Agenda

- Introduction
- Audit Planning
- Auditor’s Role
- Audits
- Strategic Alignment
- Audit Program Value
- Summary
Introduction

- Audits can be used to identify best practices
- Initial audits can provide a baseline for improvements

Use different layers of audits
  - Group Level – Management and Product
  - Phase Gate - Lifecycle
  - Peer Review – Day to day
Audit Planning

- Select process to be audited
- Determine the auditor(s) and auditee(s)
- Scheduling – timing, availability, location

Kick-off Meeting

- Introduce the group
- Discuss the expectations
- Discuss the purpose of the audit
- Agree on area to be audited; projects involved
- Discuss schedule
- Discuss what will be done with the results
- Obtain team approval!
 Auditor’s Role

- Use Plan Do Check Act (PDCA) to identify parts of the standard applicable to the process being audited
- Ask open-ended questions
- Interview should start with the process owner
- Obtain objective evidence by performing walkthrough reviews
Audits

Verification Audits

- Increase need for verification audits
  - Supply chain management, outsourcing, process or product complexity and sophistication, certified suppliers and operators.
- Auditor must understand the process/product being audited
  - Review the procedures, specifications and records
- Verification audits supports robust risk-management process
- Frequency of verification audits depend on degree of risk and performance history
Audits

Third-Party Audits

- The message “audit findings failures” is a perception that is difficult to change.
- Management must understand how audits benefit the organization.
- Management want to identify deficiencies and fix them permanently.
- Never ask who is responsible for the non-compliance, ask how the process or system failed.
Audits

- Appreciative Audit – blend of ‘internal audits’ and appreciative inquiry
  - Appreciative inquiry
    - What if revealing system effectiveness and best practices was just as likely as finding non-conformances?
    - What if the act of asking audit questions began a process of change for the better?
    - What if audit results became a key input to a CEO’s strategy plan?

- Appreciative Audits carry forward best practices and encourage improvements.
- Appreciative Audits can revive a tired internal audit program.
Strategic Alignment

- The internal audit program strategy should align with the company’s strategy – i.e., Balanced Scorecard
  - Unfortunately this requires your company to have a formulated strategic plan, a robust scorecard of strategic indicators, goals and initiatives.

- The auditors drive this alignment during the audits
  - Auditors must understand the organizations vision, mission, competitive strategy, current strategy, and initiatives
  - Some auditors may require training.
Audit Program Value

- Internal audits can help uncover improvement opportunities
- Should provide insight and support to the organization’s objectives.

Audit Program Value should not be based on the number of non-conformities

- Audit performance should be based on objectives that reflect the mission and organizational objectives and goals
  - Complaints related to delivery, rework, meeting commitments
Summary

- Begin audit management by first planning it.
- Internal audits should be measured for effectiveness.
- Assure you have the right auditors for the different audit types.
- Align your internal audit program strategy with the company strategy.
<table>
<thead>
<tr>
<th>Audit element</th>
<th>Traditional internal audit</th>
<th>Appreciative internal audit</th>
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</thead>
<tbody>
<tr>
<td>Audit planning and preparation</td>
<td>◇ In-depth review of process documents and requirements. Audits planned by business process.</td>
<td>◇ Same as traditional audit, but audit participants informed of the appreciative intent of the audit.</td>
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<tr>
<td>Audit questions</td>
<td>◇ Open-ended questions derived from process requirements.</td>
<td>◇ Open-ended questions also derived from ideal scenarios.</td>
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<td>◇ Questions worded to evaluate conformance to requirements.</td>
<td>◇ Questions crafted to get a &quot;storytelling&quot; response and describe an imaginary outcome in which the best of a process is revealed.</td>
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<td>◇ Question focus on the current situation.</td>
<td>◇ Questions explore past and future situations.</td>
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<td>Audit participants</td>
<td>◇ Auditees usually limited to the process owner to encourage openness and confidentiality.</td>
<td>◇ Internal customers and suppliers of the process being audited.</td>
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<tr>
<td>Audit evidence</td>
<td>◇ Audit checklist used to record audit findings.</td>
<td>◇ Digital recordings of audit interviews supplement traditional audit evidence.</td>
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<td>◇ Process records provide objective evidence</td>
<td>◇ Internal customers verify process effectiveness reported by process owners.</td>
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<td>Process records review</td>
<td>◇ Records review often done during the audit interview process.</td>
<td>◇ Lack of evidence of what is working reveals the ineffectiveness of a business process.</td>
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<td></td>
<td>◇ Records review intentionally done independent of the audit interview to retain appreciative focus.</td>
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<tr>
<td>Audit findings</td>
<td>◇ Audit findings are primarily nonconformances; a few opportunities for improvement.</td>
<td>◇ At least half of the audit findings are best practices (strengths).</td>
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<td>◇ A short audit report with few findings is perceived to be a good outcome.</td>
<td>◇ Raise many more opportunities for improvement.</td>
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<td>Audit reports</td>
<td>◇ Audit report focused on nonconformances.</td>
<td>◇ Number of nonconformances tends to be the same as the number found during traditional audits.</td>
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<td>◇ A short audit report with few findings is perceived to be a good outcome.</td>
<td>◇ Additional affinity analyses required to group and report the abundance of audit findings.</td>
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<td>◇ Audit reports become a new vehicle to share best practices throughout the organization.</td>
<td>◇ Audit reports more likely to be an input to the strategic planning process.</td>
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<td>◇ Audit reports become a new vehicle to share best practices throughout the organization.</td>
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</tbody>
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Excerpt from PNSQC 2011

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