Mango   Kiwi Slices   Small Strawberry Cup   Product of Chile   Small Strawberry Blueberry Cup   Small Cantalo Chunks   Small Honeydew Chunks

FOOD RETAILING AND WHOLESALING AUDIT STUDY 2016

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Dale Huggins
Vice President of Strategic Accounts
940.262.3335
dhuggins@rgis.com

Gregory Mannhalt
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248.535.5907
gmannhalt@rgis.com

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The Food Marketing Institute

Food Retailing and Wholesaling Internal Audit Study

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For questions or comments, please contact:
- Amanda Bond-Thorley, Director of Education, Food Marketing Institute at abondthorley@fmi.org
- Anne-Marie Roerink, Principal, 210 Analytics, LLC at aroerink@210analytics.com

The Annual Internal Audit Conference is designed for and by internal auditing professionals in the grocery industry. The Conference provides formal and informal learning opportunities to increase your professional knowledge and develop a focused approach towards identifying and addressing current and future auditing challenges in the food retail industry.

Food Marketing Institute (FMI) proudly advocates on behalf of the food retail industry. FMI's U.S. members operate nearly 40,000 retail food stores and 25,000 pharmacies, representing a combined annual sales volume of almost $770 billion. Through programs in public affairs, food safety, research, education and industry relations, FMI offers resources and provides valuable benefits to more than 1,225 food retail and wholesale member companies in the United States and around the world. FMI membership covers the spectrum of diverse venues where food is sold, including single owner grocery stores, large multi-store supermarket chains and mixed retail stores. For more information, visit fmi.org and for information regarding the FMI Foundation, visit fmifoundation.org.

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Introduction

Back by popular demand, The Food Marketing Institute's Internal Auditing Conference initiated an update of the *2013 Food Retailing and Wholesaling Audit Study* to document any changes in key benchmarking information and capture new data points specific to the internal auditing function at FMI member and non-member companies.

The updated questionnaire survey was developed in collaboration with committee members and focuses on gaining insight into productivity measures, such as time allocated by types of audits and areas; assessing the department's success, efficiency and effectiveness; technology usage; planning; outsourcing and more.

For the purpose of this survey, "internal audit" refers to 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
- Safeguarding of assets

Many of the findings are significantly impacted by company size, measured in annual sales or the number of stores operated. Therefore, the median provides a more accurate reflection of the national picture as it is less skewed by large outliers in the data. However, beyond the national averages, the report provides more detailed insights by the number of stores operated, the number of audit professionals employed, primary business function being retailing or wholesaling, and whether respondents are wholesaler-supplied or self-distributed. This detailed information can be used to benchmark against industry peers rather than just national averages.

In addition to the mean (average) and median readings, this report breaks out the 25th and 75th percentile, where applicable to provide a more in-depth review. The figure below illustrates each of these definitions.

| Lowest number reported | 25th percentile | Median or 50th percentile | 75th percentile | Highest number reported |
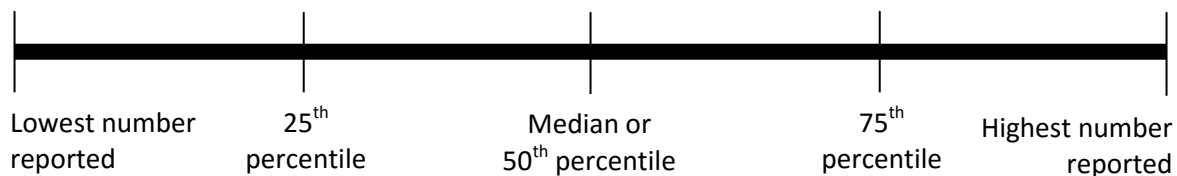
Sample Description

Thirty-five supermarket retailing and wholesaling companies participated, representing 26,260 stores, more than $804 billion in retail sales and 868 internal audit professionals.

Stores
- 75 or less: 33 percent
- 76-300: 33 percent
- More than 300: 33 percent

Store format
- 94 percent operate at least one supermarket
- 20 percent operate one or more supercenters
- 11 percent have at least one warehouse club store
- 37 percent operate one or more convenience stores
- 11 percent have additional formats, including limited assortment, organic and specialty stores

Company type
- 89 percent are retailers, 3 percent pure wholesalers and 8 percent are both
- 26 percent of companies are supplied by wholesalers, the remaining 74 percent have their own distribution centers.
- 77 percent of companies are privately-owned, with the remaining 22 percent being public companies

The Internal Audit Department Structure

Size of the Department

The 2016 study represents 868 auditors with the number per company ranging from just one to more than 400 audit professionals among some of the national chains. As expected, the number of auditors per company is in direct correlation to the size of the organization, measured in retail/wholesale sales or the number of stores operated. Respondents predominantly employ full-time audit professionals, who make up 99 percent of all auditors represented in the survey (up from 98 percent in 2013).

Other department-level factoids:

- Across company sizes, supermarket retailing and wholesaling companies employ a median of six internal audit professionals, with a mean of 25 people. The mean is skewed upwards by chains operating more than 300 stores, as can been seen in the table below.
- Taking organization size out of the equation, companies employ a median of five audit professionals for every 100 stores operated.
- 23 percent of companies employ at least one part-time audit professional. This share is slightly higher among chains operating less than 100 stores, at 33 percent.

Number of internal audit employees	Mean (Average)	25th Percentile	Median	75th Percentile
All respondents	**25**	**2**	**6**	**12**
• Full-time	25	2	6	11
• Part-time	0.3	0	0	1
Fewer than 75 stores	3	1	2	4
75-300 stores	7	4	6.5	11
More than 300 stores	68	9	25	80
Primarily a retailer	28	2	7	15
Primarily a wholesaler	4	3	5	7
Both retailer and wholesaler	2	1	3	8
No distribution centers	4	2	2	7
Self-distributed	33	3.5	9	18

Employee Turnover

Measured over the past three years (fiscal years 2010-2012), the median turnover in the internal audit department stood at 20 percent, which is up from 12.0 percent in 2013, with a mean of 19 percent. This is somewhat higher than the 8.9 percent measured among headquarter staff at food retailing companies as reported in the 2015 FMI *Speaks* report.

Total company turnover among food retailing and wholesaling companies
- All employees: 41.1% median
- Full-time employees: 12.0%
- Part-time employees: 46.2%
- HQ employees: 8.9%
- Distribution center staff: 22.0%
- Truck drivers: 10.9%

Source: *The Food Retailing Industry Speaks 2015*

Turnover measured over the past three years in the audit function of the company	Mean	25th Percentile	Median	75th Percentile
All respondents	**19%**	**0%**	**20%**	**30%**
Fewer than 75 stores	19	0%	20%	24%
75-300 stores	16	0%	20%	29%
More than 300 stores	21	10%	15%	33%
Primarily a retailer	19	1%	18%	30%
Both retailer and wholesaler	11	0%	10%	20%
No distribution center	21	0%	15%	43%
Distribution center operations	18	9%	18%	23%
1-3 total audit employees	16	0%	10%	35%
4-10 audit employees	18	5%	15%	30%
11 or more audit employees	22	11%	20%	35%

Reporting Structure

In 29 percent of companies, the highest level on the audit team is a Director, followed by 24 percent of companies at which the department is headed by a Vice President or above. The likelihood of the latter increases along with the size of the company, as can be seen in the table below. Another 24 percent of respondents reported other titles as being the highest level. These included: Assistant CFO, Chief Internal Auditor, Internal Audit Supervisor and Internal Audit Administrator.
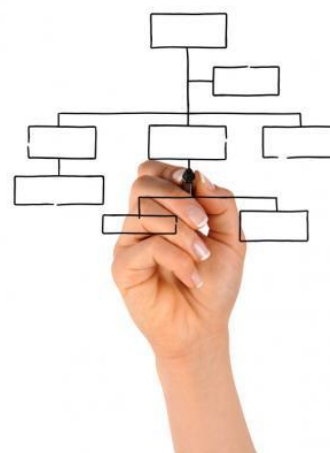
Highest level on the internal audit team	VP or above	Sr. Director	Director	Sr. Manager/ Manager	Other
All respondents	**24%**	**15%**	**29%**	**9%**	**24%**
Fewer than 75 stores	8%	8%	25%	17%	42%
75-300 stores	8%	0%	58%	8%	25%
More than 300 stores	60%	40%	0%	0%	0%
1-3 total audit employees	0%	22%	11%	22%	44%
4-10 audit employees	7%	21%	43%	7%	21%
11 or more audit employees	64%	0%	27%	0%	9%

In more than six in 10 companies, the internal audit department administratively reports to the Chief Financial Officer (CFO) or Head of Finance. The second most common direct-line reporting structure is the audit committee or equivalent at 12 percent of all responding companies or CEO/President at an equal 12 percent. Mentioned under "other" were Asset Protection, Director of Risk Management, Managing Director, Executive Chairman and Operations.

