WHITE PAPER

INTERNAL AUDITING: EXPECTATIONS, IMPLEMENTATION AND OPTIMIZATION

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Third-party management systems certification audits, performed through an accredited certification body, are both a powerful testament of your organization's commitment to improvement and a catalyst to expand your customer relationships and industry recognition. To keep your system working effectively, it's critical to "be your own worst critic" to drive the needed continual improvement.

To keep things on the right track, and avoid costly mistakes, an organization should implement an internal audit program. If we think of the certification process as a final exam, an internal audit would be the pre-exam and the continuing education requirements, charged with keeping us sharp. The internal audit reviews the effective implementation of an organization's management system (e.g. quality, environmental, information security, etc.) against the company-defined documented information (e.g. its manual, procedures or the international standard). To get the most value out of a review, an organization should employ its own process experts who are familiar with the internal process, specifications, audit phases and administration of its internal audit (ISO 19011 is an excellent resource to consult in this effort).

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TECHNICAL CONSIDERATIONS OF AN INTERNAL AUDIT PROGRAM

The expectations for internal audits are fairly universal across the gambit of ISO 9001-based standards, as well as commonly integrated standards under ISO Annex SL. These requirements include:

- An organization-defined audit program that addresses the frequency, methods, responsibilities, planning requirements and reporting methods
- Auditing activities, to be performed at planned intervals, with consideration given to process importance, changes and the previous audit results
- Tools, used to collect evidence
- Competent and objective auditors, independent of the function being audited

These standards also include the general logistics of the review activities. The standards declare an organization needs to establish the who (the areas being audited), what (the criteria/standards of each audit) and where (the audit's scope- physical boundaries, facility or building). In regard to the how, the standard's clause points out the importance of impartiality in reporting, where an internal auditor should have nothing to gain personally, or professionally, from the results. Although we tend to be hyper-critical of ourselves, it may be tough to openly air our dirty laundry to senior leadership.

To ensure the audit program can be fully reviewed at a later date, documented information is required (e.g. audit reports, checklists, etc.). This is determined by the organization and retained as evidence to demonstrate audit execution and results, including the good, bad and ugly. An accreditation assessor once told us, "Records that need explaining are not records." It is paramount these reports are clearly written to demonstrate both system conformance and nonconformance, including the criteria used in making this determination.

After the results have been collected, the internal audit results must be reported to relevant management to demonstrate the system's effectiveness. Results may not be delivered exclusively to top management; depending on organizational hierarchy, relevant management could be a functional supervisor, an area manager or a combination thereof. The relevant senior staff will need to review the audit results and take necessary action (e.g. correction and/or corrective action). The key thing is for the entrusted relevant manager to be involved in the process and empowered to drive the needed improvements to areas that aren't performing to expectation. Of course, top management must still review the audit results, as this is required input under clause 9.3.2 of the Annex SL aligned standards.

Many of these practices can be found in ISO 19011, although following this document is voluntary. The document offers guidelines for establishing or improving an effective audit program, providing guidance to organizations building or revising their own audit program.

PLANNING PHASE: OVERVIEW

An internal audit review starts at the planning stage, where the department spells out the objectives and means to achieve them. The parties involved create checklists, develop schedules, set budgets, sample products, review past audits and create a final audit program. A method for recording and reporting this information also needs to be established. Documentation helps remove ambiguity and guesswork.

PLANNING PHASE: CHOOSING AND EVALUATING AN AUDITOR

The true value of an internal auditor is not in their ability to fill out a checklist, but in their ability to be personable and connect with the interviewee. On top of being a good communicator, an auditor needs to be candid, unbiased, ethical and tenacious. The auditor's job is to dig for information and identify the good, the bad and the ugly of the organization's management system.

In a smaller organization, it can be a struggle to find competent and objective internal auditors. With the taxing workload and many people wearing multiple hats, it can be tough to align an organization's resources with the time needed. Although it is best to utilize your internal resources, given they know where the "skeletons are buried," it is common to engage an external auditor for this activity. It is important to ensure this external partner is willing to tenaciously dig and constructively drive the system improvement.

