

Integrated Internal Auditing

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To date, societies have developed and used four stages of organization management:

1. Control
2. Assurance
3. Management
4. Integration

The first of these, control, is focused on the product – those goods or services provided to the customer. Quality control (QC) inspects product and material to defined characteristics. These are often called form, fit, and function. Safety inspectors monitor work for unsafe practices. Environmental inspectors measure pollution levels to see that permitted discharges are not exceeded. This period started at the beginning of the industrial age and peaked around World War II.

The second era, assurance, is focused on the process – how the goods and services are produced. Quality assurance, safety assurance, and environmental assurance all assume that if people follow good procedures, compliance to requirements will be higher. Often captured in the phrase, “*Say what you do and do what you say,*” the approach leads to stability. It is the foundation of most registration and certification schemes around the globe.

The third era, management, is focused on the system – how all the processes work together to achieve the goals of the organization. Documents, human competencies, communications, and other resources are organized in a system of interdependent links. Systems are complex and often a sign of organizational maturity.

The fourth era, integration, is just starting. Quality, safety, security, environment, finance, and other management systems have many things in common. They either promote good (quality, finance, human resources) or prevent evil (environment, safety, security). All use the same plan-do-check-act approach to resource management. One can apply these basic approach principles to conduct integrated audits within the enterprise, using eight steps.

Step 1: Define the Product

Just as Stephen Covey advises us to live life by first deciding where we want to go, the auditor must first understand the product being produced by the auditee. Product may be one of four generic categories: manufactured goods, processed goods, software programs, and provided services.

Step 2: Define the Processes

Product is made by the operation of a series of processes on an initial set of materials or conditions. These can be product realization, business support, or external interface process. Using multiple resources, the auditor must define and then flowchart the auditee's processes.

Step 3: Understand the Processes

There are many useful tools for analyzing processes. The four-box model examines process inputs and outputs, along with controls and resources. This tool is the foundation of the SIPOC analysis (suppliers, inputs, processes, outputs, customers) of business. While useful, it is too general for the internal auditor. Over the last fifty years, six universal process affecters have emerged. We remember these through the mnemonic of MMMMMME: methods, material, manpower, measurement, machinery, and environment. Unfortunately, this tool is too detailed for the internal auditor. A third way to analyze a process is through the general risk model: define risk, judge risk, and provide countermeasures. This is too general for the internal auditor.

If we take the best of all three models – four box, universal affecters, and general risk – we can develop a useful tool having the right amount of detail for the internal auditor who desires to audit quality, environment, and safety in an integrated manner. This is called the modified turtle diagram, because it adds environmental aspects and safety aspects to the human-friendly turtle diagram already in use by many organizations.

Step 4: Define Information Needs

After the modified turtle diagrams are developed (step 3) for each process on the flowchart (step 2), the internal auditor can examine the documents associated with the identified controls in each box of the turtles. Extracting key requirements, the internal auditor develops several pages of detailed checklist questions. These are fact-based compliant conditions and very objective. They are not interview questions, which come later and are open-ended. Similar to a grocery shopping list, a checklist tells an internal auditor what conditions must exist for compliance to requirements. Internal audit checklists are typically 50-60 pages and unique to a particular audit.

Step 5: Gather Objective Evidence

This is the fieldwork portion of the internal audit, where factual evidence is obtained. The internal auditor will trace the work flow, looking at running processes, examining records, and interviewing employees. Both compliant and non-compliant data are entered into the checklist.

Step 6: Data Dump and Chunk

As the internal audit progresses, the audit team meets periodically to gather and discuss facts and opinions. They develop a master list of good (conforming) facts and bad (nonconforming) facts. Then these data are examined to detect patterns. Usually, only one or two issues are common to the majority of the gathered facts. These are the things we focus on. The internal auditor will state the problem, followed by several factual examples of that problem, all on one sheet of paper. This is called a Finding Sheet.

Step 7: Present the Conclusions

After developing the Finding Sheets (usually fewer than six), the internal audit team must write an overall summary of the integrated management controls examined. Are they sound and practiced by the majority of the work force? Does information flow up and down the organization? Is risk known, analyzed, and addressed. All are important questions for the success of the organization.

Step 8: Address Problems through Remedial and Corrective Action

After the internal audit report is published, something must be done to resolve any unsatisfactory conditions. Remedial action is taken on each of the identified nonconforming facts listed on a Finding Sheet. This is the classic rework, reject, repair, and release commonly associated with non-conformance disposition. Remedial action should be quick and easy, as we must save our energy for the more important corrective action.

For the problem identified at the top of the Finding Sheet, the auditee needs to do root cause analysis. Using classic problem-solving tools and six sigma analysis, causes and initiators are listed. Rarely can this be done in less than a day. It generally takes more than one person. After identifying causes and initiators, the auditee then develops an action plan to address those undesirable conditions. Requiring substantial resources, corrections can rarely be completed in less than a month.

Conclusion

This approach to integrated auditing requires considerable study and preparation by the audit team. It requires strong management oversight and acceptance. It requires access to information generally unavailable to the external registration auditor. By showing how the gathered facts support business issues of cost, production, and risk, the internal auditor can add value to the organization.