



MANAGING RISK **DNV**

Effective Internal Audits



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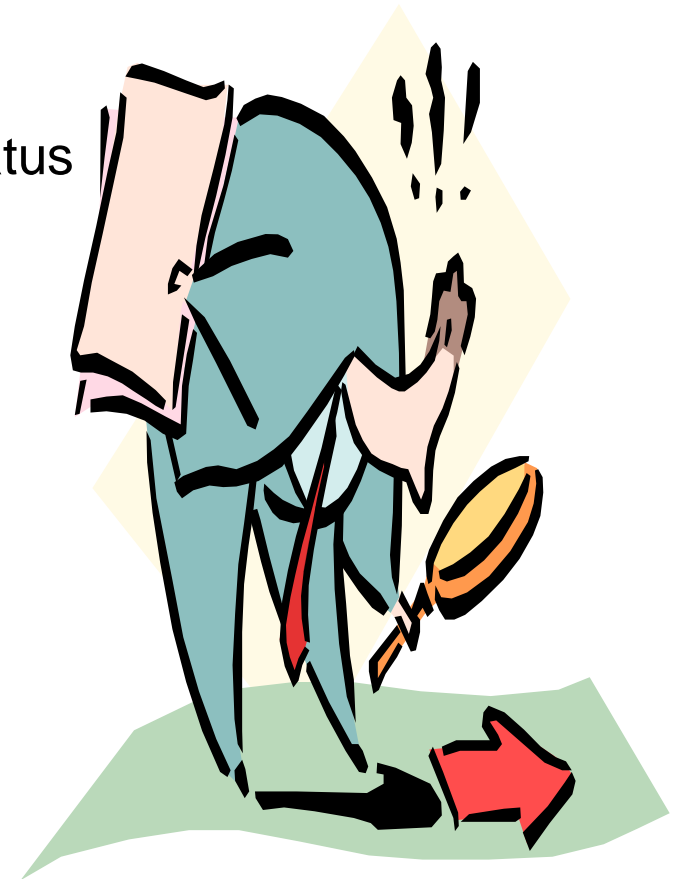
Topics

- 11 top reasons why internal audits are ineffective
- How to make them effective through process approach
- Questions



Why Internal Audits are Ineffective?

1. Don't add value
2. Wrong people selected
3. Poor qualifications
4. The checklist mentality
5. Not planned according to importance and status
6. Emulating/imitating 3rd party auditors
7. Corrective Actions chronic delinquency
8. Restrictive internal audit procedures
9. Inadequate preparation
10. Auditors stick to their comfort zone
11. High rotation of auditors





1. Audits are supposed to add value

- One of the best <however under utilized> tools for an honest self assessment
 - Stakeholders expectation for reliable demonstration of effective internal controls.
- A great improvement tool, typically wasted, because internal auditors normally focus on strict compliance with the “command media”
- Why top management does not value internal audits?
 - Auditors don't link the audit results to the risks to the business, or to business results → they don't communicate the results in a way that is appealing to management

