

Managing an Effective Internal Audit Program

VACO Middle East Est.

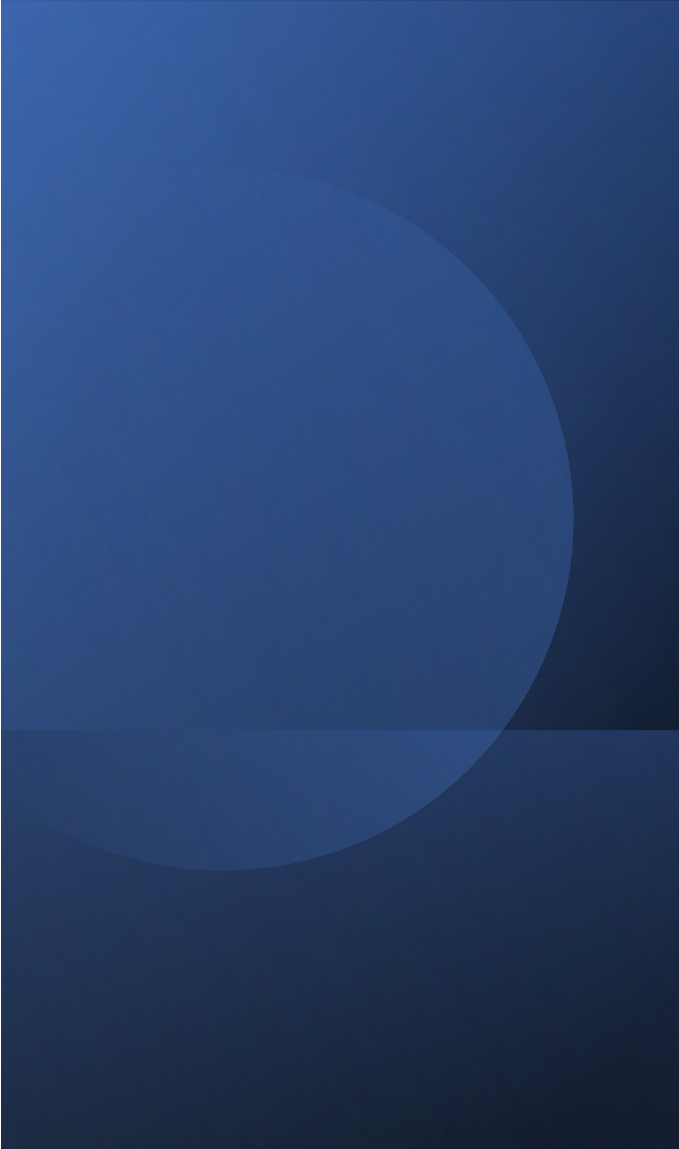
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- To plan for growth, ensure sustainability, monitor excellence and be an organization that manages risk intelligently, you need to know where your business is now and where you are going in the future.
 - An accurate view of process and performance is vital and this is where internal audits are invaluable.
 - If your organization still views an internal audit as simply a compliance or contractual requirement or focuses solely on finding fault and not using the information to evaluate performance, you could miss the advantages a well-planned and well-supported internal audit program can provide.
 - To be effective, an internal audit program must be more than ticking a box, and there are some steps you can take to ensure maximum return on your investment.

WHY AUDIT?



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WHY AUDIT?

- There are many reasons you might have an internal audit program
- For example, because the ISO management standards require it, as a pre-emptive strike prior to a third-party audit of your management systems or to check on implementation and quality control in your systems.
- However, the most important strategic reason for conducting internal audits, is to identify improvement opportunities and feed into your organization's continual improvement process.



WHY AUDIT?

- Audits allow you to assess whether your management systems align with your business needs, check whether the stated requirements are being used properly and evaluate whether your processes and procedures are effective.
- An internal audit is a critical part of a well-functioning management system, providing data that can drive the corrective action process.
- While it might be tempting to think of an audit as a process designed to single out all the things that aren't working in your business, identifying what's working is just as important.
- In fact, an audit is fundamentally intended to confirm that your business is following the processes and systems required to meet its goals.

WHY AUDIT?