Functionally, the majority of companies report to the audit committee or equivalent, at 52 percent, followed by the CFO/VP of Finance at 30 percent.

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
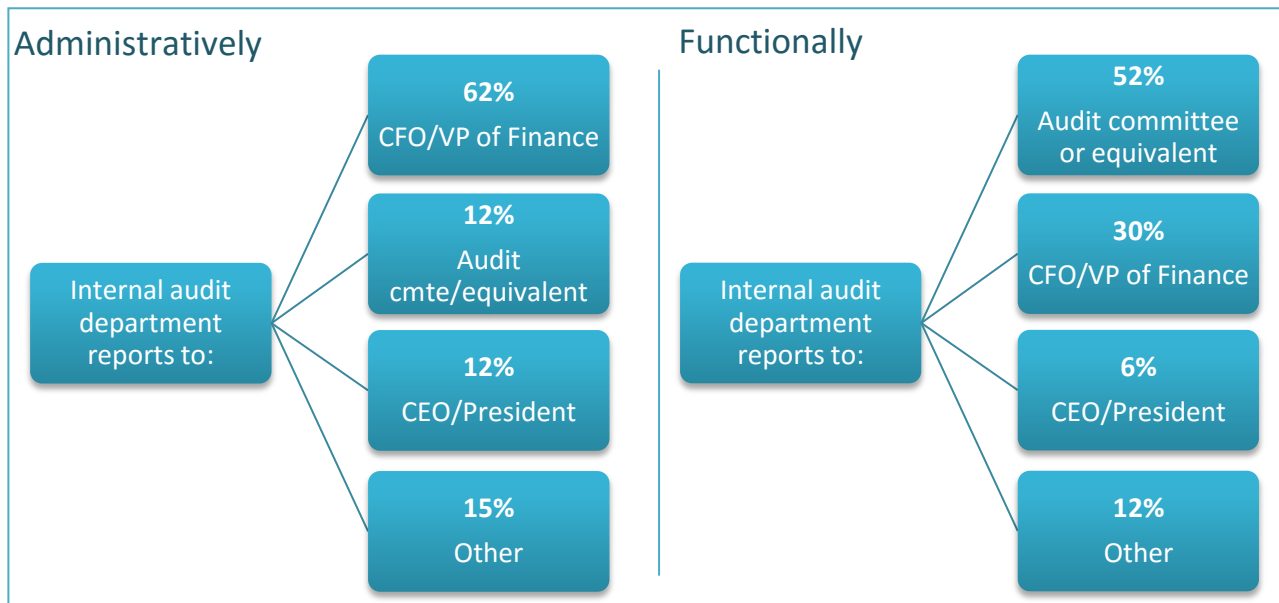
The audit department **administratively** reports to:	CFO/VP of Finance	Audit committee	CEO/President
All respondents	**62%**	**12%**	**12%**
Fewer than 75 stores	27%	9%	27%
75-300 stores	83%	8%	0%
More than 300 stores	73%	18%	9%
1-3 total audit employees	22%	11%	11%
4-10 audit employees	92%	0%	8%
11 or more audit employees	58%	25%	17%

The audit department functionally reports to:	CFO/VP of Finance	Audit committee	CEO/President
All respondents	**30%**	**52%**	**6%**
Fewer than 75 stores	45%	18%	18%
75-300 stores	25%	58%	0%
More than 300 stores	20%	80%	0%
1-3 total audit employees	33%	11%	22%
4-10 audit employees	17%	75%	0%
11 or more audit employees	42%	58%	0%

Audit Committee

Seventy percent of all respondents have an audit committee, with the likelihood increasing along with the size of the company:

- Less than 75 stores: 46%
- 75-300 stores: 82%
- More than 300 stores: 83%

Among organizations with an audit committee, 29 percent administratively reports to this committee and 73 percent do so functionally.

Audit committees most commonly meet every quarter.
- Quarterly: 65%
- Semi-annually: 2%
- Annually: 13%
- Other: 20%

Every month (mentioned several times)

Every two months (mentioned several times)

As needed

Education and Certifications

More than half of audit professionals represented in this survey (52 percent) have a degree in accounting. General business degrees are a distant second at 23 percent, followed by degrees in information systems. Degrees outside the five fields listed in the table below make up 14 percent of audit professionals' education. Please note the percentage adds to more than 100 percent due to some people having degrees in more than one discipline.

	Accounting	General business	Information systems	Liberal arts	Engineering
All respondents	**52%**	**23%**	**9%**	**3%**	**1%**
Fewer than 75 stores	28%	31%	9%	1%	0%
75-300 stores	62%	24%	8%	1%	1%
More than 300 stores	66%	15%	10%	5%	1%
1-3 total audit employees	37%	34%	10%	1%	0%
4-10 audit employees	60%	25%	4%	1%	1%
11 or more audit employees	56%	10%	15%	4%	1%
Primarily a retailer	52%	24%	9%	2%	0%
Both retailer and wholesaler	55%	4%	16%	4%	1%

In addition to college degrees, many auditors have field certifications with Certified Public Accountant (CPA) being the most common one at 24 percent. A list of abbreviations can be found in the Methodology section, in the back of the report. Other titles mentioned include ACCA, CFF and CGMA.

	CPA	CIA	CISA	CFE	CMA
All respondents	**24%**	**20%**	**12%**	**6%**	**1%**
Fewer than 75 stores	13%	8%	0%	4%	0%
75-300 stores	17%	15%	11%	1%	2%
More than 300 stores	37%	32%	19%	11%	0%
1-3 total audit employees	14%	9%	7%	0%	0%
4-10 audit employees	22%	18%	6%	10%	2%
11 or more audit employees	32%	29%	21%	6%	0%
Primarily a retailer	25%	19%	12%	5%	1%
Both retailer and wholesaler	13%	25%	13%	0%	0%

## Continued Education for Internal Audit Employees

On average, internal auditors in the food retailing and wholesaling industry receive 28 hours of formal training per auditor, per year. Many require a certain number of hours each year in order to keep up their certificates, such as their CPA licenses. The annual number of required continued education credits (CEUs) varies by state and certification. The number of hours in the sample ranged from none to 100 per auditor.

Hours of formal training per auditor, per year	Mean (average)	25th Percentile	Median	75th Percentile
All respondents	31	20	28	40
Fewer than 75 stores	21	9	21	36
75-300 stores	27	20	30	40
More than 300 stores	43	24	40	60
Primarily a retailer	32	20	30	40
Both retailer and wholesaler	20	20	20	40
1-3 total audit employees	21	1	23	40
4-10 audit employees	25	20	24	40
11 or more audit employees	45	24	40	60

College Intern Programs

While college intern programs can be valuable to both the employee and the student, very few food retailing and wholesaling companies currently offer college intern positions in the auditing function, at 23 percent. The likelihood is somewhat higher among midsize companies, operating between 75 and 300 stores.