2. Wrong people selected



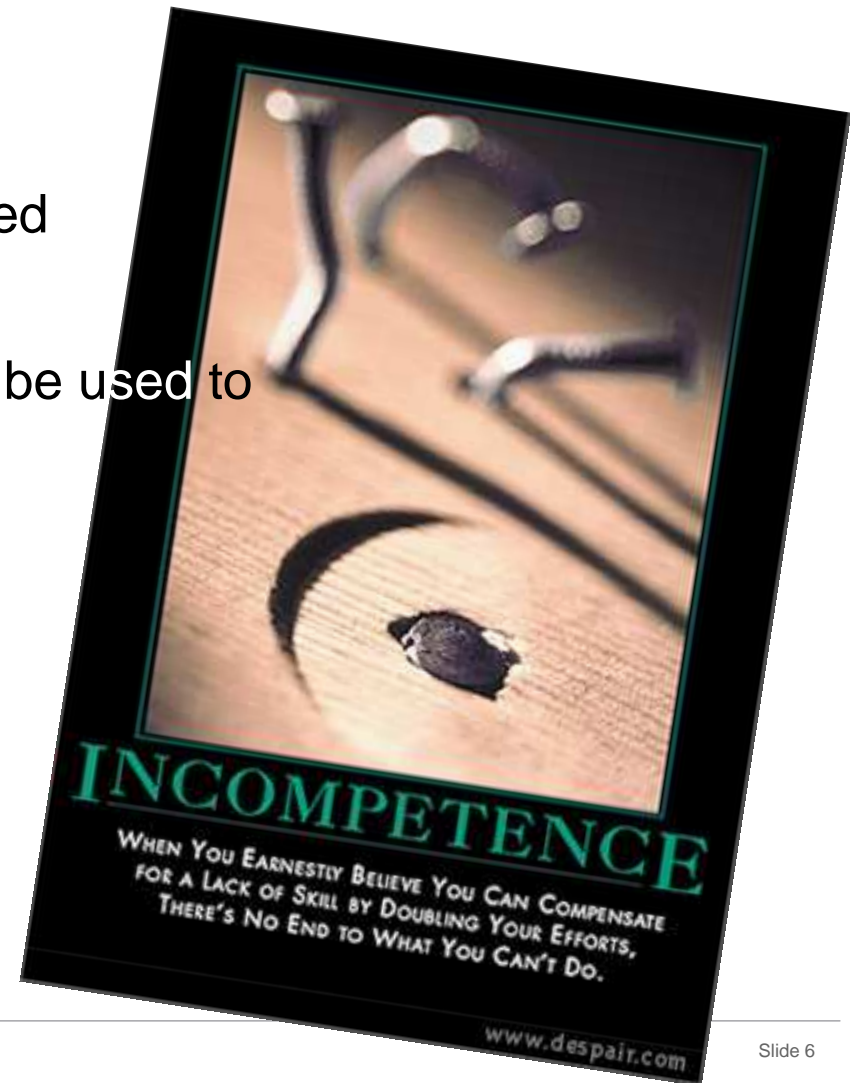
- People are typically **selected as internal auditor** candidates for the wrong reasons, such as:
 - The plate least full
 - They work in Quality
 - They are inspectors

- Do not underestimate the **importance of personal attributes**:
 - Mature and knowledgeable about business processes
 - ethical, i.e. fair, truthful, sincere, honest and discreet;
 - open-minded, i.e. willing to consider alternative ideas or points of view;
 - diplomatic, i.e. tactful in dealing with people;
 - observant, i.e. actively aware of physical surroundings and activities;
 - perceptive, i.e. instinctively aware of and able to understand situations;
 - versatile, i.e. adjusts readily to different situations;
 - tenacious, i.e. persistent, focused on achieving objectives;
 - decisive, i.e. reaches timely conclusions based on logical reasoning and analysis;
 - self-reliant, i.e. acts and functions independently while interacting effectively with others.

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3. Poor qualifications

- Competence building takes more than simple training
- Classroom training has its limitations
- Knowledge of the system and associated requirements is **VITAL!**
- Mentoring and tutoring can and should be used to improve internal auditor competence



4. The checklist mentality

- Inhibits the process approach
- A checklist can be an aid, but it can also be a huge hindrance
- The goal of an audit is NEVER to check boxes in a checklist



5. Importance and status

- One of the most ignored requirements of ISO 9001 (8.2.2)
“An audit program shall be planned, taken into consideration the status and importance of the processes and areas to be audited,...”
- Why audit all processes with the same frequency and attention?
- Utilize your resources wisely
- Don't waste time auditing on inconsequential processes and adjust the frequency of auditing critical processes accordingly
- Adjust your internal audit plan

The word "RISK!" is rendered in a bold, blue, 3D block font, appearing to float above a white surface. The letters are thick and have a slight shadow underneath, giving them a three-dimensional appearance.

