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Operational auditing in a footwear retail company: a case study in Rondonópolis, Mato Grosso, Brazil

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Abstract. In increasingly competitive retail environments, operational efficiency is central to organizational sustainability. This study analyzes the application of operational auditing in a footwear retail company in Rondonópolis, Mato Grosso, Brazil, to identify opportunities for process improvement based on economy, efficiency, and effectiveness. The research adopts an applied, qualitative, exploratory, and descriptive single-case design. Evidence was obtained through semi-structured interviews, direct observation, and documentary analysis and was organized across inventory, purchasing, sales and customer service, logistics, and financial management. The findings indicate satisfactory performance in customer service, logistics, and financial control, but reveal slow-moving inventory, experience-based replenishment decisions, limited use of commercial performance indicators, and insufficient monitoring of contribution margins. The proposed improvement plan includes ABC inventory classification, cycle counting, demand forecasting, sales indicators, product-category margin analysis, and a managerial dashboard. Operational auditing can therefore support stronger internal controls and continuous improvement in small retail businesses. Because the research examines one organization, the conclusions are analytically transferable but not statistically generalizable.
Keywords: Operational auditing, Internal controls, Inventory management, Retail management, Performance indicators.

Introduction

The increasing level of competition in the retail sector, combined with constant changes in consumer behavior and the rapid evolution of management technologies, has required organizations to improve the efficiency of resource utilization and enhance their ability to adapt to market challenges. In this context, continuous process improvement has evolved from being merely a competitive advantage to becoming an essential requirement for organizational sustainability.

The footwear retail sector is characterized by high inventory turnover, seasonal sales fluctuations, strict inventory control requirements, and a strong dependence on customer service quality. Consequently, even minor operational inefficiencies may significantly affect profitability. This scenario highlights the importance of adopting managerial tools capable of systematically evaluating organizational processes and supporting evidence-based decision-making.

Among these tools, operational auditing has gained increasing relevance because its purpose extends beyond verifying compliance with administrative procedures. Unlike financial or tax audits, operational auditing focuses on evaluating the efficiency, effectiveness, and economy of organizational activities while identifying opportunities for continuous improvement that add value to the organization. Through this approach, managers can optimize resource utilization, identify operational bottlenecks, reduce waste, and strengthen internal control systems. The 2024 Global Internal Audit Standards emphasize the role of internal auditing in strengthening governance, risk management, controls, and operational performance (The Institute of Internal Auditors, 2024).

Although operational auditing has traditionally been associated with the public sector—particularly due to the activities of Supreme Audit Institutions—it has progressively expanded into private organizations. In the corporate environment, operational auditing has become an important strategic management tool capable of improving organizational performance through systematic process evaluation and continuous improvement initiatives. International performance-audit standards similarly frame the discipline around economy, efficiency, effectiveness, and actionable recommendations (INTOSAI, 2019).

Against this background, the present study seeks to answer the following research question: How can operational auditing contribute to improving the internal processes of a footwear retail company located in Rondonópolis, Mato Grosso, Brazil?

To address this question, the general objective of the study is to analyze the application of operational auditing within the selected company, identifying opportunities for improvement in inventory management, sales processes, customer service, logistics, and financial management.

This research is relevant from both academic and managerial perspectives. Academically, it contributes to expanding the literature on operational auditing applied to the private sector, an area that remains relatively underexplored in Brazil. From a managerial standpoint, it provides a practical diagnosis capable of supporting managers in implementing improvements aimed at increasing operational efficiency and organizational competitiveness.

Operational Auditing: Conceptual Evolution

Operational auditing has become an important instrument for evaluating organizational management by focusing on the efficiency, effectiveness, and economy of business processes. Unlike financial auditing, which primarily evaluates the reliability of financial statements, operational auditing seeks to assess how organizational resources are utilized and whether institutional objectives are being achieved in the most efficient manner possible. This broader managerial orientation is consistent with professional internal-audit standards (The Institute of Internal Auditors, 2024).

According to Crepaldi and Crepaldi (2019), operational auditing supports the assessment of controls and organizational processes. Attie (2018) likewise presents auditing as a management-support instrument that contributes to resource optimization and stronger internal controls.