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

College intern program:
- 23% Yes
- 77% No
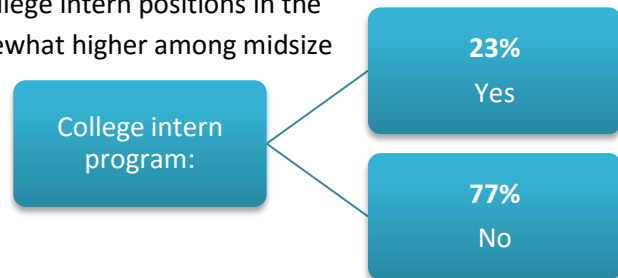
Rotational Programs

The use of rotational programs to help develop talent for other functions within the company slightly more common, but still very limited, at 27 percent. This is unchanged from the 2013 survey. However, these types of initiatives are a little more common among larger companies, operating upwards of 75 stores.

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

Rotational program availability:
- 27% Yes
- 73% No
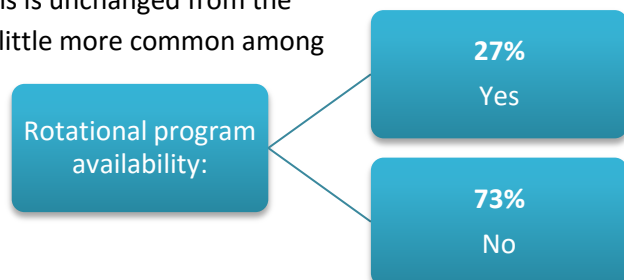
Among companies offering rotational programs, the skills that tend to be most highly valued by the receiving business functions are as follows (listed in order of frequency):

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

Use of Guest Auditors

Down from 6 percent in 2013, no responding companies use personnel from other functions to serve as "guest auditors" frequently, although 21 percent do so occasionally. That leaves more than three-quarters of retailing companies that do not make use of a guest auditor system.

The use of guest auditors is slightly more common among midsize companies, operating 75 to 300 stores, at 33 percent.

Occasional use of guest auditors from other functions:

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

Guest auditor program:

0%
Yes, frequently

21%
Yes, occasionally

79%
No

Among companies making use of guest auditors, the most common areas of audit are:

- Asset protection/risk management/compliance
- Human Resources
- Information Technology
- Inventory/supply chain
- Accounts payable
- Retail operations
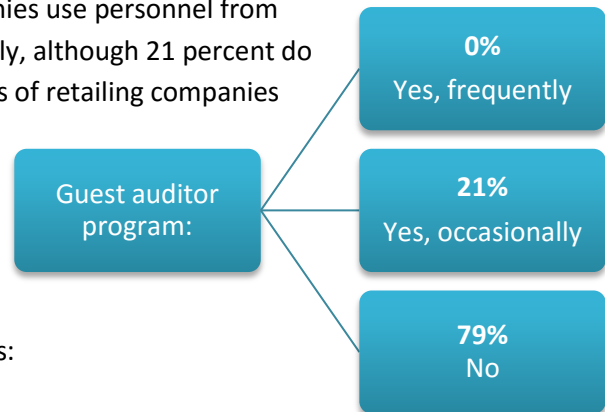
Internal Collaboration

While auditors may not make frequent use of guest auditors, they do collaborate with a number of other departments in the execution of audit work. Collaboration most commonly takes place with the IT, Risk and Loss Prevention departments. Very few audit departments in the survey work with the lean/six sigma team, though it is important to note that many companies simply do not have this function.

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

■ Frequently   ■ Occasionally   ■ Rarely/Never

Department	Frequently	Occasionally	Rarely/Never
Risk	50%	32%	18%
Loss Prevention	30%	57%	13%
Food Safety	26%	44%	30%
HR	13%	65%	22%
Lean/Six Sigma	4%	23%	73%
Finance	65%	35%	0%
IT	52%	39%	9%
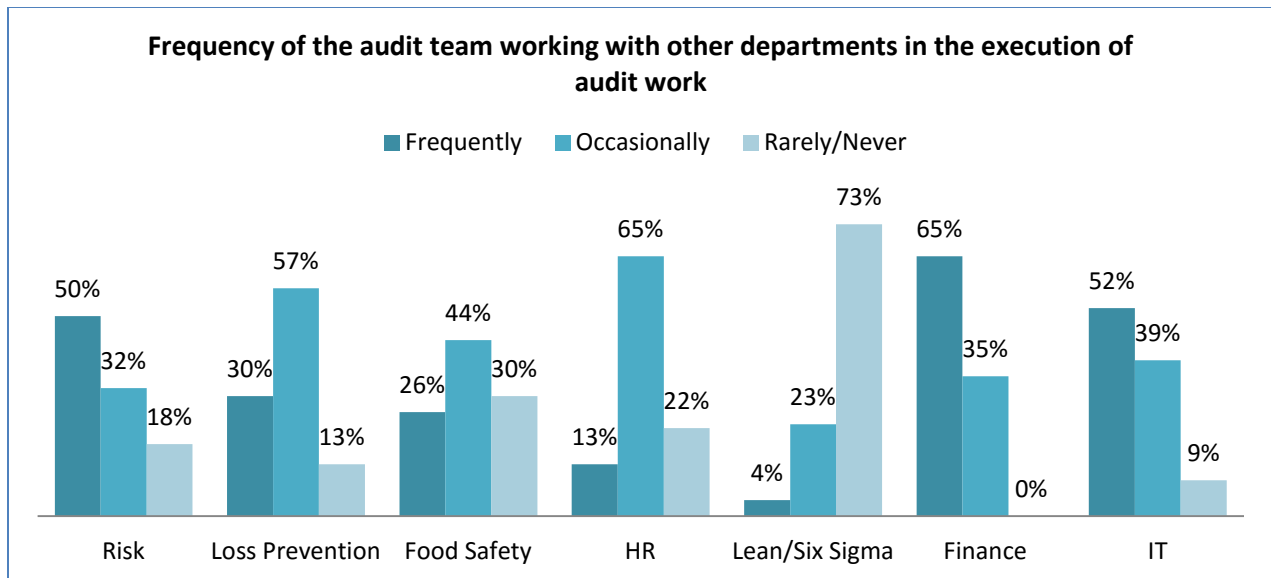
The Use of Third-Party Services or Vendors

Nearly nine in 10 food retailing and wholesaling companies use third-party services or outside vendors for at least one or more functional areas. Outsourcing is more common among those companies operating a greater number of stores.

The most commonly outsourced function for audits is informational technology, at 70 percent of respondents who outsource at least one functional area (N=30 companies). Finance/accounting and operations follow in second and third place at 37 percent and 23 percent, respectively. While most areas of outsourcing are very similar to 2013, finance/accounting is the only one to see a significant increase from 25 percent in 2013 to 37 percent in 2016.

Functions and areas mentioned under "other" include:

- Human Relations
- Accounts payable
- PCI compliance
- Specialty projects, such as construction
- Vendor risk assessments
- Food safety
- Insurance

Outsourcing

- All respondents: 88%

- < 75 stores: 73%
- 75-300 stores: 92%
- >300 stores: 100%

- 1-3 audit employees: 78%
- 4-10 audit employees: 92%
- 11+ employees: 92%

Co-sourced or outsourced functions and areas	IT	Operations	Finance/ accounting	Fraud	Tax	Lean/Six Sigma
All respondents	**70%**	**23%**	**37%**	**17%**	**17%**	**7%**
Fewer than 75 stores	63%	13%	50%	13%	25%	2%
75-300 stores	64%	18%	36%	18%	27%	5%
More than 300 stores	82%	36%	27%	18%	0%	12%
Primarily a retailer	69%	23%	35%	15%	11%	4%
1-3 total audit employees	71%	10%	14%	14%	12%	1%
4-10 audit employees	67%	8%	42%	8%	17%	2%
11 or more audit employees	73%	55%	46%	27%	18%	18%

Share of Activities Co-Sourced or Outsourced

More than three-quarters of companies that co-source or outsource at least some functions (88 percent) do so for up to 10 percent of total internal audit activities. For 21 percent, this percentage averages between 11 and 25 percent.