At the most basic level, an internal audit answers three fundamental questions:



**INTENT: *DO WE HAVE A
SYSTEM?***



**IMPLEMENTATION: *ARE
WE FOLLOWING IT?***



**EFFECTIVENESS: *IS IT
WORKING?***

WHY AUDIT?

- Of course, in the process of conducting an audit, if nonconformities are discovered, they are recorded in the audit report.
- Nonconformities are not necessarily bad and an internal audit is the right time to identify problems.
- With committed leadership, nonconformities should be seen as opportunities for improvement – only when you identify a problem, can you fix it.
- Also it is important to consider how the audit process is helping you improve as an organization – and that is where the true value of the internal audit process is realized





DEFINING YOUR AUDIT PROGRAM

DEFINING YOUR AUDIT PROGRAM

- Any audit must be logical, efficient and effective. It should be strategic in its outlook and respond and adapt to your organization's needs.
- An audit program is much more than just a scheduled activity.
- You can't simply conduct the same audits in the same sequence as the prior year.
- This is particularly important given that audit activity and processes are samples.
- You can't see everything, so you need to have a plan, and that plan needs to be dynamic and responsive to the current situation of the organization.
- Here are several factors a strategic audit program should consider:



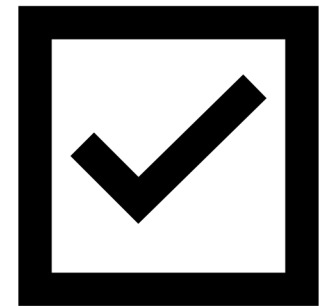
AUDIT REQUIREMENTS

The ISO standards have specific requirements including:

- Internal audits are conducted by competent personnel
- There is defined criteria and scope for each audit
- Internal audits are conducted at planned intervals to provide information on whether the management system:
 - Conforms to the organization's own requirements
 - Meets the requirements of the standard
 - Is effectively implemented and maintained
- Take appropriate correction and corrective actions without undue delay
- Audit program outcomes are used as input to the management review and to plan the next cycle of internal audits



*“An internal audit program
must be more than ticking a
box”*





BUSINESS NEEDS

How your business applies these requirements is up to you. This is particularly important when it comes to the audit schedule. Matters to consider include:

- Critical or high-risk processes requiring more frequent audit
- Maximizing value to your business
- Low-performing areas or chronic problem areas
- Management priorities and business objectives
- Marketplace objectives a
- Management system requirements
- Statutory, regulatory and legal requirements
- Customer requirements
- Needs of other interested parties
- Evaluation of risks facing the organization and established control effectiveness



BUSINESS NEEDS

- The frequency and structure of the audit schedule should be reviewed and adjusted as results come in.
- The audit program should be responsive to changes in organizational needs.
- For example, regulation changes, organizational restructures, changes with critical suppliers, or a new product or process should initiate a review of the current audit program's ability to provide relevant information to leadership on the status of the business.

LEADERSHIP REQUIREMENTS

- Leadership should recognize the value of an internal audit.
- When employees see commitment from leadership to take positive action and resolve issues identified during an audit, they become more supportive of the entire audit process.
- Resolution of issues and inefficiencies also contribute to the profitability of an organization.
- There is a measurable dollars and cents return on the investment of conducting effective audits.
- The internal audit process should incorporate a risk-based approach throughout the entire process, including the planning, conducting and reporting of the audits, in order to ensure the organization realizes the maximum return on the time invested.
- Effectiveness of the actions the organization has taken to effectively control identified risks should be a component of these assessments.



VALUE

- Your internal audit program is an excellent way to ensure your organization conforms to relevant standards.
- An internal audit provides objective evidence about whether the management system is working, where it isn't and provides information to support any corrective actions that might be needed.
- An internal audit can also help the leadership verify whether management system requirements are integrated into business processes.
- It also promotes the process approach and risk- based thinking at all levels of the organization.
- Finally, an internal audit can measure whether your organization's management systems are achieving their intended results.
- These include promoting continual improvement and helping top management support line managers, as well as ensuring a consistent and cohesive approach throughout the organization.



CHANGE MANAGEMENT REQUIREMENTS

- Even seemingly insignificant changes can have significant impact.
- Change and change management are a focus in management standards and internal audits can assess whether your systems to control these changes are robust and effectively implemented.