6. Monkey sees monkey does

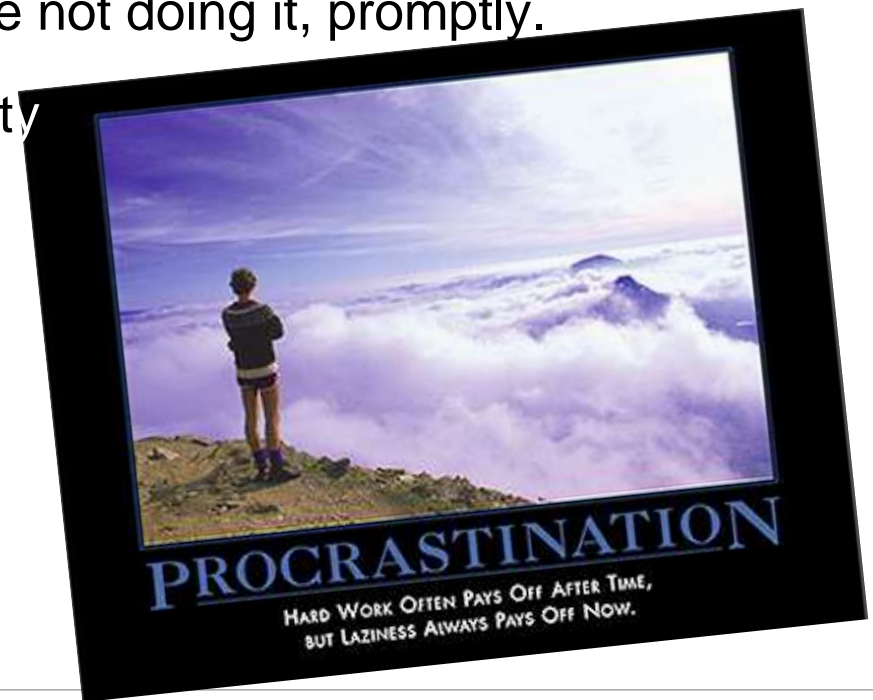


MANAGING RISK

- Emulating, imitating 3rd party auditors
- Constraints imposed onto 3rd party auditors do not apply to internal auditors.
- For example, you can challenge your processes not only for effectiveness, but also for efficiency.
- Don't mimic external audits. Keep your internal audits focused on your issues.

7. Chronic delinquency

- If corrective actions are not implemented in a timely basis, exercise the escalation principle
- Management Review should be discussing the status of corrective actions
- On the other hand, question yourselves why some of the managers, responsible for CA implementation are not doing it, promptly.
- Is there a questioning about the validity of the write ups?



8. Restrictive procedures?

- Some of the constraints experienced by internal auditors, such as mandatory usage of checklists, are “self-imposed”
- Evaluate your own internal process and criteria, controlling your internal audits. Revamp it, if necessary
- You have the latitude to design your internal audit process as you see fit



9. Not enough planning/preparation

- Criticality matters
- Audit activities of significance and consequence for the processes at hand.
- What are the pressing matters for your organization **AT THIS TIME?**
- Auditors need to spend enough time IN PREPARATION for the internal audit, reviewing requirements and indicators of process effectiveness

