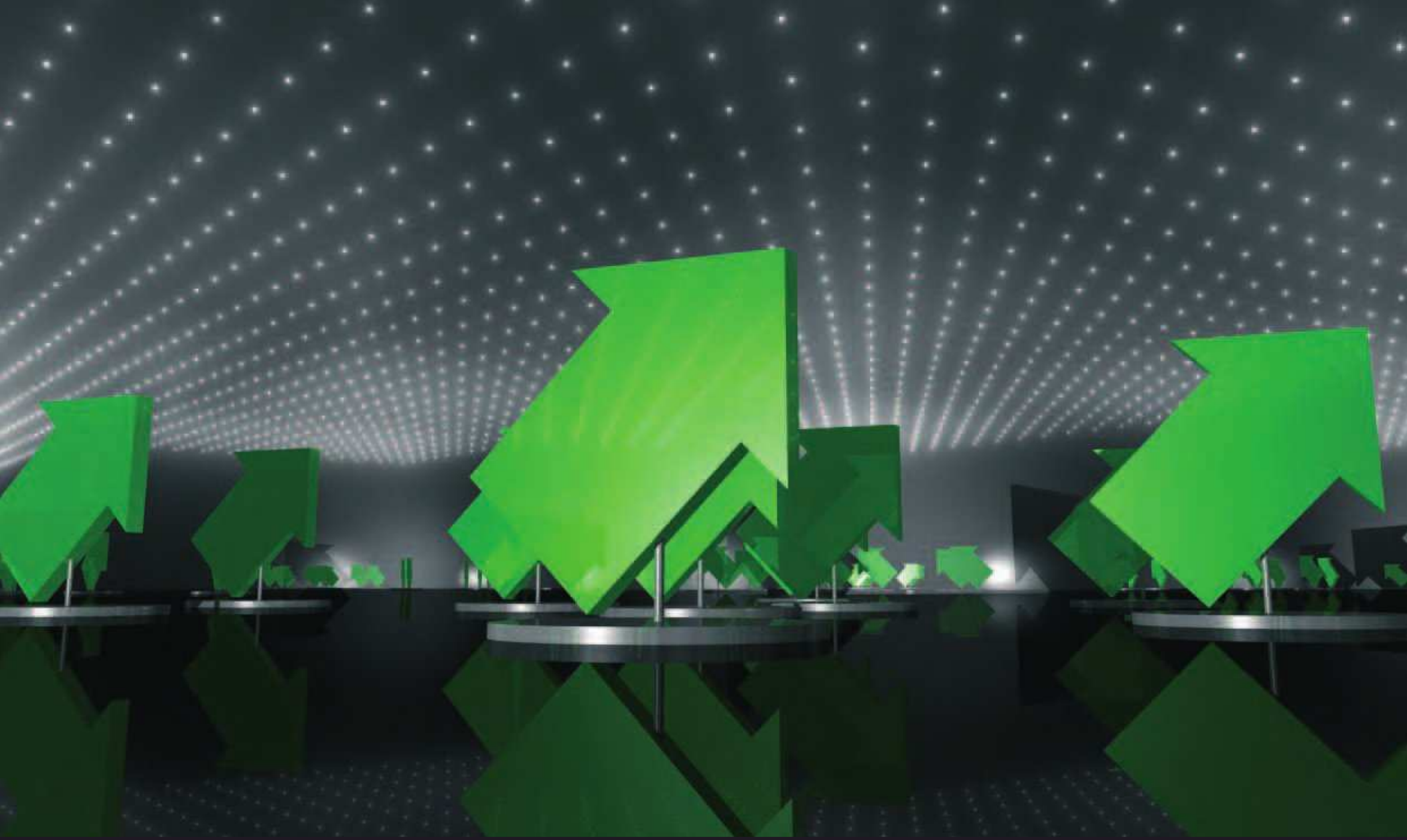


Auditing for the 21st Century

Ian Rosam
Rob Peddle

the hpo

BSi
Business
Information

Auditing for the 21st Century

Other books written by the High Performance Organisation (HPO):

Understanding ISO 9000: 2000 & Process based management systems

Creating a Process-based Management system for ISO 9001:2000 and business improvement

Process Management Auditing for ISO 9001: 2000

CSR: Process based CSR Effective implementation – Framework

CSR: Process based CSR Effective implementation – Guidebook

Auditing for the 21st Century

Ian Rosam and Rob Peddle

the hpo

BSi Business Information

First published in the UK in 2006

by
BSI
389 Chiswick High Road
London W4 4AL

Typeset in Berkeley and Humanist by Monolith – www.monolith.uk.com
Printed in Great Britain by MPG Books, Bodmin, Cornwall

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN 0-580-48146-8

Contents

Introduction

Oh no, not another book on auditing, I hear you cry! That's just what we need – another book explaining how to audit properly, what questions to ask and what should be reported.