CREATING YOUR AUDIT PROGRAM

Once you've assessed your needs, you can develop an audit program that will deliver practical information and strategic insights.



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DEVELOP AN AUDIT SCHEDULE

- *What you are going to audit and when?*
- The sequence and frequency of your audits need to be logical and the person managing the program should be able to walk you through it.
- It also needs to be measurable, so you can check whether the program has been successfully implemented.

DEFINE THE OBJECTIVE, SCOPE AND CRITERIA FOR EACH AUDIT

- *Why you are auditing?*
- Make it clear what you're auditing against and define parameters.



ASSIGN THE AUDIT TEAM

- *Who is going to complete the audit?*
- Having the right people to conduct an audit is vital, but may represent a challenge – it can be a sign that people don't see an internal audit as worthwhile.
- Auditors must first be competent; they must also be ethical and diplomatic, open-minded and trusted to act with integrity.

- *How will the audit be conducted?*
- Since a process-based approach is central to management standards, it is also critical to the audit process.
- A process is a series of steps that turns inputs into outputs.
- Auditors need to understand how a process works, and check whether everything necessary is in place, to ensure the process functions effectively.
- An audit can measure both effectiveness (does the process deliver the intended or planned result?) and efficiency (using the available resources in the most cost-effective manner).
- A robust audit program will ensure your internal audits will be efficient, effective and add value for everyone involved.
- The next step is to put the plan into action