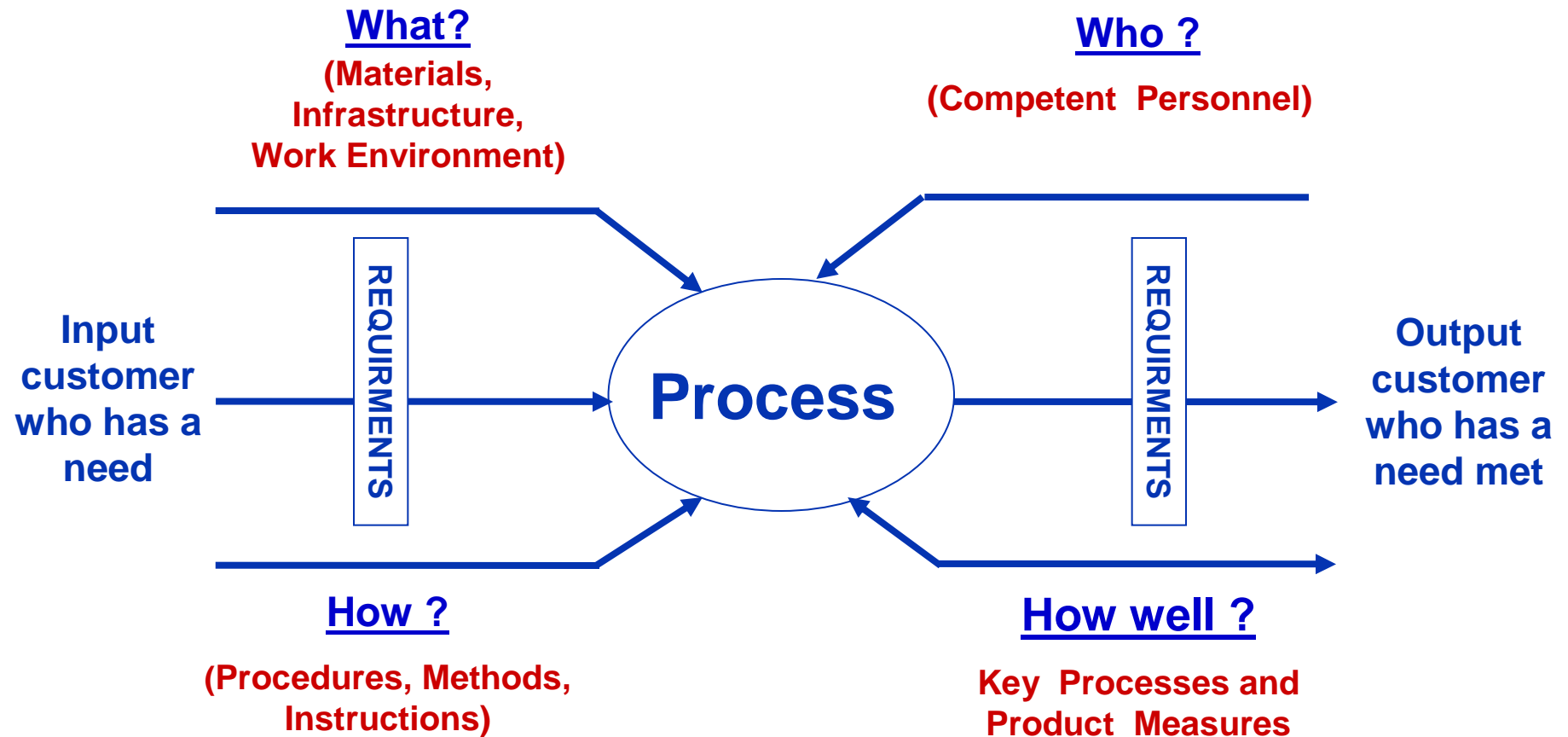
10. Comfort zone

- Auditors, if left unchecked, will tend to stick to their comfort zone
- An auditor that is totally unfamiliar with (for example) Design processes might shy away from performing thorough investigations, allowing, this way, for ineffective processes to go unchallenged
- Preparation and mentoring can assist internal auditors in understanding processes well enough for an effective assessment

11. Rotating auditors

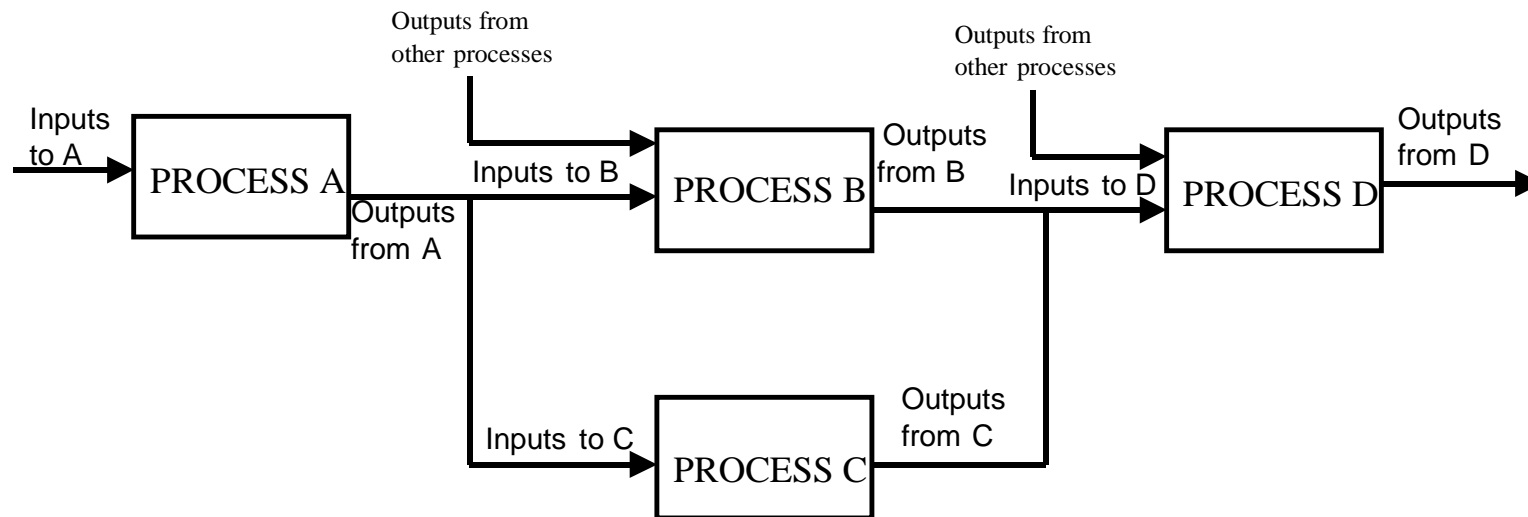
- If internal audits are seen as “punishment”, people will want the function to rotate
- And internal auditors would always be in the early stages of the learning curve
- Even though most organizations can not support full-time internal auditors, find ways to reward top performers