This book is different. It is dedicated to challenging the status quo in the auditing world, which has been found to be ineffective and self-serving in a number of areas. Existing auditing practices are stuck in the past, and auditing bodies have created an approach that is costly and inefficient, failing to deliver what organizations really need. Organizations have taken this approach on board as 'the way to do it' and a whole industry of consultants and training organizations has driven this low-value approach as best they can to embed it within those organizations. The time for change has arrived.

Some of the auditing approaches mentioned in this book are not new, but adding them together is, as is exposing the inherent weaknesses built into the existing auditing process. This new synthesis is being proposed as a fundamental shift in the ways audits are carried out. Some auditing bodies will not welcome what is being said, as it will expose the value of the services they offer; for others it will help the change that is underway.

The approaches in this book are the subject of major academic research. If you or your organization would like to be part of this research and help shape the future, then contact The HPO Group at enquiries@the-hpo.com.

We hope you find this book of interest and that it challenges what you understand as an audit. If it does then it will have served its purpose.

Warning

Some of the auditing approaches outlined in this book are subject to patents to protect the intellectual property of The HPO Group. The approaches have been included to provide you, the reader, with a vision for the future and to help you make informed decisions about your approach to auditing. If you wish to use the approaches mentioned and are unsure about the extent of the patents, then please e-mail The HPO Group Ltd at enquiries@the-hpo.com.

1. Fact – the traditional audit process is broken

What is the problem with auditing?

Most audits provide tactical low-level detail, are text-based and difficult to 'digest', cover compliance rather than effectiveness issues, do not compare what is happening against best practice and rarely link to drivers of business performance.

Senior managers work in numbers, values, graphs, money and budgets. They are concerned with the performance of the organization and require strategic management information that reflects their need to drive effectiveness and manage risk. Benchmarks and maturity values are needed to help with this decision making and to drive improvement – not just compliance. What managers need is high-level and strategic – yet often auditing is low-level and low-value. There is a mismatch.

To understand this mismatch and the reasons for it, we need to consider the auditing process and how it currently operates. The intention here is not to apportion blame, but to establish why the auditing process has consistently failed to deliver what is required.

Traditionally, auditing has focused mainly on compliance. The recent emergence of such schemes as 'added value auditing' and 'benchmarking auditing' seeks to move beyond compliance and measure effectiveness, but using the same, tried and tested auditing techniques, which limits and constrains the thinking. The result is a default back to compliance, or maybe better compliance auditing, without changing the auditing dynamic or approach needed to assess effectiveness. The recent evolution of process auditing and process management auditing as a result of changes to ISO 9001:2000 just confuses the issue.

Why traditional auditing doesn't work

Traditional auditing approaches consist of a number of key stages, all of which have their weaknesses that, when added together, reduce the value of auditing. These stages are shown in Figure 1.1.

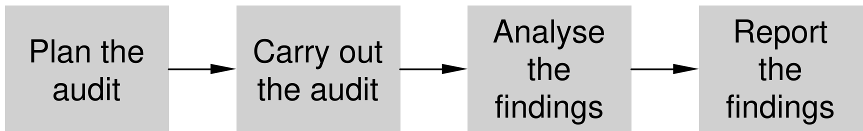


Figure 1.1

Of course, there are many elements that support these basic steps. But to understand the inbuilt weaknesses in the auditing process, we need to consider this auditing process and critically analyse them. To do so, let's assume that we are auditing a business process, perhaps for ISO 9001:2000, or for corporate social responsibility or business sustainability.

