



**RISK
ADVISORY
UPDATE**

SCOPE OF FRANCHISE AUDIT

Introduction

The franchise industry in India has been growing rapidly over the past few years, with more and more entrepreneurs seeking to enter the market and capitalize on the many opportunities available.

As per an article published in economics times dated 17th July 2023, Presently India is the second largest franchise market globally. India's franchise market is projected to increase to USD 140-150 billion over the next five years. The growth is mainly due to an expansion in the number of franchise opportunities and an increase in consumer spending. Presently, over 4,600 franchisors operate almost 200,000 stores across India, with over 53% of franchised locations operated by multi-unit franchises.

Scope of Franchise audit

The scope of a franchise audit in India, as in any other country, involves a comprehensive examination of various aspects of the franchised business to ensure compliance, operational efficiency, and overall performance. The specific scope can vary based on the goals of the audit and the agreement between the franchisor and franchisee. Here are some common areas typically included in the scope of a franchise audit in India:

1. **Compliance with Franchise Agreement:**

- Review the franchise agreement to ensure that the franchisee is adhering to the terms, conditions, and obligations specified in the agreement.

- Verification of branding, marketing, and operational standards to ensure consistency with the franchisor's requirements.

2. **Financial Review:**

- Examination of financial statements to ensure accurate reporting and compliance with financial obligations such as royalties, fees, and other payments to the franchisor.
- Assessment of financial controls and safeguards to prevent fraud and errors.

3. **Operational Procedures:**

- Evaluation of the franchisee's adherence to the operational procedures and standards set by the franchisor.
- Assessment of the quality of products or services being offered and whether they meet the franchisor's standards.

4. **Site Visit and Physical Inspection:**

- On-site assessment of the franchise location to ensure it meets the physical standards set by the franchisor.
- Evaluation of customer experience, cleanliness, and overall presentation of the franchise outlet.

5. **Marketing and Advertising:**

- Review marketing and advertising activities to ensure they align with the brand's image and guidelines.
- Assessment of local marketing efforts and their effectiveness.

6. Legal and Compliance Issues:

- Examination of legal and regulatory compliance at local, regional, and national levels.
- Review any disputes or legal issues involving the franchisee.

7. Employee Management:

- Assessment of employee training, performance, and adherence to operational standards.
- Review of human resources practices, including hiring, training, and employee relations.

8. Inventory and Supply Chain Management:

- Evaluation of inventory management practices to ensure proper stock levels and handling.
- Verification of sourcing and supply chain practices in line with franchisor requirements.

9. Customer and Franchisee Feedback:

- Gathering feedback from customers and franchisees to assess satisfaction levels and identify areas for improvement.

10. Technology and Systems:

- Assessment of the use of technology and systems recommended by the franchisor.
- A review of point-of-sale systems, inventory tracking, and other operational tools.

The specific scope of a franchise audit can be tailored based on the needs of the franchise system, local regulations, and the objectives of the audit. It's important for both the franchisor and the franchisee to have a clear understanding of the audit's scope and purpose to ensure a productive and transparent evaluation.


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