Over recent decades, the use of operational auditing has expanded considerably within private organizations due to the growing need to improve productivity, reduce operational waste, optimize processes, and strengthen corporate governance mechanisms. As organizations increasingly compete in dynamic markets, operational auditing has evolved into a strategic management practice rather than merely a control mechanism.

Efficiency, Effectiveness, and Economy

The concepts of efficiency, effectiveness, and economy constitute the fundamental principles underlying operational auditing (INTOSAI, 2019; Tribunal de Contas da União, 2020).

Efficiency refers to the organization's ability to maximize outputs while minimizing the consumption of time, financial resources, materials, and human effort. An efficient organization achieves higher productivity with fewer resources.

Effectiveness concerns the extent to which organizational objectives and planned results are successfully achieved. It evaluates whether the desired outcomes have actually been accomplished, regardless of the amount of resources employed.

Economy, in turn, refers to obtaining the necessary resources at the lowest possible cost while maintaining appropriate standards of quality. This principle emphasizes cost-conscious management without compromising organizational performance.

The combined assessment of these three dimensions enables auditors to develop comprehensive diagnoses of organizational performance and formulate recommendations aimed at improving management practices, strengthening internal controls, and increasing organizational value creation.

Operational Auditing Process

Operational auditing follows a structured methodology designed to understand, evaluate, and improve organizational processes. Although different methodologies exist, there is broad consensus regarding its essential stages: planning, evidence collection, process evaluation, diagnosis, recommendation development, and follow-up of corrective actions. These stages are consistent with the planning, evidence, analysis, reporting, and follow-up logic established in performance-audit guidance (Tribunal de Contas da União, 2020).

During the planning phase, auditors define the objectives of the engagement, identify the organizational processes to be evaluated, and establish the performance criteria that will guide the assessment. Evidence is subsequently collected through interviews, direct observation, document analysis, and the examination of organizational performance indicators.

The analytical stage focuses on identifying operational weaknesses, inefficiencies, bottlenecks, waste, and opportunities for improvement. Unlike financial auditing, operational auditing has a predominantly consultative character, aiming to generate organizational value through recommendations that promote continuous improvement rather than merely reporting deficiencies.

Performance Indicators in Operational Auditing

Performance indicators are essential instruments for objectively assessing organizational performance. They enable managers to monitor results, compare performance over time, identify deviations from established goals, and support evidence-based decision-making. In retail inventory environments, targeted and recurring audit procedures can improve the detection and treatment of inventory-record errors (Ishfaq & Raja, 2020).

In the footwear retail sector, the most relevant indicators include inventory turnover, sales conversion rate, average customer service time, product replenishment lead time, contribution margin, average ticket value, and gross profitability. The systematic use of these indicators provides managers with reliable information for evaluating operational efficiency and implementing continuous improvement initiatives.

Furthermore, performance measurement facilitates benchmarking against competitors and helps organizations align operational activities with strategic objectives. Consequently, performance indicators represent an indispensable component of modern operational auditing practices.

Operational Auditing in Retail Businesses

Retail organizations possess operational characteristics that make operational auditing particularly valuable. High transaction volumes, seasonal demand fluctuations, rapid product obsolescence, and the need to maintain excellent customer service require robust internal controls and efficient operational processes.

Within footwear retail companies, operational auditing typically focuses on the following critical areas:

Procurement management; Supplier relationship management; Inventory planning and control; Sales operations; Customer service; Pricing policies; Logistics and distribution; Human resource management; After-sales services.

Evidence from retail settings indicates that inventory auditing can support the identification and mitigation of inventory-record errors, while the effectiveness of audit frequency depends on inventory and replenishment characteristics (Ishfaq & Raja, 2020). Operational auditing should therefore be understood as a structured management-support practice rather than merely a compliance check.

Materials and methods

This study adopts an applied, qualitative, exploratory, and descriptive research design using the case study method. The case study strategy was selected to examine the phenomenon in its real organizational context (Yin, 2018).

The case study approach was selected because it enables an in-depth understanding of the company's operational processes while allowing the identification of organizational strengths, weaknesses, and opportunities for improvement.

Data collection was conducted through three complementary procedures:

Semi-structured interviews with managers; Direct observation of operational activities; Documentary analysis of administrative records and internal control procedures.

The collected information was organized according to the company's functional areas, including inventory management, sales operations, logistics, customer service, and financial management.