Figure 1.2 shows a process made up of a number of steps. If we were to audit this process for compliance, then we would test the individual activities that make up this process and report on whether or not they are being carried out. In some cases these reports talk about improvements and gather data from other people about the activities under consideration, perhaps outside the process. However, they are still compliance audits, no matter what the proponents of the techniques profess is happening. This includes the vast majority of the 'new' approaches being professed by various bodies as the way forward, often referred to as process auditing, added-value auditing or benchmarking. The reasons for this are clear in that they mainly use the same flawed auditing techniques, and until the techniques are changed they will be unable to move on and provide the level of value now being demanded by organizations from their auditing investment.

At this point if you are interested in compliance auditing, or whatever name you might give it, then stop reading this book now. Put it down and do something else. If you want to assess the effectiveness of something, then read on. You may not necessarily like the answers or the comments but they are relevant and critically real. That is not to say compliance auditing is dead – far from it. But on its own it is not what is needed. The longer it purports to provide 'added value' the more effectively will it be sidelined by business managers as 'yesterday's technique' carried out by 'yesterday's people'.

Figure 1.2

As we move through this book we will explore each step in the auditing process, as outlined in Figure 1.1, and others issues including:

- auditing without auditors;
- not asking any questions;
- using a range of techniques to generate information;
- analysing data and report figures, numbers and business risks;
- auditing consistently to provide benchmarking data;
- auditing the 'real world' and not the 'paper world'.

Stage 1. Planning the audit

To understand why the auditing process fails we need to consider the existing auditing approach in more detail. Typically, the first thing that auditors need to do is plan the audit. This normally consists of deciding who will be audited, why, and what information is needed. Perhaps a checklist is created to keep the audit on track.

Why are we auditing?

However, let's consider why we are doing the audit in the first place. If we don't understand this, then how do we know to whom we should be speaking? Too often an audit is carried out because it happens to be scheduled, and little time is given to exploring why it is to be carried out and what is to be achieved.

What are we auditing against?

The audit needs to be focused on reporting findings against the objectives of the organization and/or the objectives or purpose of the process. Remember we are not just auditing compliance, we are assessing effectiveness. In compliance auditing the auditor can report against the requirement, but what do they report against when there is no specific requirement stated in the same way? So, there is a need to report against some form of performance driver, indicator or objective to make the assessment meaningful, otherwise it reverts back to compliance against the detailed activities.

Too often audits are a reflection of the past, whereas in the 'real world' what management and businesses really need is something that will help them to manage the future and the risks they face. Managers want to focus their attention on what will drive the business forward, what is important to them, what they are rewarded for – performance, which leads us back to reporting against objectives and drivers of performance.

What's the scope of the audit?

The next problem with planning is the scope of the activity itself. At first, this appears straightforward: it is the people directly involved in the activity. However, if we take our simple process shown in Figure 1.2, we realize that the process has inputs and outputs. Who supplies these inputs, and who are the customers or end-users of this process that receive the outputs? These interested groups have valuable information about the performance of this process, so they should be included. Our planning now includes people who may not even be employed by the organization, so we can add these to our model of who needs to be involved in the audit, helping us determine the true scope, as shown in Figure 1.3.

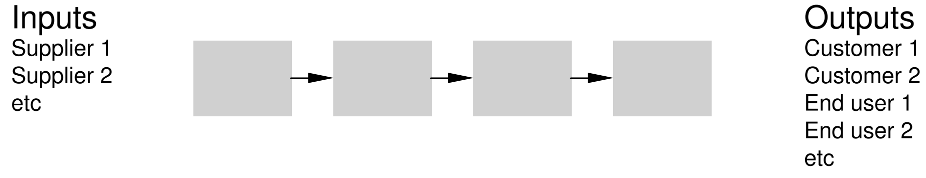


Figure 1.3

However, this is not the complete picture. The process will inevitably use resources, and will be subject to constraints such as budgets and other controls, and enablers such as information, knowledge and competence. These can be added to our model, as shown in Figure 1.4. Who do we need to speak to, to gather information about them? Who are the real 'Stakeholders' in this process?