Process Audit - Elements of a Process

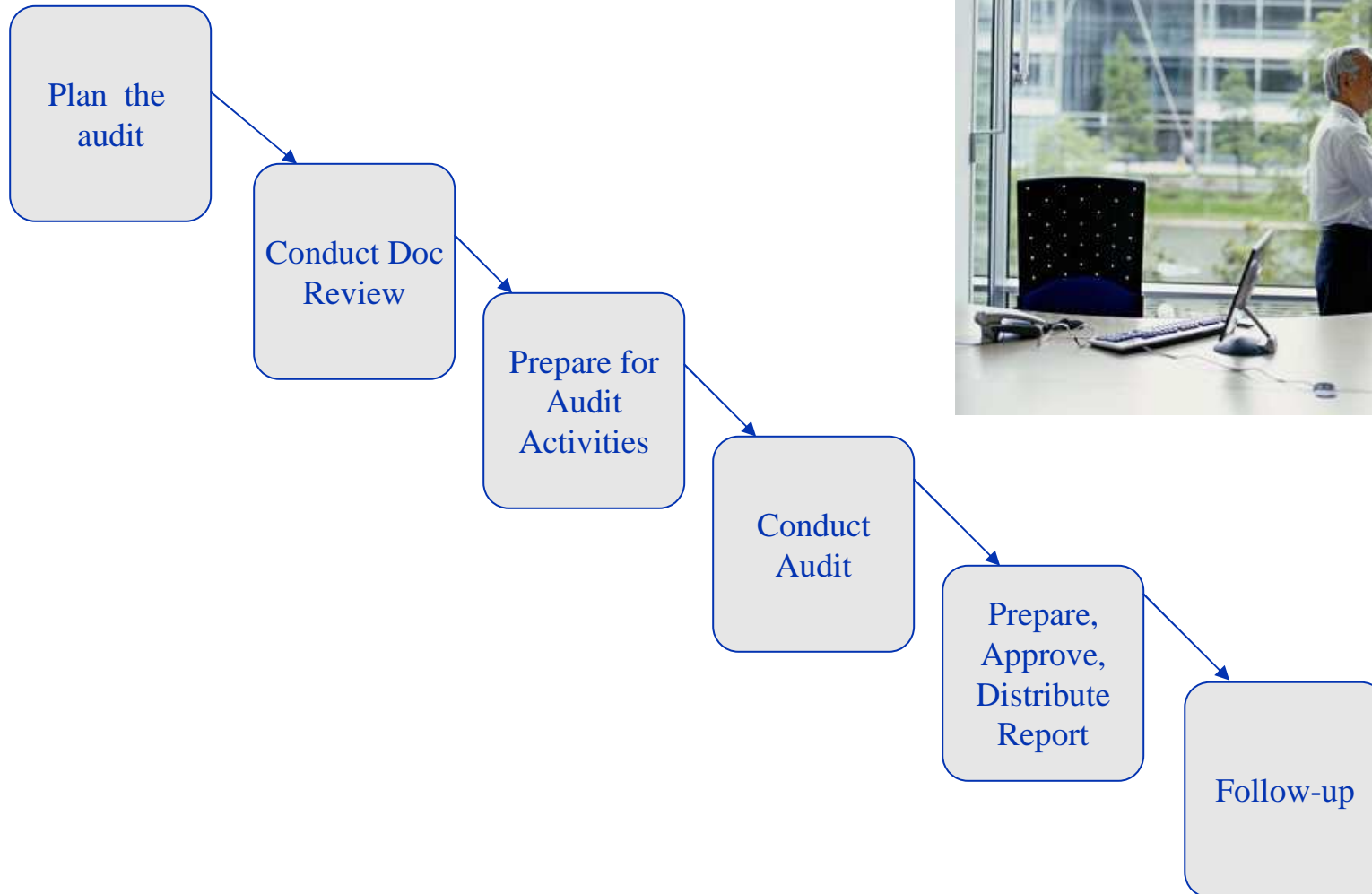


Six Characteristics of a Process

- A Process Owner exists
- The Process is defined
- The Process is documented
- Process linkages are established
- The Process is monitored and improved
- The Process Records are maintained