There are no set guidelines for the minimum qualifications of internal auditors; that is up to the organization. Many choose to do external lead auditor training, internal auditor training, job shadowing or industry-specific training (such as Aerospace Auditor Transition Training (AATT, which is required of third-party auditors in the aerospace industry). If you are looking for an opportunity to improve the efficacy of auditing, improving the competence of your audit team is a great start.

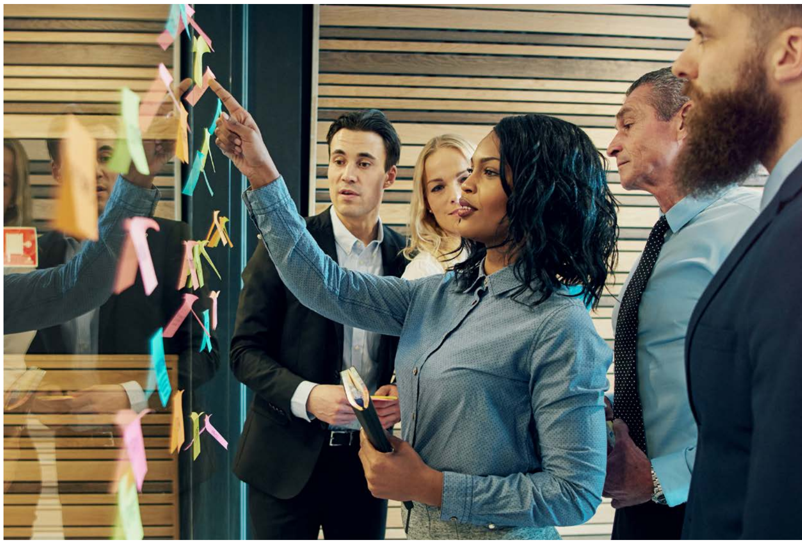
PLANNING PHASE: THREE MAIN TYPES OF AUDITS

The first type of audit is **process focused**. During this process, inputs, activities and outputs are reviewed from start to finish. It provides an effective look at the handoffs and interfaces from department to department as well as process to process.

The second type is a **product audit**. This approach follows an actual product or category of product from concept to grave. While it can be time consuming, the product audit lets an organization see things from a customer's perspective.

The third type is a **system audit**. It is a more encompassing audit that looks at the entirety of the system. This is more of an umbrella review that does not focus on the finer details as much as the other audit types.

There really is no correct answer for choosing a type of audit. Many organizations pursue a layered approach. They start with a system audit and supplement that with



a few product and process-focused audits, employing different parties at each level. Other organizations may choose a product audit because their customers are mandating bench or workstation audits. Organizations need to determine what works best for them, but combination audits usually provide the best value.

PLANNING PHASE: FREQUENCY OF AUDITS

Customers and certification bodies will likely require an annual audit, with the full management system being sampled through a three-year audit program. More frequent audits can be a struggle for larger organizations. In contrast, some organizations are nimble enough to do a full audit every year. For them, a system audit once every three years offers less value. Regardless of internal audit frequency, it's a smart strategy for organizations to spend more time conducting internal audits than third-party audits (e.g. if a third-party audit is two days, the internal audit shouldn't be one day).

A strong argument could be made for breaking down a yearly review into a group of smaller, more focused audits. While doing one annual internal audit is in line with external audit schedules, waiting until the end of the year for a review might make it too late to employ significant changes. Auditing the system more frequently makes it possible to take action before something becomes a problem and helps show that important processes were prioritized.
Doing a yearly internal audit does require dedicating more resources to fewer processes.

One way to determine what takes priority is to look at this from an external auditor's perspective. They are likely to assess new products that were launched and processes that were significantly changed or modified (a.k.a. risks). They would want to review nonconformities from previous audits to ensure corrective actions were effective, keeping an eye out for any negative trends or changes in the internal audit program. External auditors also ask for information about customers and what percentage of the business they represent. This biases their attention to the activities that affect the customers most responsible for an organization's financial livelihood.