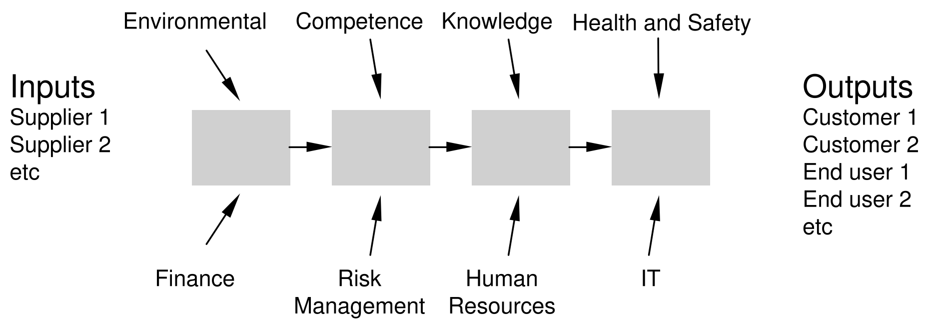


Figure 1.4

So now, to help us audit for effectiveness our audit scope has been extended further. The next stage is to think about the management of the process.

What about management of the process?

Typically the performance of every process should be measured against its objective, the aim being to help identify key business processes that are underperforming and need improvement. A process should be managed by a process owner or 'champion', that is, someone who can lead the process, advocate and support improvements, and approve changes to a process that will improve its overall performance, but how often is this truly the case? Our scope should be increased again to include those people who manage and subsequently are involved in improving that process, as shown in Figure 1.5.

But that is still not all. To this scope we need to add the 'softer' management and 'people' issues and any effects a process might have, such as:

- teamwork;
- leadership;
- the wider community, both within the organization and externally;

- regulators;
- other stakeholders who have an interest in this process.

Therefore, the audit scope may well be the process defined by the management system, but the people who need to be involved in the audit in order to obtain a true picture of its effectiveness could be external to the process or even the organization.

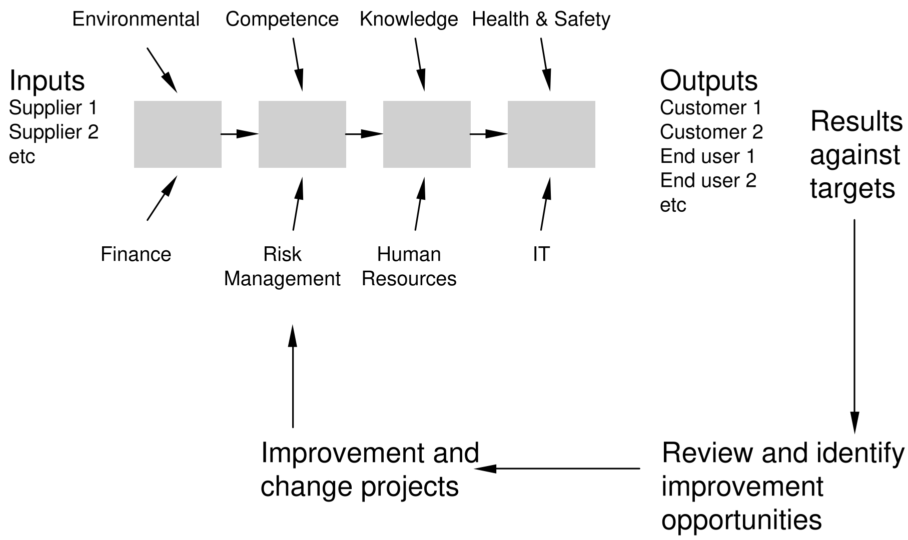


Figure 1.5

And what about the auditors?

This leads onto the next issue that needs to be considered carefully: how do you consistently audit a process that covers more than one location, culture or set of functions?

Often this will involve more than one auditor, and because auditors are human, this will inevitably build variation into the audit no matter how well briefed they are beforehand. Remember, we are not talking about compliance auditing, which is straightforward: we are considering auditing effectiveness, which requires an understanding of all the issues shown in Figure 1.5, added together to identify the level of maturity of the process – that is, how effective it is in meeting its objectives.

An additional factor affecting auditors is their competence: not the competence to audit, but the competence to understand the different dynamics and effects of various management disciplines on the scope of the audit. To audit a relatively simple business process such as that shown in Figure 1.5 requires auditors to:

- have a detailed understanding of all these disciplines (and many more that have not been shown);
- understand each of these in the context of the process being audited;
- appreciate the impact of softer issues such leadership, teamwork and organizational politics on the process;
- relate the evidence, gathered from Figure 1.5 and the softer issues, back to the things that drive effectiveness.