Qualitative evidence was organized by functional area and compared across interviews, observations, and documents. The analysis then contrasted the convergent evidence with operational-audit principles and the performance criteria used in the study. The original manuscript did not provide a formal coding protocol; this limitation should be considered when interpreting the findings.

One limitation of this research is that it focuses on a single company. Therefore, the findings cannot be generalized to the entire retail sector. Nevertheless, the results provide valuable insights that may be applicable to organizations with similar characteristics.

Data collection was conducted between January and June 2024. Two managers—including owner-partners—and two directly involved employees were interviewed. Participants were selected via purposive sampling, based on their professional experience. The interviews lasted an average of 40 minutes; they were audio-recorded with the participants' consent and subsequently transcribed in full. Additionally, internal documents, process flows, institutional materials, and information provided by the company were analyzed. Evidence triangulation was achieved by comparing interviewees' accounts, document analysis, and scientific literature, aiming to ensure greater consistency, reliability, and validity of the results obtained.

Results and discussion

The company analyzed operates in the footwear retail market in the city of Rondonópolis, Mato Grosso, serving customers from different age groups and offering products from several nationally recognized brands.

Its organizational structure comprises purchasing, sales, inventory, finance, and customer service departments. The company is classified as a small-sized enterprise characterized by centralized management and partially formalized administrative processes.

During the operational audit, it was observed that the organization maintains a positive environment for continuous improvement, with management demonstrating willingness to implement new control mechanisms and improve operational performance.

Inventory management represents one of the most critical operational areas in footwear retailing.

The operational audit identified satisfactory control over inventory inflows and outflows. However, products with low sales turnover remained in stock for extended periods, negatively affecting working capital and increasing inventory holding costs.

Additional opportunities for improvement were identified regarding product classification according to sales turnover, implementation of ABC inventory analysis, and adoption of cycle counting procedures.

Implementing these practices would reduce storage costs, improve product availability for high-demand items, optimize working capital allocation, and enhance inventory planning.

Table 1. Main operational audit findings

Area Evaluated	Current Situation	Recommendation
Inventory	Low-turnover products remain in stock	Implement ABC Analysis and Cycle Counting
Purchasing	Replenishment based mainly on managerial experience	Adopt indicator-based purchasing planning
Customer Service	Satisfactory performance	Standardize operational procedures
Financial Management	Adequate financial control	Continuously monitor contribution margins
Logistics	Well-organized operations	Develop inventory replenishment indicators

Source: Prepared by the authors based on the research findings.

The analysis of commercial operations demonstrated that customer service constitutes one of the company's primary competitive advantages.

Employees showed strong commitment, rapid customer assistance, and the ability to adapt to individual customer needs.

However, the audit identified the absence of formal performance indicators related to individual salesperson productivity, customer conversion rates, average sales per employee, and customer retention.

The implementation of these indicators would enable objective performance evaluation, facilitate performance-based management, and support continuous staff training and development.

The audit revealed that logistics processes operate efficiently. Nevertheless, inventory replenishment decisions rely heavily on managerial experience rather than quantitative forecasting techniques.

The absence of formal demand forecasting methods may result in stock shortages during periods of high demand or excessive inventory accumulation during low-demand seasons.

Therefore, it is recommended that historical sales data, seasonal demand patterns, and inventory turnover indicators be incorporated into purchasing decisions to improve forecasting accuracy and inventory optimization.

The company maintains satisfactory financial control, particularly regarding cash flow management and revenue monitoring.

Nevertheless, opportunities were identified to strengthen financial management through systematic monitoring of contribution margins across different product categories. Such information would support pricing decisions, product mix optimization, and profitability analysis.

Overall, the operational audit demonstrated that the company possesses relatively consistent organizational processes and a management team committed to continuous improvement.

The primary opportunities for improvement relate to greater use of managerial performance indicators; professionalization of inventory management; implementation of quantitative decision-support tools; formalization of operational procedures; expansion of performance monitoring practices.

These findings reinforce the view that operational auditing should not be regarded merely as a control mechanism but rather as a strategic management instrument capable of adding value by improving organizational efficiency, strengthening internal controls, and supporting evidence-based decision-making.