The final program needs to include the frequency of the audits. Having planned intervals does not necessarily mean following a rigid schedule. It could be quarterly or have designated completion dates.

IMPLEMENTATION PHASE: INTERVIEWS

When it comes to conducting audit interviews, it is important to maintain rapport and the relationship, given this is an interview and not an interrogation. During an internal audit review, people may hear things they do not like. They may get defensive or confrontational. They may even question why an internal audit is needed in the first place. It is important for employees to understand this process is about compliance, reputation and prevention.

Organizations establish a management system for a reason. That reason could be customer-based or regulatory requirements. An internal audit activity helps assess, advise and address weaknesses within the system to improve processes and performance as quickly as possible.

Sometimes management has questions, thoughts or concerns that are best evaluated through an internal audit. Employee interviews are an opportunity to determine the strategic needs of the organization.

ADMINISTRATION: THE REPORT PACKAGE

An audit report needs to tell a story that demonstrates conformance or nonconformance. Based on what is told, a person should be able to retrace the audit, and understand the auditor's thinking and how they came to their conclusions. There is no universal format for reporting, but the following structure is typical of most report packages:

Part one is the audit plan/schedule. This details the intent of the audit and the timeline for the interviews/events used to complete the audit.

Part two is the checklist. A list provides a reminder of the requirements to be reviewed and a record for the auditor to capture the evidence of conformance and nonconformance to the clauses in a manual or standard. It is best if the checklist is based on the standard instead of a few predictable questions, which lets the auditor ask more effective questions while taking advantage of their expertise. The checklist should also be tailored to the area or process being reviewed. By eliminating the noise of requirements that aren't tied to the process being assessed, an auditor is less likely to miss important clauses.

Part three of the package is the audit report itself. This is meant for the top management group and gives an executive summary of the issues. It needs to be written in a way that helps top management identify and allocate the proper resources to drive corrective actions and continual improvement.

ADMINISTRATION: CONTINUAL IMPROVEMENT

Regardless of what reporting structure is chosen, it should provide the evidence of conformance and nonconformance. The processes/activities are assessed to the requirements of the standard, with the primary purpose of ensuring conformance, so collecting evidence is critical.

In addition, the internal audit process provides invaluable identification of opportunities for improvement (OFI). These are the collection of good ideas that may be helpful to make an organization bigger, faster, cheaper or stronger, by making tweaks. An OFI is not a nonconforming condition but is certainly something that if left unchecked could potentially become a nonconforming condition or even worse, a product escape. Do not miss out on the collection and review of the OFIs collected through an internal audit!

Another key part of internal auditing and continual improvement is evaluating the audit process itself. As discussed briefly in ISO 19011, the internal auditing process (similar to other sections of the standard) needs to be assessed for implementation (existence), conformance, and effectiveness (adequacy). In short, make sure the process is:

- Doing things correctly – as evidenced by following the requirements of the standard(s), customer requirements, internal requirements and applicable regulatory requirements

- Doing the correct things – as evidenced by monitoring and measuring the performance of processes, with the needs and expectations of interested parties considered.
  The effectiveness of processes, measured by a few key performance indicators (KPIs), will ensure that activities performed are value added and purposeful, rather than simply checking the box for conformance.

Contrary to what an internal auditor might believe, external auditors want the internal audit to identify and drive corrective actions. Often external auditors are concerned when an internal audit activity yields no corrective actions, because everyone has room for continual improvement. It is better to find any possible issues internally, a head of a third-party audit.

Not doing so creates unnecessary risk for a customer to identify the problem through a customer escape or a second-party (supplier) audit, or for the certification body to find it during the third-party certification activity. In the past, organizations may have viewed corrective actions as some sort of penalty or punishment. This is not the case at all. It is a tool designed to promote continual improvement and should be exercised as such!

An effective internal audit system, with top management involvement, drives the culture of continual improvement. This system only works if employees believe in it and that begins with top management. Their approval and support sets the tone. Establishing the right culture is what sustains and elevates the productivity, product quality and effectiveness of the management system.

ABOUT THE AUTHORS

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For more information, about internal audit programs, please contact us at **information@nsf-isr.org**.