A few respondents indicated they do not handle any of the auditing in-house and outsource all. In this case, the respondent manages the outside vendors for the company.

Percentage of internal audit activities outsourced or co-sourced

10% or less	76%
11%-25%	21%
26%-50%	0%
51-74%	0%
75% or higher	3%
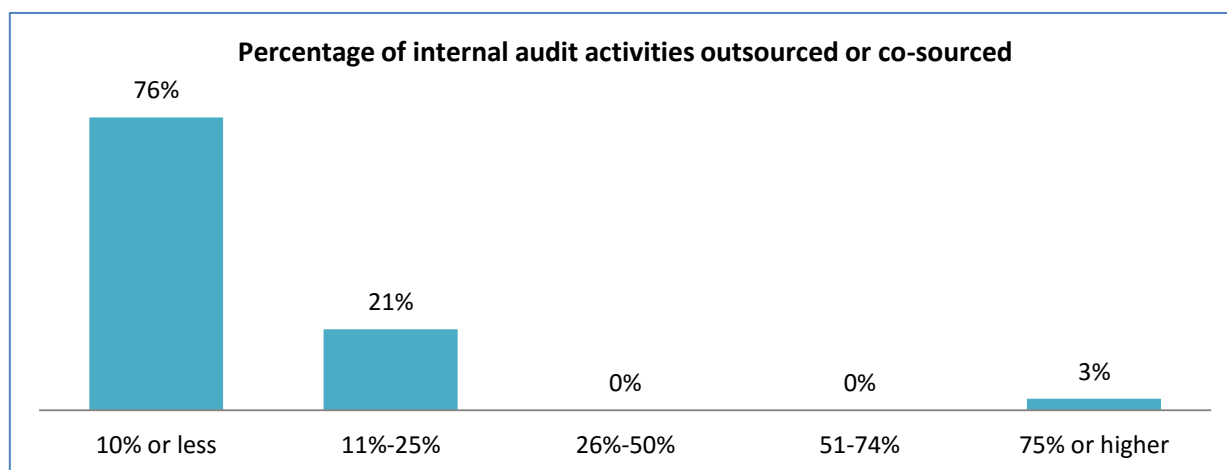
Departmental Changes Anticipated in the Next Five Years

While the majority of companies anticipate maintaining the status quo in terms of the budget allocated to co-sourcing and outsourcing, 48.2 percent expect an increase in the total audit budget and 42.9 percent expect an increase in the size of the audit department.

Anticipated changes for audit department in the next five years

■ Increase ■ Same ■ Decrease
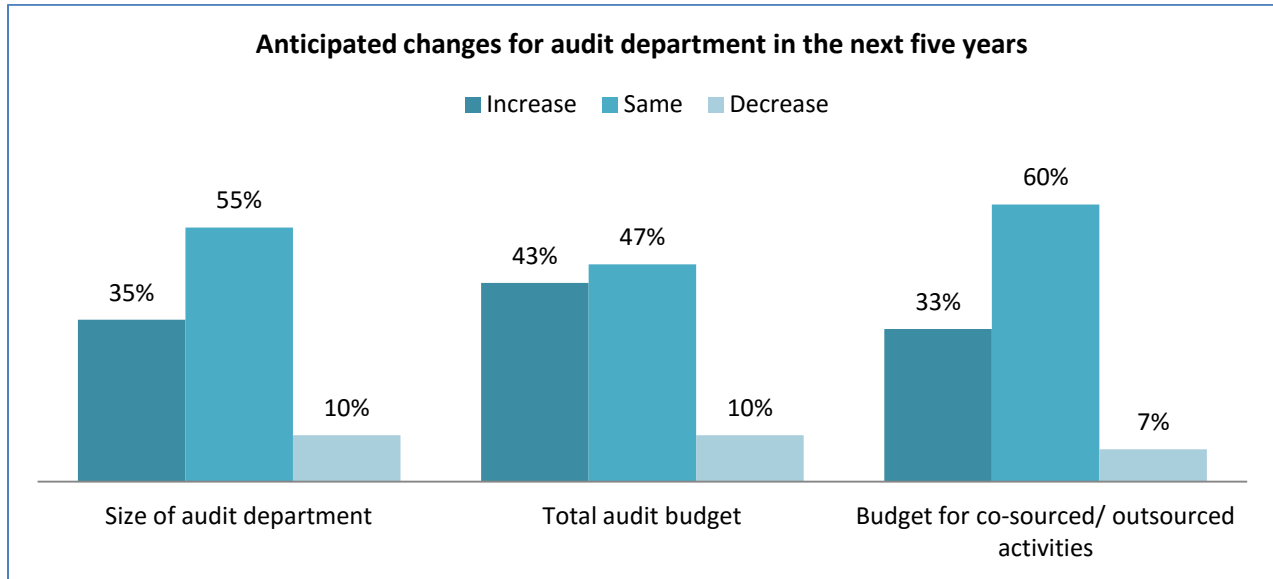
By size of the company, smaller companies are most likely to either expand or keep the department size and budget the same, whereas larger companies are most likely to decrease budgets and staffing.

Anticipated changes in the next five years	Size of the audit department			Total audit budget			Budget for co- and outsourcing		
	↑	=	↓	↑	=	↓	↑	=	↓
All respondents	35%	55%	10%	43%	47%	10%	33%	60%	7%
Fewer than 75 stores	50%	50%	0%	43%	57%	0%	14%	86%	0%
75-300 stores	25%	67%	8%	42%	50%	8%	50%	50%	0%
More than 300 stores	36%	46%	18%	46%	36%	18%	27%	55%	18%

Productivity

Point-of-Sale (POS) Exception Reporting

Retailers use quite a number of different POS exception reporting software packages, with the most common ones being internally-created systems, Truno, Agilence Retail 20/20 and Profitect. The full list is as follows:

- ACE
- Agilence Retail 20/20
- IBM POS
- Internally-created
- ISS45
- SMS
- LOC
- Profitect
- Secure
- Truno

Use of exception reports by audit team
Of companies reporting any kind of POS exception reporting software, 44 percent of audit teams make use of the reports generated. The question did not ask whether other departments use the reports.

Usage is higher among larger companies:
- Fewer than 75 stores: 38 percent
- 75-300 stores: 44 percent
- More than 300 stores: 50 percent

Time Allocation to Functional Areas

Across company sizes, about one-third of total available audit time is allocated to retail operations in 2016, followed by the areas of finance and IT. The time allocation did not shift significantly from 2013, but substantial differences are measured between the three company sizes. Larger companies tend to have a wider spread in their allocation, to encompass manufacturing, supply and legal. Small companies tend to focus much more of their time on retail operations and finance.

Time allocation	2013	2016	Stores operated			Auditors		
	All	**All**	**<75**	**75-300**	**>300**	**1-3**	**4-10**	**11+**
Retail operations	34%	35%	45%	46%	18%	38%	40%	24%
Finance	22%	26%	31%	23%	25%	29%	28%	23%
Information Technology	14%	13%	6%	10%	19%	9%	10%	19%
Merchandising	7%	7%	6%	4%	12%	4%	7%	9%
Supply chain	12%	7%	0%	6%	11%	5%	5%	9%
Human Resources	3%	5%	6%	6%	4%	5%	3%	7%
Marketing	1%	2%	3%	1%	3%	2%	1%	3%
Manufacturing	2%	2%	0%	3%	3%	3%	2%	3%
Legal	1%	2%	0%	0%	4%	2%	1%	2%
Other	5%	2%	3%	1%	1%	3%	3%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Time Allocation by Type of Audit

Unchanged from 2013, operational/process audits take up an average of 38 percent of all available audit time for the department. But in a switch up from the last report, financial controls are now in second, followed by Sarbanes-Oxley (SOX)/internal control audits, at 20 percent and 15 percent, respectively. Larger companies tend to allocate more time to SOX, external audit support and regulatory compliance, but less on financial controls.