DEFINE THE AUDIT METHOD

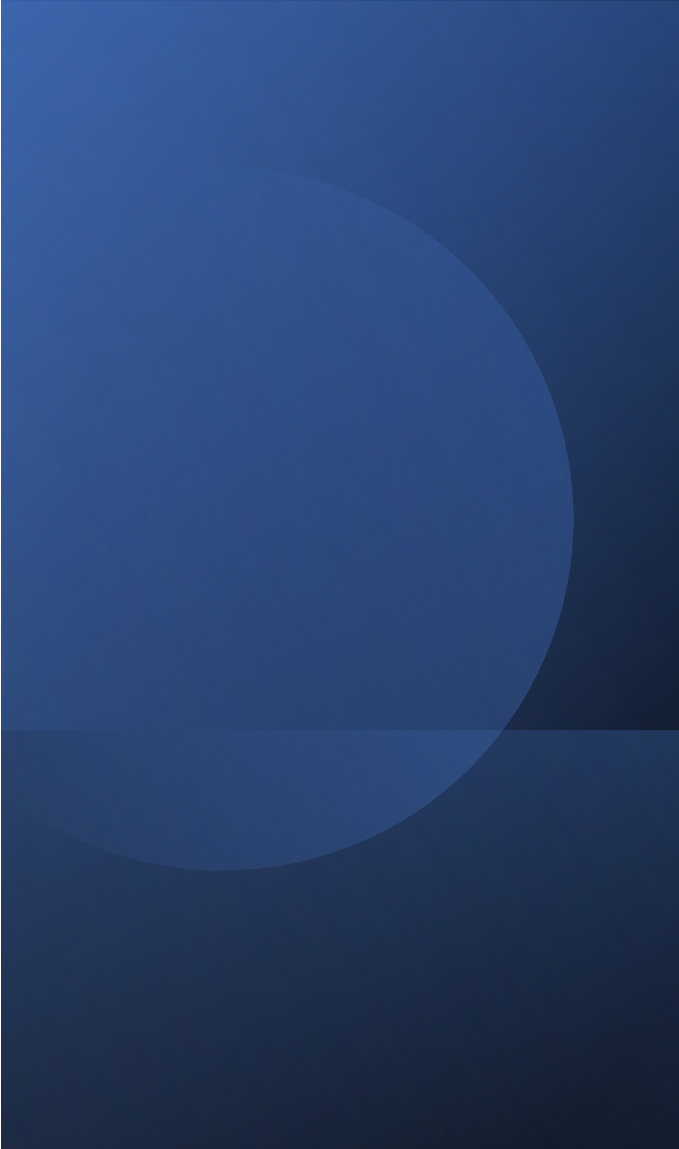


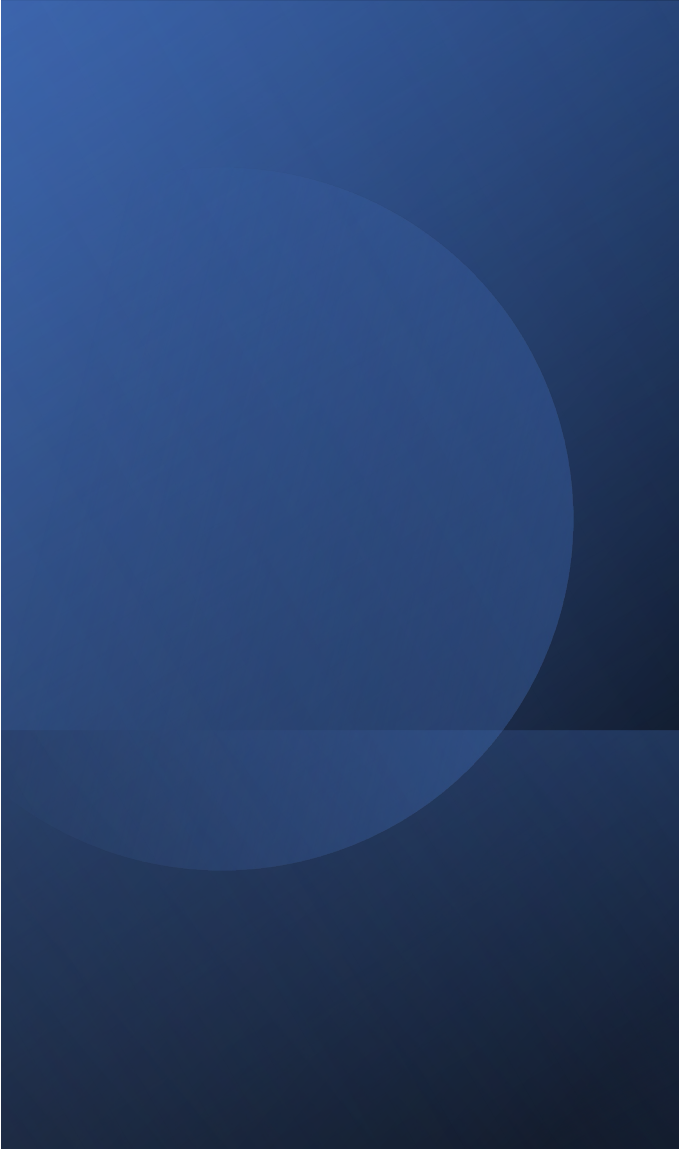
CONDUCTING YOUR AUDIT PROGRAM

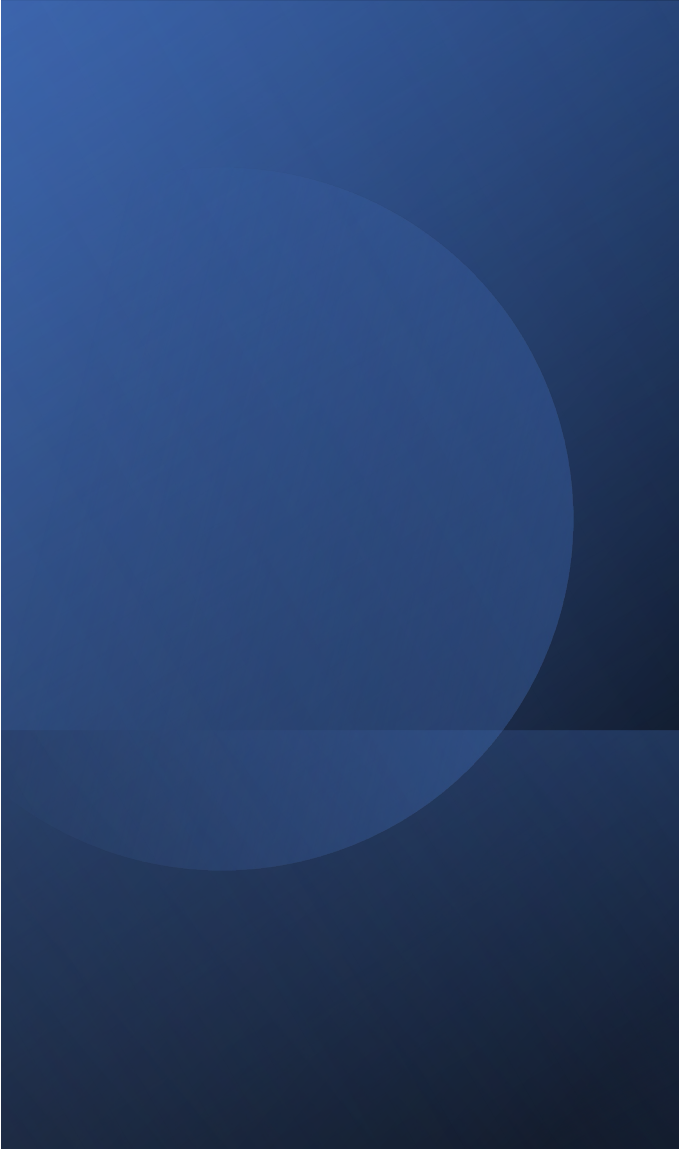


There are six steps to conducting an audit:

1. Initiating the audit
2. Preparing for the audit
3. Conducting the audit
4. Preparing and distributing the audit report
5. Completing the audit
6. Conducting the audit follow-up

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- To make sure you get a clear snapshot of your business, you need to allow adequate time for the audit process.
 - A common complaint from auditors is that they don't get enough time, either to plan or to conduct an audit.
 - This can usually be traced back to some misconceptions regarding how audits are conducted.
 - Most people do not see the upfront planning required in order to conduct a comprehensive assessment.
 - This is because most, if not all, of the planning is conducted remotely by the auditor.
 - Planning and preparation are critical and often the most time consuming part of the audit process; most auditors would agree it's hard to plan too much.
 - To maximize the value of your audits to the organization, auditors must be given sufficient time to plan and then conduct the audits properly.

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- The time invested will pay dividends in performance improvement.
 - For every audit on your schedule you need to define the:
 - Objective: the goals for the audit. Why are we conducting this audit?
 - Scope: the extent and boundaries of an audit
 - Criteria: stated requirements or what you are auditing against

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- It's most efficient to audit all of a department's processes during one audit.
 - This provides the department or function being audited, with a more holistic view of their activities and contribution to the success of the organization, while minimizing disruptions in their day to day operations.
