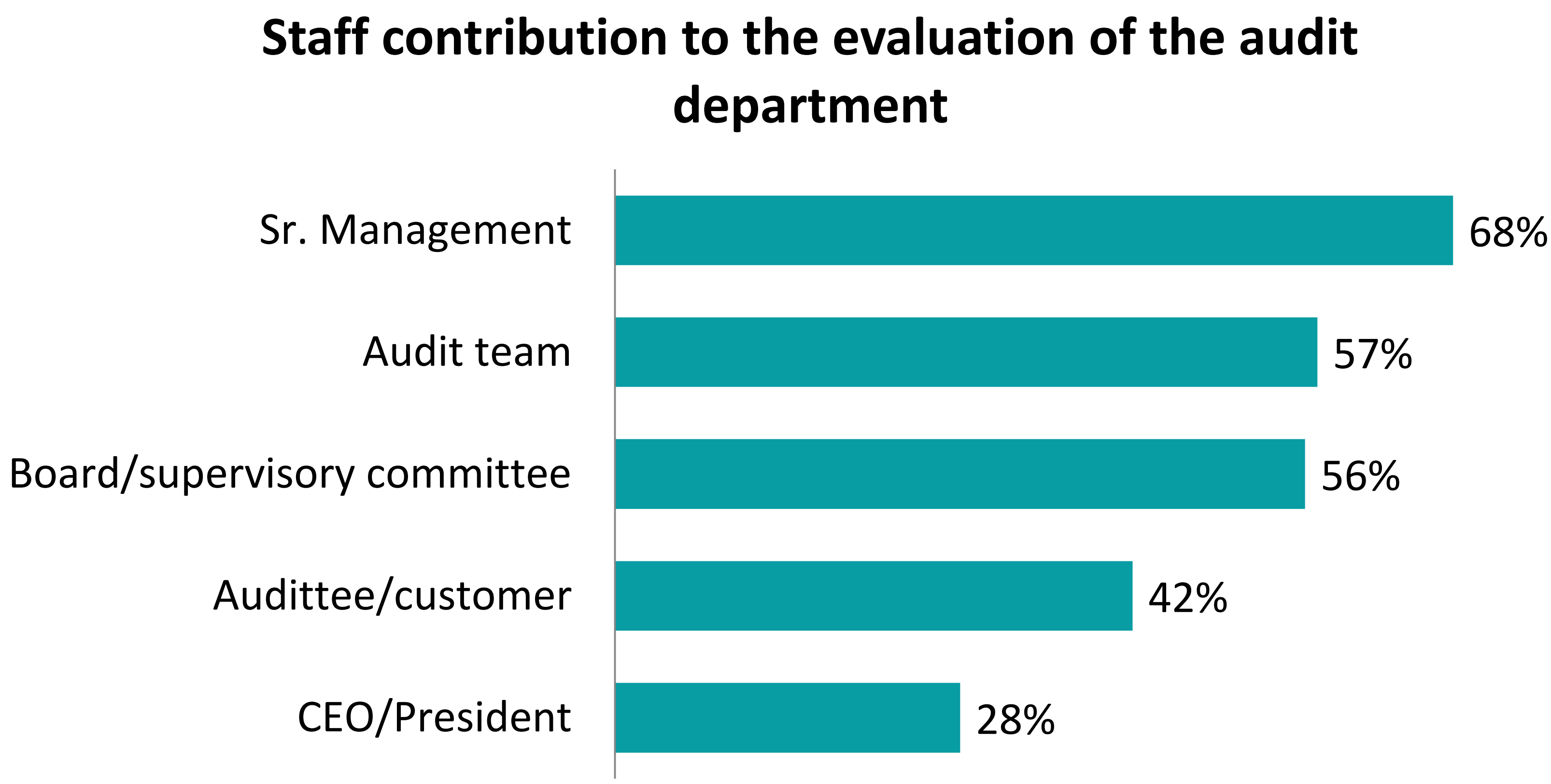
Top methods for measuring success

	2013	2016
Percentage of audit plan complete	67%	71%
Surveys/feedback from board, committee/senior management	60%	62%
Customer/auditee surveys	61%	61%
Timely closure of audit issues	53%	54%
Budget to actual audit hours	47%	48%
Report turnaround (end of fieldwork to final report)	41%	40%
Cost savings/avoidance	38%	40%

Goals by metric



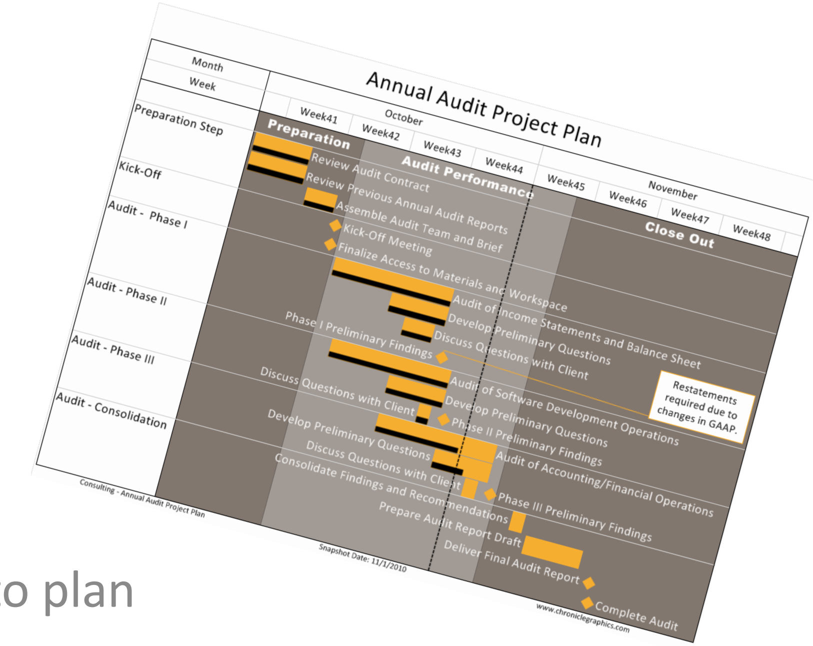
Staff contribution to evaluation



Follow up post report release

Primary responsibility to report findings to senior management	
Chief audit executive (CAE)	52%
Both the internal audit project manager and the auditee/customer	19%
Internal auditor project manager	10%
Both CAE and auditee/customer	9%
Auditee/customer	4%
Other	6%