Time allocation	2013	2016	Stores operated			Auditors		
	All	All	<75	75-300	>300	1-3	4-10	11+
Operational/Process	39%	38%	31%	45%	36%	22%	42%	42%
Financial controls	13%	20%	41%	14%	14%	29%	21%	17%
SOX/Internal control	17%	15%	12%	14%	18%	24%	9%	16%
Regulatory compliance	12%	15%	6%	14%	18%	8%	12%	17%
External audit support	6%	6%	3%	10%	6%	9%	12%	4%
M&A support/ due diligence	2%	2%	3%	1%	1%	2%	2%	1%
Other	11%	4%	4%	2%	7%	6%	2%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Food retailing and wholesaling companies anticipate a rising share of time being allocated to regulatory compliance over the next five years — jumping from an average of 15 percent to 20 percent. The extra time for compliance is mostly created by an anticipated shift away from operational/process audits.

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%	=
Total	**100%**	**100%**	

Reporting

While the number of days to issue an audit report (from the end of the fieldwork to the publication of the final report) varies from just a handful of days to 38 days, companies take an average of 14 days to release the final report, with a median of 9 days. This is down significantly from a median of 20 days in 2013.

Average number of days to issue an audit report	Mean (average)	25th Percentile	Median	75th Percentile
All respondents	14	4	9	28
Fewer than 75 stores	6	3	7	10
75-300 stores	17	4	10	33
More than 300 stores	11	5	7	20
1-3 total audit employees	11	5	7	20
4-10 audit employees	7	2	4	8
11 or more audit employees	21	8	21	32

Slightly more than half of responding companies produce a written report on overall internal control for use by the senior management or audit committee. Among those who do, 55 percent do so annually. Frequencies mentioned under "other" are mostly quarterly, with a few companies producing reports every month.

Produce a written report on overall internal control for sr. management

52% Yes
48% No

20% On request
55% Annually
25% Other
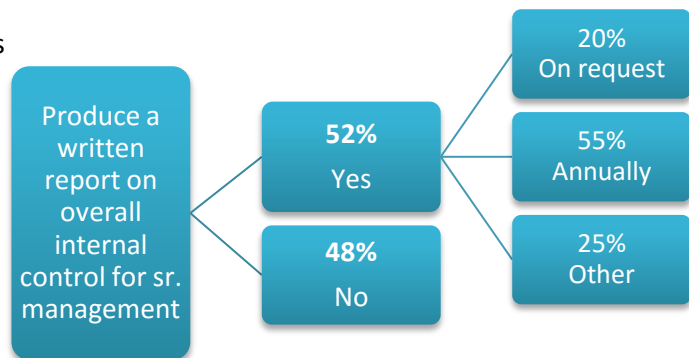
Uncovering Fraud in Fiscal Year 2014

During fiscal year 2014, 37 percent of audit departments uncovered some type of fraud. This is up from 29 percent in the 2013 study. Among these companies, operational fraud was, by far, the most commonly detected area, followed by financial and accounting fraud cases. Please note that some companies listed more than one type.

| Uncovered fraud in fiscal year 2014?			If so, in what area(s)?	
Yes	37%	➔	Operations	73%
No	63%		Financial	27%
			Accounting	12%
			Procurement	10%
			Regulatory compliance	0%
			SOX compliance	0%
			Construction	0%

Audit Software and Data Analysis Tools

Less than half of responding companies (44 percent) use audit software packages. Among those that do, the most commonly used software packages are Accelus/Paisley, ERP Solution (SAP, Oracle, etc) and TeamMate.

Mentioned under "other" were:

- IDEA (see data analysis software)
- Internally-developed solutions
- Internally created with the use of Excel
- Archer
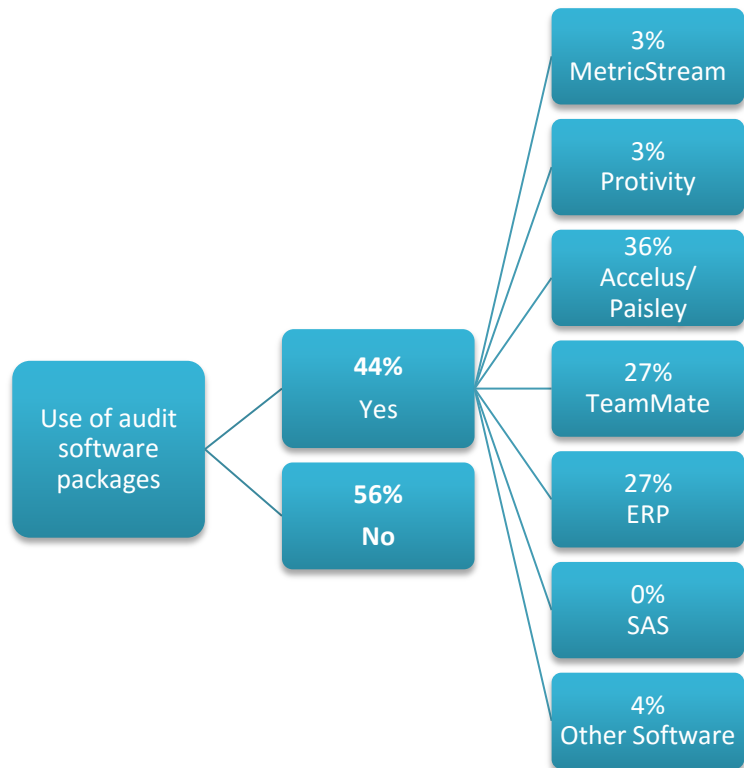
The use of audit software rises along with the size of the organization. Among companies operating up to 75 stores, only 27 percent use audit software. This share rises to 41 percent for those operating between 75 and 300 stores and 81 percent among companies operating 300 or more outlets.