Not much, really! We can probably say with some confidence that this list is beyond the scope of a normal auditor. But perhaps a team of specialist auditors would address these issues? Well, no they would not, as they will always see the issues from the perspective of their own specialism and the result tends to be a 'dumbing down' of the results. What makes this issue even more problematical is that when, or if, the information could be gathered in a systematic and structured manner, it then needs to be analysed to identify where the risks are and how effective the process actually is. The variables are simply too many, unless of course the super auditor really does exist?

What about the cost?

Part of audit planning is about determining who should be seen, when and where. Working to the scope outlined in Figure 1.5, the amount of auditing time using face-to-face auditing techniques would increase considerably, along with the associated costs. At the time of writing this book, organizations within the UK are preparing for new regulations to assess the risk of process failure, in addition to other requirements for their corporate reports. Preparation alone can be estimated as costing many billions of pounds, including the associated auditing costs. This has been primarily compliance focused, not really addressing the issue of overall business effectiveness. What would the cost have been if this was also being achieved, even though this is really what business managers want and need?

The question that has to be asked is whether organizations, auditors and auditees have the time to audit their organizations to the depth of understanding required to properly assess the effectiveness of that organization. Clearly, throwing resources at the problem will meet compliance requirements (categorized by records, IT, etc.) but perhaps it will not meet effectiveness issues? Many of the things that affect these are not documented in any form, but are more likely to be much better indicators of performance. This is the dilemma facing every organization.

Planning – summary

In summary there are a number of weaknesses in the way audits are currently carried out.

- Audit findings tend to be reported against a stated requirement, which is compliance, rather than objectives and performance drivers, which are more meaningful.
- Audits are constrained by the time available to auditors and auditees.
- Insufficient people are seen by the auditor to adequately assess the softer management and cultural issues such as leadership and teamwork.
- The scope is often too narrow to get a true picture of what is happening.
- Audits are often purely internally focused, overlooking external factors and players, and don't involve the appropriate people.
- Audits often provide a picture of what has happened in the past, rather than a method of comparison, benchmarking or monitoring overall improvement to help manage the future.
- Auditors are put in a 'no win' situation by being expected to understand all management disciplines in great detail and then asked to relate these to the scope of the assessment, be that a process, system or any other subject.

Stage 2. Carrying out the audit

With the audit planned and arrangements made, the next step is to carry out the audit itself. We'll assume that everyone is still available when the auditor is ready to carry out the audit, even though we know that the 'real world' often gets in the way! There are, however, a number of other issues that have an even greater effect on the audit.

Asking the right people the right questions

The first concern is whether the auditor will ask the right question in such a way that the auditee will fully understand it and its relevance to what they do. This particularly applies to aspects of the audit that do not relate specifically to the activity the auditee does, which, as we have already seen, is often needed to review effectiveness.

Let's take the case of an audit of the human resource process, and of an auditee, John, who works in procurement. The auditor, Mary, wants to talk to John about competences and what he knows about how they are measured and improved through a structured training and development programme based on meeting the business or quality objectives. Mary naturally asks about skills and knowledge, perhaps mentioning the word 'competence', but John hasn't got a clue about HR because he doesn't work there – he's in procurement. This gets worse when Mary asks about how these link to John's objectives. Of course, John hasn't got objectives; he has standards of work and targets. So, there is more confusion because John doesn't understand the word 'objective', and so it goes on.

The situation gets worse when Mary, our auditor, wants to test out the same issue in the marketing department. A similar routine as before is followed, probably using the same set of pre-determined questions for the audit, and questioning begins. But this is the marketing department, not procurement or HR, and these people have different experiences of the same thing. The auditor now has three lots of information, from three different sources, about how well something has been implemented in three different areas of the business – on just one subject. Remember, in auditing for effectiveness, the auditor is not testing whether or not objectives or competences exist, but how effectively they have been implemented. This is not a case of 'good or bad' or 'yes or no', but the level of maturity the organization is displaying in managing this part of its business. Is it really possible for an auditor to retain all these variables over the course of an audit and then provide some form of measure of effectiveness? These problems are compounded exponentially the more people you involve in the audit, yet to get a good picture of these types of 'soft' issues, the sample size needs to be relatively high.

This is a common problem, and is one of the reasons why auditors often default back to compliance. There have been many books, training courses and checklists written about the questions to ask, what sort of questions, and how many, but the fact is that a range of different auditees may:

- hear the same question differently and relate it differently to their work;
- answer differently because some will say what they think the auditor wants to hear;
- answer differently because they have a different perspective on what takes place;
- not understand the technical nature of the question, particularly if it is not job-specific.