 - Preparation is necessary at the beginning to ensure the auditor understands the full range of processes undertaken.
 - Once the corrective actions have been developed and implemented, time must be allocated to assess whether the actions taken will effectively prevent recurrence of the original issue.



REPORTING

- The audit report should provide clear and accurate data that's useful for management review.
- It should be a concise record of the audit, including scope, objectives, criteria and method.
- The audit report should present a balanced reflection of the current status of the management system.
- This includes statements of where the current systems are conforming to requirements, areas of excellence and opportunities for improvement as well as nonconformities.
- Not only is it important to know what's working and why, reporting on positive performance can be a way to share good practice across the business.





NONCONFORMITY STATEMENTS

- A nonconformity statement should include:
 - Source of the requirement
 - Statement of requirement
 - Source of the evidence
 - Identification of the actual objective evidence



NONCONFORMITY STATEMENTS

- Evidence nonconformities will arise in one of three areas:
 - Failure to define a system or process for doing required work: *intent*
 - Failure to follow a process or instruction once established: *implementation*
 - Failure of the process or system to achieve the intended result: *effectiveness*

NONCONFORMITY STATEMENTS

In our experience, approximately 60-70% of all nonconformities can be traced to implementation issues.

Organizations always seem to have a good reason as to why they are not following established processes.

Auditors should make every effort to ensure they include information on the consequence to the organization when the audited process does not function as intended.

This provides the process owner with relevant and measurable information on their process and how it relates to achievement of the organization's objectives.