The findings of this study demonstrate that operational auditing is an effective managerial instrument for improving organizational performance, particularly in retail companies characterized by high inventory turnover and the need for rapid responses to market fluctuations.

The operational audit revealed that the company performs satisfactorily in customer service, financial management, and logistics. Nevertheless, significant opportunities for improvement were identified regarding inventory planning, the implementation of managerial performance indicators, and the formalization of operational procedures.

These findings are consistent with Attie (2018) and Crepaldi and Crepaldi (2019), who describe auditing as a preventive and advisory activity capable of supporting management and strengthening controls. They also align with retail evidence showing that inventory audits can improve the treatment of inventory-record inaccuracies (Ishfaq & Raja, 2020).

One of the most relevant findings concerns inventory replenishment decisions. The study revealed that these decisions rely primarily on managerial experience rather than structured analytical methods. Although this practice is common among small retail businesses, the absence of formal performance indicators may compromise decision quality during periods of significant seasonal demand fluctuations.

Another important issue relates to low-turnover inventory. Products remaining in stock for extended periods increase inventory holding costs, reduce working capital availability, and negatively affect overall profitability. The implementation of ABC inventory classification combined with systematic inventory turnover monitoring would improve purchasing decisions and optimize inventory management.

The audit also identified the absence of systematic performance metrics for evaluating sales staff productivity. Indicators such as average sales per employee, customer conversion rate, average ticket value, and customer retention index would provide managers with objective information to support performance evaluation and continuous staff development.

From a corporate governance perspective, the company demonstrated a favorable organizational environment for implementing the recommendations proposed by the operational audit. Management showed a strong commitment to continuous improvement and organizational learning.

Overall, these findings reinforce the understanding that operational auditing should be viewed as a strategic management instrument capable of strengthening internal controls, optimizing resource allocation, reducing operational waste, and enhancing organizational competitiveness.

Based on the evidence obtained during the operational audit, the following recommendations are proposed.

Table 2. Operational audit improvement plan

Functional Area	Identified Issue	Recommendation	Expected Benefit
Inventory Management	Low-turnover products	Implement ABC Inventory Classification	Reduced working capital tied up in inventory
Purchasing	Decisions based primarily on managerial experience	Adopt performance indicator-based purchasing	More efficient purchasing decisions
Sales	Lack of performance indicators	Implement commercial KPIs	Increased sales productivity
Financial Management	Limited profitability analysis	Monitor contribution margins	Improved profitability
Customer Service	Limited process standardization	Standardize customer service procedures	Higher service quality
General Management	Limited use of management indicators	Develop a managerial dashboard	Better strategic decision-making

Source: Prepared by the authors based on the research findings.

Conclusion

The purpose of this study was to analyze the application of operational auditing in a footwear retail company located in Rondonópolis, Mato Grosso, Brazil, with the objective of identifying opportunities for improving organizational processes.

The findings indicate that the company demonstrates satisfactory performance in several operational areas, particularly customer service, financial management, and logistics. However, relevant opportunities for improvement were identified regarding inventory management, performance measurement, and the strengthening of managerial control systems.

The study confirms that operational auditing represents an important management support tool by providing a comprehensive diagnosis of organizational processes, identifying inefficiencies, optimizing resource utilization, and strengthening evidence-based decision-making.

Furthermore, the research demonstrates that even small retail companies can obtain significant managerial benefits from the systematic application of operational auditing, especially when combined with performance indicators capable of continuously monitoring organizational performance.

The principal contributions of this research include: identification of opportunities to improve inventory management; strengthening of internal control practices; encouragement of performance indicator implementation; improvement of purchasing planning processes; support for strategic managerial decision-making.

Although this research was conducted in a single organization, its findings may provide useful guidance for other retail companies operating under similar business conditions.

One limitation of the study is the adoption of a single-case study approach, which limits the generalization of the findings to the entire retail sector.

Future research should consider: comparative studies involving companies of different sizes; quantitative assessments of operational efficiency indicators; investigations into the relationship between operational auditing and financial performance; analyses of the impact of digital transformation on operational auditing processes; development of operational auditing models specifically designed for small retail businesses.

In conclusion, operational auditing should be recognized as a strategic management instrument capable of significantly improving organizational performance through enhanced operational efficiency, stronger internal controls, better resource allocation, and increased organizational competitiveness.

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