QUALITY RESOURCE CENTER, INC.

ISO 9001: Value Added Auditing

IN THIS ISSUE

Since the introduction of ISO 9000 in 1987, thousands of people have trained to be Internal Auditors.
At the same time, hundreds of people have trained to be ISO 9000 Certification Auditors.
Companies have played their part in the search for good audits by preparing, or making available, an abundance of "checklists" to insure that the auditors "ask the right questions."
This being the case, one can expect highly valued quality auditing programs.
The high value be the result of these audit programs:

- Being effective and reliable
- Providing conclusions that are relevant
- Giving valid support to management policies and controls
- Providing consistent conclusions from auditors working independently of each other

Reality sometimes fails to match expectations.
☹ Certification auditors have been known to give conflicting interpretations of the Standard ("Is internal communication a process?" has been answered as "yes" and "no", depending on which Certification auditor was asked).
As Certification Auditors are generally looked to for guidance in interpreting the Standard, such conflicts are a little unnerving.
☹ Management sometimes thinks so poorly of internal audit programs that they resist freeing up members of their Departments to conduct scheduled audits.
In these situations, internal auditors can be forgiven for thinking that their auditing duties are of little value.
☹ The infrequent audits the average internal auditor is called upon to do also work against expectations.
If you were once an accomplished guitarist, but now only practice for a few hours twice or three times a year, you probably do not get many invitations to play at concerts.
If you were once a competent internal auditor, but only get to audit a couple of times a year, you too may be in danger of losing some of your auditing skills.
These problems were not helped when the ISO rules changed in December 2000.
Instead of auditing Elements, a task, which lends itself nicely to repetitive Checklists, people were now expected to audit processes.
This was quickly found to be a much more diverse and difficult activity.
In this issue of the Newsletter, we present the case that, in a properly structured organization, auditing processes, even with some of the challenges identified above, can be a value added activity.
This is of critical importance for ISO 9001 Management Systems.
If audits fail to benefit organizations, their status will continue to diminish and more auditees will be inclined to summarize their audits in these immortal words:
"I've had a perfectly wonderful experience. But this wasn't it"
Groucho Marx

VALUE ADDED INTERNAL AUDITS

One of the key resources for the effective management of an organization is the availability of factual, reliable and timely information on the health of the business.
A value added internal audit program can be used to factually and economically discover such information as:

- How efficient are the processes?
- Are there any risks in the way the business is being operated?
- How well are resources being used?
- How effectively are costs controlled?
- How well is the organization really getting along with its key customers?

If the audit schedule offers a balanced and timely review of the key areas of the operation, this audit information can be a meaningful contribution to management's decisions and actions.

It is still, of course, important to address such traditional audit concerns as:
Control of documents
Availability of records
Calibration of equipment.
Checking these items helps the operational needs of the organization and satisfies the requirements of the Standard.
It is, however, sometimes difficult for a "detached" manager to appreciate the value of these audit topics.
The costs of planning, conducting and reporting on audits sometimes trigger these managers to think along the lines of "Alice's Law of Compensatory Economics."
Author and columnist Calvin Trillin once wrote an explanation of his late wife Alice's "law of compensatory economics." It went along these lines:
If you went to the shops to buy a TV set and couldn't find the one you liked, and so decided not to buy a TV, you had saved the $200 or so you were going to spend.
Having made that decision you could now feel free to spend the $200 you had "saved" on something else.
When a "detached" manager reads in an audit report that two calibration devices had stickers that were six months out of date, he/she can be inclined to think, "It cost the company six hours of this person's time to find out that two stickers were out of date. Those six hours could have been spent on something productive that would have helped the company's bottom line."
But, what if the manager was given an audit report that said,
"During the audit it was discovered that two calibration devices might have given unreliable measurements over the past six months.
These measurements were used during the production of three thousand parts, with an average value of $200 each.
Four of our major customers now have parts that might fail catastrophically at any time. Consideration should be given to the recall of these parts."
It is probably fair to conclude that the manager's thoughts would now be focused on correcting the problem and not on compensatory economics.
This is the foundation of value added auditing. The audit report is not written for the certification auditor. The audit report is written to provide management with factual, reliable and timely information on the health of the business.
Internal auditors are not usually expected to provide their reports in the way described above. The reasons are:
. Audit findings are an evaluation of audit evidence against audit criteria.
. "Audit criteria" are the set of requirements for the audit
The key, therefore, is the content of the audit criteria.
Many organizations do not have the chance to develop audit criteria that result in value added findings. The audit criteria that are possible depend on how the Management System is structured and controlled.
"He uses information as a drunken man uses lamp-posts…for support rather than illumination"
Andrew Lang