Use of audit software packages

- 44% Yes
- 56% No

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

Data analysis tools are very commonly used within the internal audit function of food retailing and wholesaling companies. Among the 93 percent of companies that use one or more tools (up from 86 percent in 2013), the most popular data analysis packages are Excel and ACL.
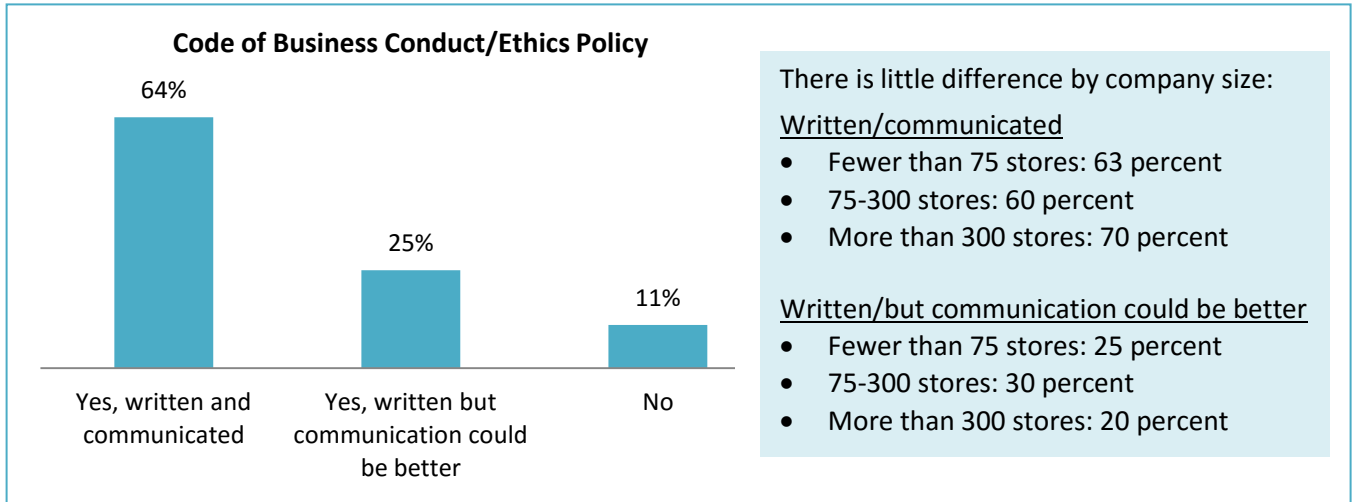
Mentioned under "other" are:
- SQL
- PeopleSoft
- Lavastorm
- Tableau
- StatDisk
- Python
- Excel add-on modules
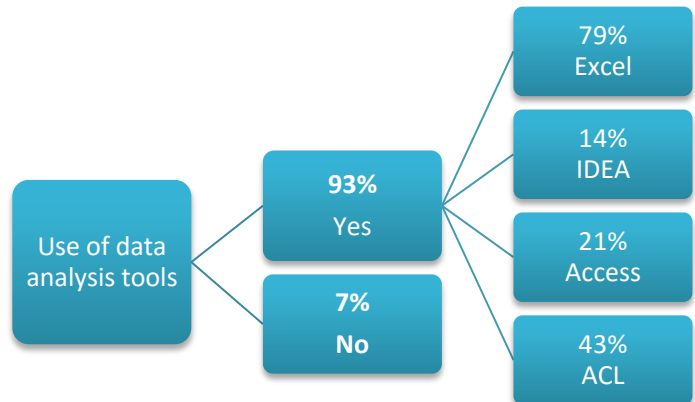
The use of data analysis tools varies from 80 percent among companies operating fewer than 100 stores to fully 100 percent among the largest chains.

Use of data analysis tools

- 93% Yes
- 7% No

79% Excel
14% IDEA
21% Access
43% ACL

Code of Business Conduct/Ethics Policy

Just shy of three-quarters of companies have a written code of business conduct/ethics policy that they deem well communicated to staff. Another 25 percent do have a policy in place, but recognize it could be communicated better. That leaves 11 percent of companies that do not have any such policy in place.

Code of Business Conduct/Ethics Policy

64%

25%

11%

Yes, written and communicated

Yes, written but communication could be better

No

There is little difference by company size:

Written/communicated
- Fewer than 75 stores: 63 percent
- 75-300 stores: 60 percent
- More than 300 stores: 70 percent

Written/but communication could be better
- Fewer than 75 stores: 25 percent
- 75-300 stores: 30 percent
- More than 300 stores: 20 percent

Fraud Hotline

More than three-quarters of food retailing and wholesaling companies have a hot line in place for fraud and/or dishonest behavior. The number of tips varies greatly from none to 25 for fraud, with an average of four. And the range was none to 100 for dishonest behavior reports, for an average of 24.

Fraud hotline

No
22%

Yes
78%

Average number of tips in 2014 for:

- Fraud: 4

- Dishonest behavior: 24
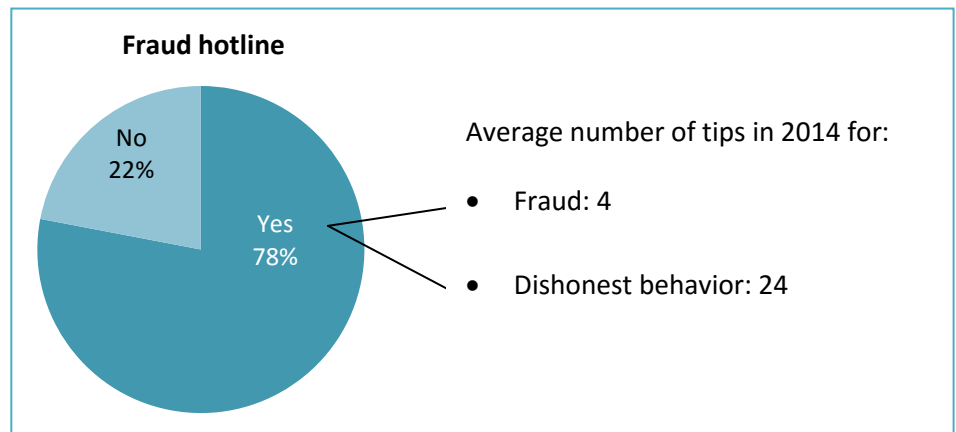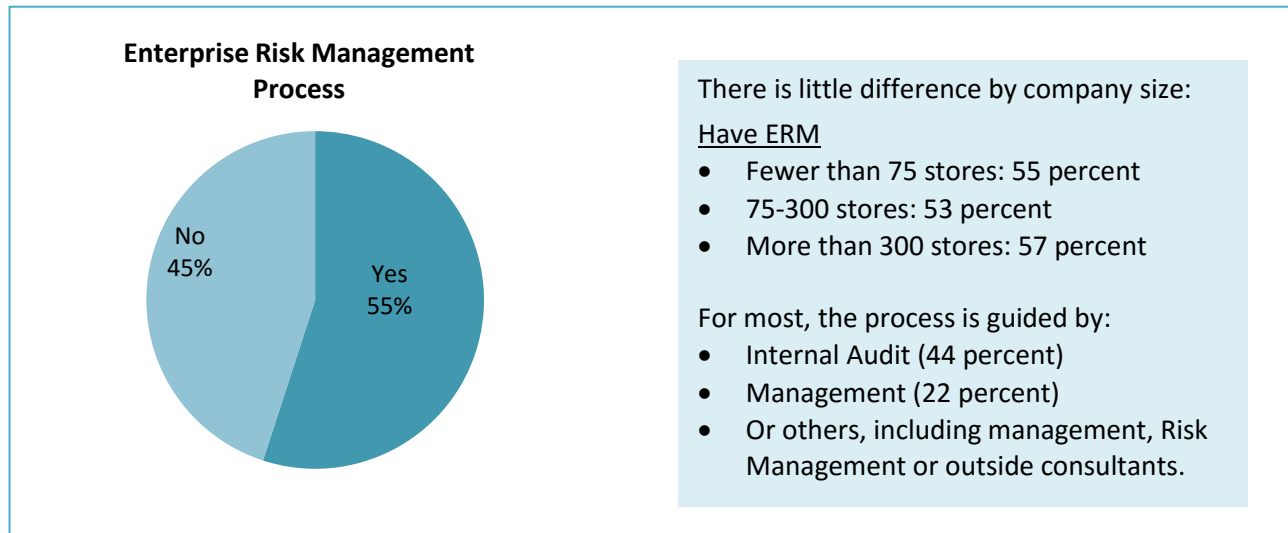
Quality Assurance Review (QAR)

More than two-thirds of respondents do not conduct a QAR, with the remaining 32 percent equally split between third-party and self-assessments. Seventy-one percent of small and midsize companies do not have QARs versus 60 percent of companies with 300 or more stores.

Quality Assurance Review

Yes, by third party
16%

Yes, self-assess-ment
16%

No
68%
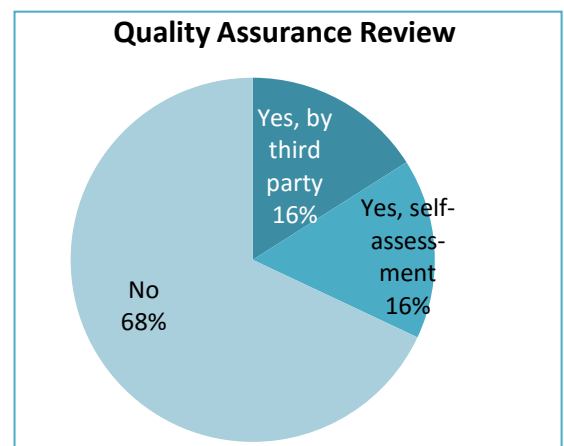
Enterprise Risk Management (ERM) Process

ERM processes are more common than QARs, with 55 percent of companies having one in place — with the occurrence equal among the different size companies.