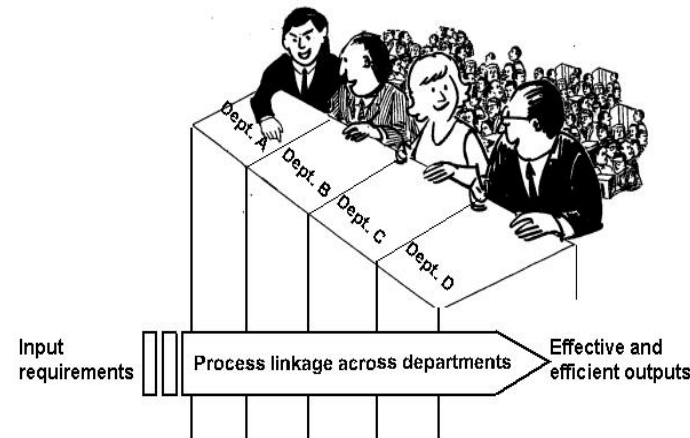
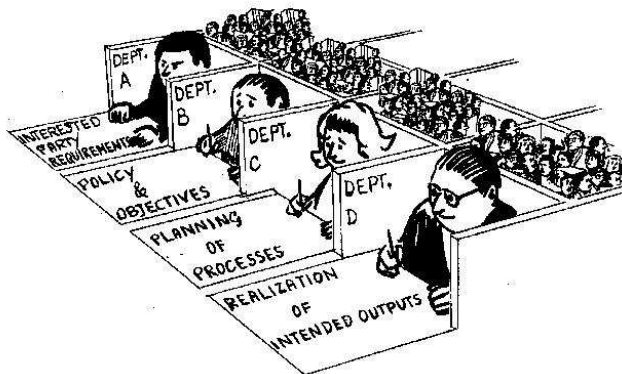


Audit Activities



Critical Elements of the Process Audit

- Prepare the Audit: invest time up front !!
- Audit path: follow the process (and product)
- For each process, verify:
 - the **Elements of the process** (inputs, outputs, how, who, resources, and how is measured)
 - The **Six Characteristics of the process** (owner; defined; documented; linkages established; monitored, analyzed and improved; and records maintained and available)



Audit Preparation

- Confirm the audit Scope: Process or Processes to be audited (relevant activities, products and audit boundaries)
- Review process documentation available
- Be sure you have access and understand the six characteristics of a process in the processes to be audited. E.g. :
 - How the processes are defined
 - Their sequence and linkage
 - How each process is measure, monitored and improved
- Focus the audit on those processes more important to the customer and the business (your organization)
- Use performance metrics (process and product), customer feedback and report cards to adequately plan and focus the audit

Audit Execution – Be sure...

- You see the Big Picture first, start with:
 - Process owner, and
 - High level process description (e.g. flowchart)
- Verify and understand all of the elements and characteristics of the process
- Focus your audit on the Process Performance and Effectiveness?
- Don't audit by clauses
- Verify the Process Continual Improvement

Audit Execution – Key Questions

- Are the customer and the applicable regulatory requirements identified, understood and fulfilled?
- Do the process activities add value?
- What are the results of Process Performance and Effectiveness?
- What are the evidences of Continual Improvement?



Audit Outputs - Report

- Strengths & Best Practices
- Non Conformities
- Observations
- Opportunities For Improvement (e.g. Implement bar code reader; eliminate a non value-added step/activity)
- Evidence of quantifiable Continual Improvements
- Process Effectiveness (Performance results and trends)
- Process Efficiency (e.g. benchmark other plants, or industry; this is the hardest one)



Questions





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Communicating audit results

■ Poor example:

3 parts were found in the shipping area with the wrong label applied.

■ Good Example:

Despite our persistent problems with over 150 misidentified parts, shipped to ACME Medical Devices in the last 3 months, our most recent audit identified 3 (out of 45) mis-labeled parts staged for shipment to this client. Our sales manager has already been contacted by ACME MD and we believe that the customer might be looking for an alternative supplier at this point.