OBSERVATIONS

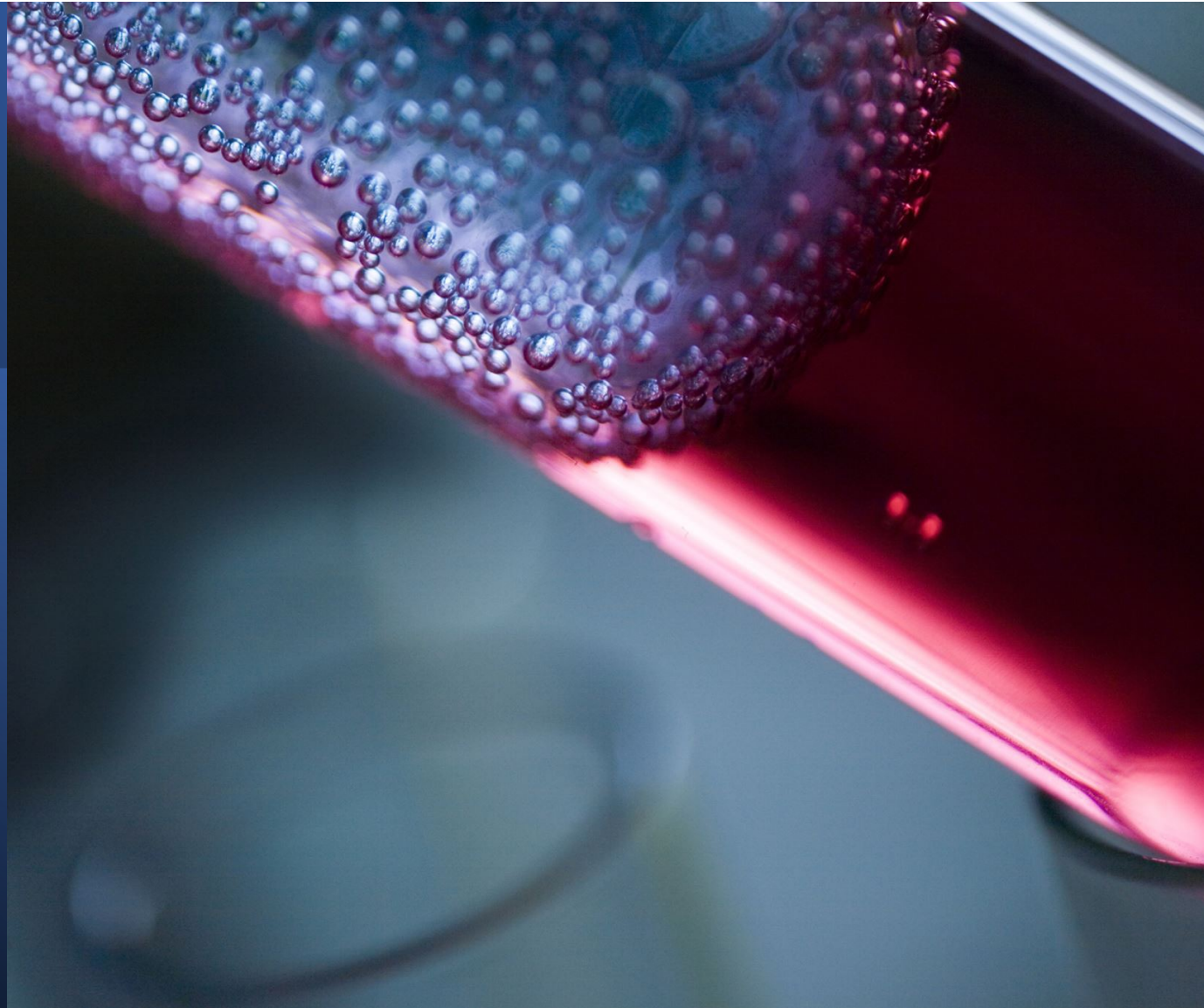
An observation might be made when a system is conforming to a standard but attention should be given to managing potential failure or to improving the process.



OPPORTUNITIES FOR IMPROVEMENT

- These might be included when an auditor finds a system that conforms to the standard but could be made more effective or efficient.
- Unlike nonconformity statements, observations and opportunities for improvement do not usually require a response or action on the part of the auditee.
- However, they can represent excellent opportunities to manage risk and improve performance.

Conclusion



- The most thorough evaluation your organization should undergo is your own internal audit process.
- In fact, if the internal audit process is used effectively, any external audit should be a 'nonevent'; no preparation should be required.
- An internal audit goes beyond discovering nonconformities that need remediation.
- They are a critical component of your organization's performance evaluation.
- It should provide leadership with an objective evaluation of the management system and promote risk-based thinking.
- An internal audit should recognize good practice as well as identify opportunities for improvement.



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