Enterprise Risk Management Process

There is little difference by company size:

Have ERM
- Fewer than 75 stores: 55 percent
- 75-300 stores: 53 percent
- More than 300 stores: 57 percent

For most, the process is guided by:
- Internal Audit (44 percent)
- Management (22 percent)
- Or others, including management, Risk Management or outside consultants.

Measuring Effectiveness

Formally Assessing Success and Effectiveness

Up from 56 percent in 2013, 62 percent of food retailing and wholesaling companies have a system in place to formally assess the success or effectiveness of the audit efforts. Larger companies are more likely to track their success than smaller ones:

Measured by number of outlets:
- <75 stores: 50% track
- 75-300 stores: 50%
- >300 stores: 82%

Measured by number of auditors on staff:
- 1-3 auditors: 33% track
- 4-10 auditors: 55%
- 11+ auditors: 83%

Formally assessing the success/effectiveness of the audit department

■ 2016   ■ 2013

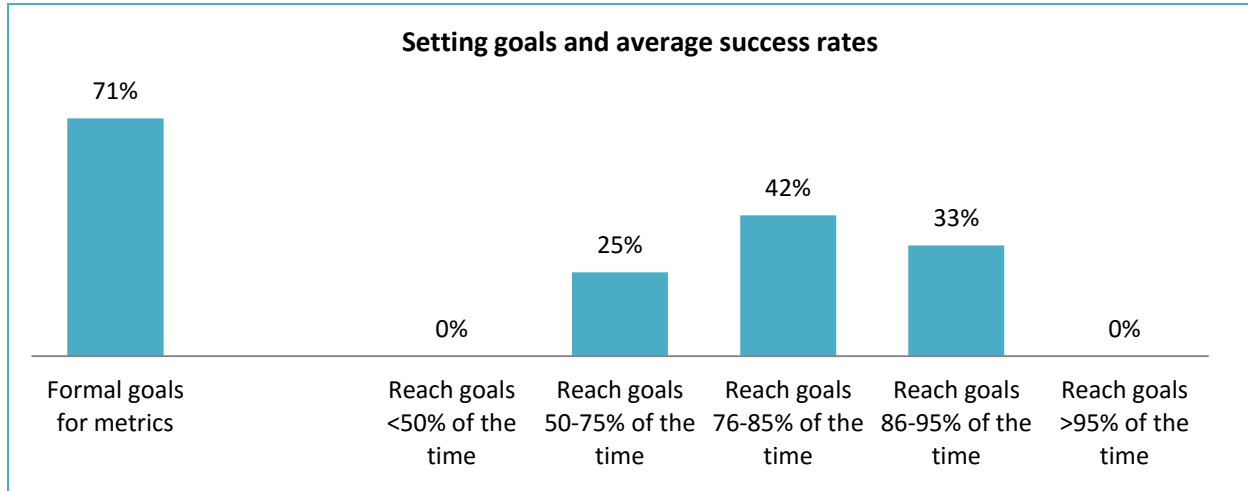|	Yes	No
2016	62%	38%
2013	56%	44%
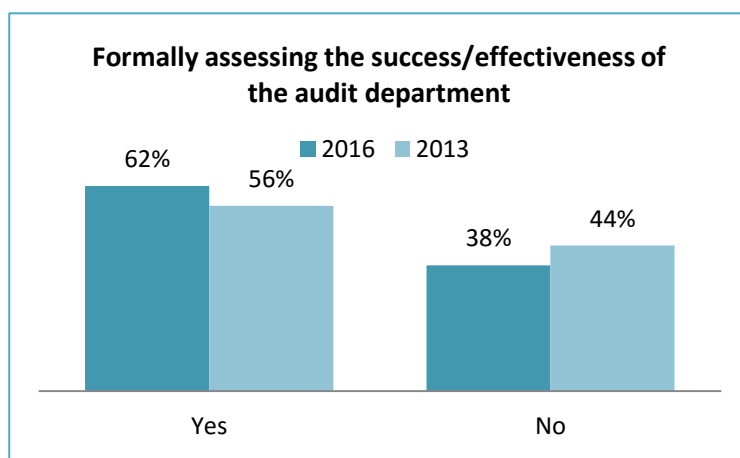
Companies have many ways in which they can track the success and/or effectiveness of their auditing efforts. The most popular ways, used by at least six in 10 companies are the percentage completion of the audit plan; surveys or feedback from the board, audit committee or senior management; and customer (auditee) surveys. Mentioned under "other" are: no SOX material weaknesses, team productivity (tracking hours by project, administration, etc), external consultant review, adhering to schedules and the proper use of technology where possible.

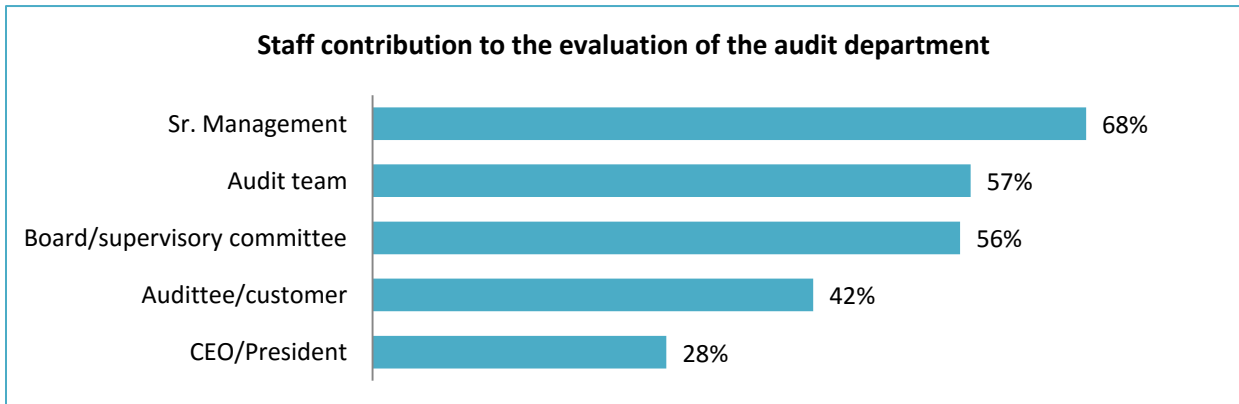| Methods to assess success or effectiveness by companies who track	2013	2016
Percentage of audit plan complete	67%	71%
Surveys/feedback from board, committee/senior management	60%	62%
Customer/auditee surveys	61%	61%
Timely closure of audit issues	53%	54%
Budget to actual audit hours	47%	48%
Report turnaround (end of fieldwork to final report)	41%	40%
Cost savings/avoidance	38%	40%
Balanced scorecard	40%	39%
Recommendations accepted/implemented	33%	39%
Number of significant audit findings	38%	36%
Completion of mandated coverage	27%	29%
Number of management requests for audit assistance	34%	28%
Number of internal control failures	20%	20%
Absence of regulatory issues and significant failures	20%	18%
Other	18%	9%

Goals by Metric

In addition to having various systems in place to assess the department's success and effectiveness, many companies (71 percent) also attach formal goals to each or some of the metrics. Success rates on reaching these goals vary from 50 percent to 95 percent. One respondent said, "We set goals for the expected items and they are accounted for in the audit plan. We try to hit all those marks every year."