Primary responsibility to monitor that corrective action is being taken	
Both internal audit project manager and auditee/customer	63%
Internal audit project manager	30%
Auditee/customer	6%
Other	1%



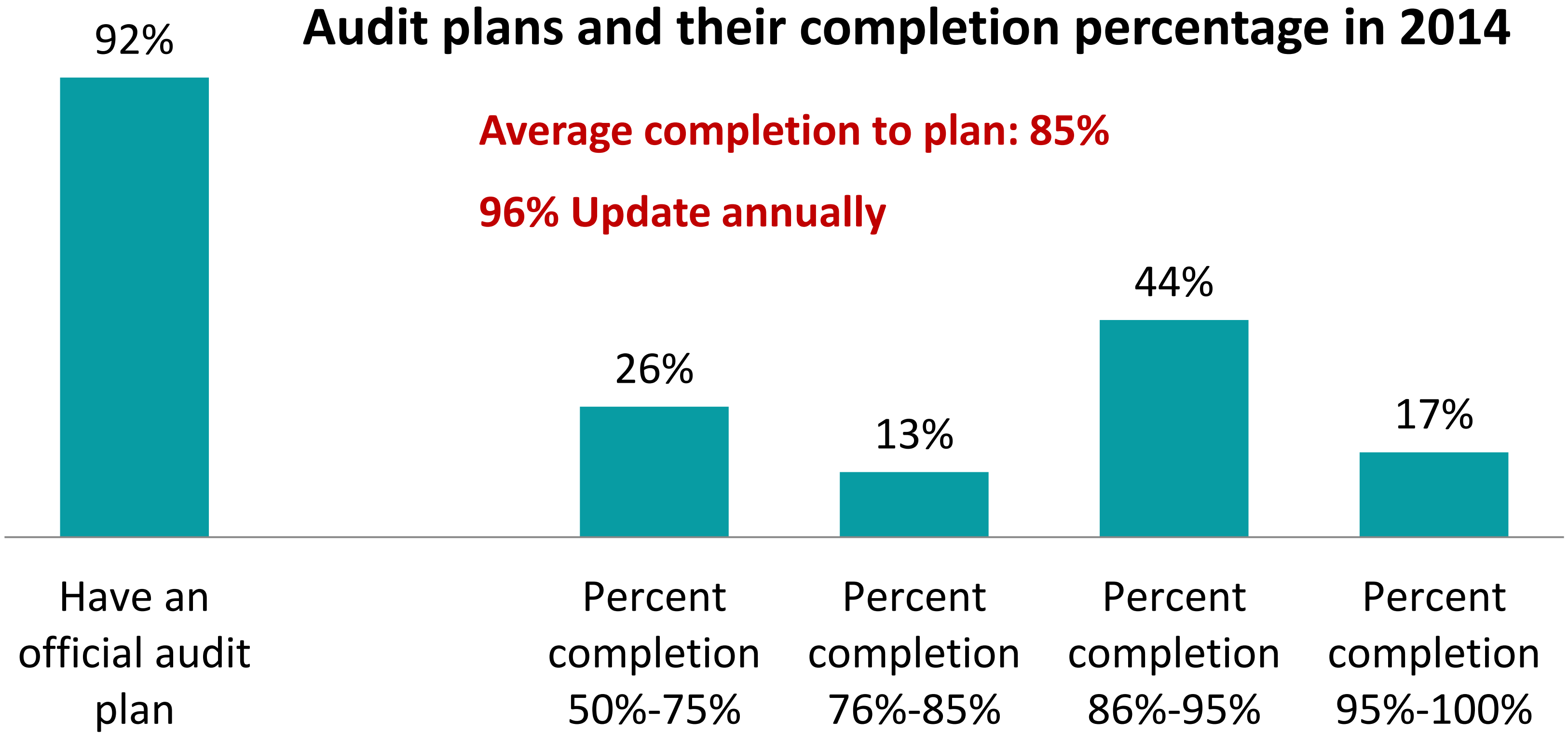
Audit plans, plan updates and completion to plan

Developing the audit plan

THE AUDIT PLAN


AUDIT

Audit plans


Audit plans and their completion percentage in 2014
Average completion to plan: 85%
96% Update annually
92%
26%
13%
44%
17%
Have an official audit plan
Percent completion 50%-75%
Percent completion 76%-85%
Percent completion 86%-95%
Percent completion 95%-100%

Developing the audit plan

Influence on the development of the Audit Plan; average on a scale 1-10	All 2013	All 2016
Assessment of risk/use of risk-based methodology	8.8	8.5
Compliance/regulatory requirements	7.6	8.0
Sr. management requests	7.0	7.0
Audit committee requests	7.4	6.9
Consult with divisional or business heads	7.1	6.7
Rotational plan (previous year audit)	5.5	5.7
External audit assistance	5.0	5.2
Skills and abilities of the audit team	5.0	4.9

Study will be emailed to you post conference

For questions, email Anne-Marie at:
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QUESTIONS AND DISCUSSION