VALUE ADDED AUDITING IS NOT FOR EVERYONE

Certification Auditors audit to a Standard. Their audit criteria do not, and should not include helping organizations operate more effectively. Their accountability is to determine if an organization is operating according to the requirements of the Standard.
Internal Auditors usually operate as "mini" Certification auditors. The criteria of their audits are typically to determine if an area of the organization is operating to the requirements of the Standard.
Checking that the area is following the "say what you do, do what you say and keep good records" mantra is an actual or implied constraint of many internal auditors' criteria.
Value adding Internal Auditors also check that the organization is following the requirements of the Standard, they just check it differently.
In the real world, an Internal Auditor who works in Production cannot successfully determine the effectiveness of a Sales Department without some help.
Clear and measurable goals provide this help.
If a documented goal for the Sales Department is that it understands customers' requirements and clearly describes those requirements for realization

by the organization, then the Internal Auditor from Production is on firmer ground.
With this guide, he/she can:

- Interview the internal customers of the Sales Department to discover the effectiveness of information provided by Sales to these Departments.
- Examine customer complaints regarding non-fulfillment of the expectations they had when they placed the order.
- Review Return Material Authorizations (RMA) to look for records of products that were returned because they did not meet customer expectations.

However, the effectiveness of the sales information could still be a matter of judgment between the Sales Department and its internal customers. Differences can cause “heated” debates, and the Internal Auditor is in the middle.
There has to be a clear understanding between Sales and their internal customers regarding what is an effective output of the sales processes.
Without this clear understanding, the opinion of one Department about another may continue to be:

“They have delusions of adequacy”
Walter Kerr

SERVICE LEVEL AGREEMENTS (SLA)
Many QRC clients address the need for factual performance evaluations by using Service Level Agreements (SLA).
An SLA is a written “agreement” of services to be provided by an internal supplier to an internal customer.
The agreement specifies the expectations of services that are agreed to be sustainable by both the internal supplier and the internal customer.
In an example of a “first time” SLA, Purchasing, an internal supplier, would agree to purchase product “that conforms to specified purchase requirements”
In the same SLA, the internal customer Departments would agree to “present Purchase Requisitions that are correctly completed and timely”
Now we have the beginnings of an ability to audit performance and not just methods.
Service Level Agreements are best introduced gradually.
For example, a Management Review meeting discovers an area of risk or concern.

✓ The internal customers and suppliers in that area are identified in the Process Map.
✓ They are tasked with establishing an SLA that governs their relationship.
✓ If there is no reliable history upon which to work, goals are established by “negotiation” between the two parties.

The goals are based on the policies and objectives of the organization. The Management Representative is usually a participant in this activity.
As a history of performance is developed, the goals included in the Agreement become more specific and measurable, so that eventually internal customers can say:

“I have the simplest of tastes. I am easily satisfied with the best”
Oscar Wilde

THE SLA AND VALUE ADDED AUDITING
When an SLA is established, the criteria of an audit can be expanded to include an evaluation of performance as well as an evaluation of processes.
The auditor can now establish:

✓ Is the internal supplier following the processes?
✓ Is the internal supplier meeting the obligations agreed in the SLA?
✓ Is the internal customer meeting the obligations agreed in the SLA?

The internal auditor does not need any special knowledge of the area.
The auditor’s skills are the same. The criteria of the audit have changed.
The auditor’s conclusions are based on evidence and facts, as usual.
The audit report, however, is now responding to criteria that include information on the health of the organization as well as conformance to the Standard.
When the SLA is mature, the consequences of not meeting its requirements can be added to the format.
The audit report can then:

✓ List nonconformities
✓ Report performance failures
✓ Identify the potential consequences of these failures.

Management will then be aware of the value added results of their ISO 9001 audits.

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