Setting goals and average success rates

Formal goals for metrics	Reach goals <50% of the time	Reach goals 50-75% of the time	Reach goals 76-85% of the time	Reach goals 86-95% of the time	Reach goals >95% of the time
71%	0%	25%	42%	33%	0%

Staff Contribution to the Evaluation of the Audit Department's Performance

Performance evaluations include many contributions, including first and foremost the senior management, according to 68 percent of companies. The CEO/President only contributes to the performance evaluation of the department in roughly one in four cases, though these are mostly companies operating fewer than 100 stores.

Staff contribution to the evaluation of the audit department

Sr. Management	68%
Audit team	57%
Board/supervisory committee	56%
Audittee/customer	42%
CEO/President	28%

Follow Up Post Report Release

Most companies have some kind of follow-up system in place once the final written report has been developed. Ninety-eight percent of companies report findings to senior management and the same

share has a procedure in place to make sure that any findings and recommendations for corrective actions are being monitored and implemented.

For the majority of companies, it is the chief audit executive (CAE) who takes the responsibility of reporting findings to senior management — particularly in smaller companies. Monitoring that appropriate corrective action has been taken in case of findings is typically a shared responsibility between the internal audit manager assigned to the project and the auditee/customer. At 30 percent of companies, the responsibility falls primarily with the internal audit project manager alone.

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%

Primary responsibility to report findings to senior management (top 3)	Chief audit executive	Project mgr & auditee	Project manager
All respondents	**52%**	**19%**	**10%**
Less than 75 stores	60%	23%	6%
76-300 stores	45%	18%	13%
More than300 stores	52%	17%	15%
1-3 total audit employees	55%	26%	9%
4-10 audit employees	48%	17%	9%
11 or more audit employees	51%	14%	14%

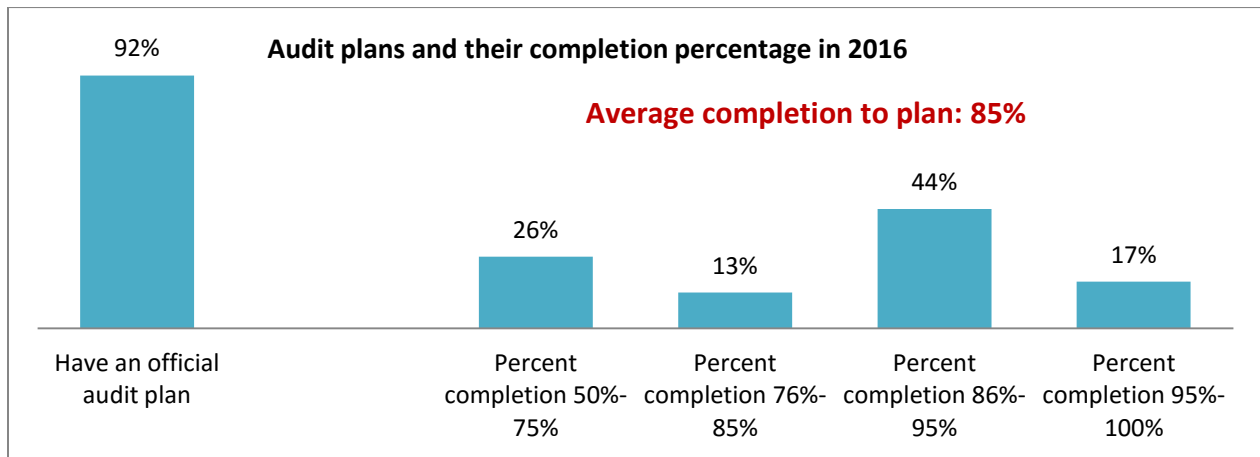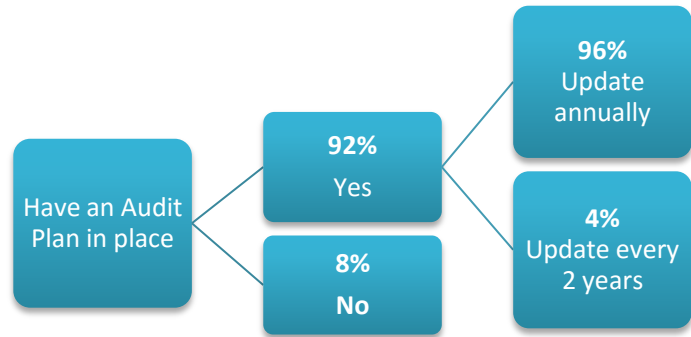| Primary responsibility to monitor that corrective action is being taken (top 3)	Project manager & auditee	Project manager	Auditee
All respondents	**63%**	**30%**	**6%**
Fewer than 75 stores	47%	40%	5%
75-300 stores	61%	36%	6%
More than 300 stores	81%	18%	8%
1-3 total audit employees	52%	36%	4%
4-10 audit employees	59%	38%	8%
11 or more audit employees	76%	21%	7%

The Audit Plan

Audit Plans, Plan Updates and Completion to Plan

The vast majority of audit departments at food retailing and wholesaling companies have an official Audit Plan in place.

Likewise, 96 percent update the plan on an annual basis versus on an every two-year basis.

In 2016, plan completion averaged 85 percent, relatively unchanged from 88 percent in 2013, and ranged between 50 percent to fully 100 percent of all planned projects.

Have an Audit Plan in place

- **92%** Yes → **96%** Update annually
- **8%** No → **4%** Update every 2 years

Audit plans and their completion percentage in 2016

Average completion to plan: 85%

Have an official audit plan	Percent completion 50%-75%	Percent completion 76%-85%	Percent completion 86%-95%	Percent completion 95%-100%
92%	26%	13%	44%	17%

Developing the Audit Plan

Respondents provided insight into the development of the Audit Plan by assigning scores on a scale 1-10, where 10 represents the greatest level of influence.

While the skill set and the abilities of the internal audit team has the least amount of influence on the plan development, with an average score of 4.9, the assessment of risk and the use of risk-based methodologies has the greatest influence, at an average of 8.8 on the 10-point scale.

The influence of various factors varies significantly by company size. Larger organizations in terms of the number of outlets operated are more likely to place greater importance

> The assessment of risk and use of risk-based methodologies has the greatest influence when developing the Audit Plan

with the assessment of risk and external audit assistance. On the other hand, companies operating fewer than 100 stores are more likely to use prior year plans and factor in requests from senior management, the audit committee and the divisional or business heads.

Influence on the development of the Audit Plan; average on a scale 1-10	All 2013	All 2016	<75 stores	75-300 stores	>300 stores
Assessment of risk/use of risk-based methodology	8.8	8.5	5.8	8.8	8.3
Rotational plan (previous year audit)	5.5	5.7	6.3	7.6	4.0
Compliance/regulatory requirements	7.6	8.0	9.3	9.4	6.2
Sr. management requests	7.0	7.0	9.5	6.9	6.2
Audit committee requests	7.4	6.9	7.0	6.1	5.8
Consult with divisional or business heads	7.1	6.7	8.0	6.6	6.3
External audit assistance	5.0	5.2	4.3	7.0	4.4
Skills and abilities of the audit team	5.0	4.9	5.5	6.4	3.2

Methodology and Abbreviations

Methodology

The data included in this report was compiled from a three-page questionnaire that was sent to the FMI membership and additional grocery retailing and wholesaling companies between October and November, 2015. Data entry, data cleaning, statistical validity testing, analysis and reporting were done by Anne-Marie Roerink of 210 Analytics, LLC. Data outliers were checked and, if needed, removed from the sample. Likewise, data for company sizes, employees, etc. were checked for accurate representation.

For any data analysis or methodology questions, please contact Anne-Marie at aroerink@210analytics.com.

Abbreviations

- CPA: Certified Public Accountant
- CIA: Certified Internal Auditor
- CISA: Certfied Information Systems Auditor
- CFE: Certified Fraud Examiner
- CMA: Certified Management Accountant