Asking too much of the auditor

If the first issue is about the auditee, even if it is the auditor asking the questions, the next problem is with the auditor's ability to understand the answer in the context of the audit and then capture and store that piece of information in such a way that it can be retrieved for use and comparison in another part of the audit. Remember Figure 1.5: there is a lot to ask about and many issues to cover to really understand how effective the process is. Can we realistically expect an auditor to understand the implications of different answers to the same question, and then ask additional questions to clarify points, writing this down or recording it in some form for later use when preparing the report? Saying to auditors, 'Well, all you need to do to audit effectively is to ask the following questions…' is all very well, but although this may be appropriate for assessing compliance, the dynamic for assessing effectiveness is a completely different matter. It simply doesn't work in the same way.

Confidentiality

We then come to confidentiality, the old problem of how auditees know whether or not the auditor can be trusted with 'real' information and that this will not be used in some form against them at a later date. If they are concerned with this then it is likely that they will not tell the whole story, or in some cases avoid telling the truth. When it comes to assessing effectiveness neither the auditor nor the auditee may necessarily have documentary evidence to fall back on, so gaining the trust of auditees is critical – but how many people really trust an auditor, or the use the findings might be put to? What makes matters worse is that many audit books and training courses require auditors to state where they found the information in the report. This gives auditors a real problem: how do they do this without breaching confidentiality? If they breach confidentiality then word will get around and the auditees will not be as cooperative the next time – it is simply not safe to do so. If they don't breach confidentiality then the value of the findings is reduced.

The size of the sample of evidence

Far from being a new issue for effectiveness auditing, this is already a real problem for compliance auditing, which most people tend to ignore. Evidence is gathered by a number of methods, and for the auditor to be confident that their findings are representative, they need to have seen a reasonable sample of what is happening in reality. Yes, if there is a problem indicated by a specific piece of evidence, then this can be mentioned, but it may be the only instance. Likewise, if a piece of evidence shows all is well, how representative is this in reality? Add to this the different ways in which the different auditees will describe evidence, and joining them together to provide a view may be difficult for the auditor to achieve. Even if they can do this, then how large a sample size is truly needed for the level of confidence to be achieved? And how much higher does this need to be to have confidence about the range of softer issues that drive effectiveness?

The truth is that the level of participation needed by the range of people within the real scope needs to be much higher than it has been in the past if we are to audit effectiveness. Working from unrepresentative samples of evidence, as has been generally the norm in compliance auditing of the past, will not be acceptable.

Carrying out the audit – summary

In summary, there are a number of weaknesses in carrying out the audit.

- Time is a problem in getting the depth of information needed to assess effectiveness.
- Auditees do not have the time to spend with an auditor.
- Different people experience the same thing from different perspectives. Auditors have to understand these differences, their impact and what they mean in terms of effectiveness.
- Audits are not really confidential.
- Some auditees will tell the auditor what they think they want to hear.
- Documented evidence is not always available, making questioning and the answers provided more critical.
- The sample of evidence is too small to have confidence in the findings.
- The auditor is unlikely to have the mental capacity of a computer to store, analyse and retrieve the information from different sources with which to make a sensible and consistent interpretation of the results. Greater inconsistency can come from different assessors looking at the same thing or evidence.

Stage 3. Analysing the findings

With the audit carried out, the next main stage is to analyse the findings and create a meaningful report. If we were compliance auditing, then analysing the findings would be straightforward, i.e. the activity is being carried out, it is not being carried out, or it is being carried out inconsistently. With this established, the report then details any non-conformance and where it was found.

However, we are not assessing compliance, we are assessing the effectiveness of something, and effectiveness is not black or white but is more a continuum between the extremes, a level of maturity, of degree of risk, as shown in Figure 1.6.

Often something is not totally right but not totally wrong either, so the auditor needs to identify the extent to which it is right or wrong consistently and then put some form of measure on it that management will understand. This is, of course, further complicated when more than one auditor analyses the same information; will they both come to the same conclusion? Probably not, and forming a consensus has its drawbacks as well, such as:

- ensuring that the people involved:
  - have the required all-round skills, knowledge and experience at an appropriate level;
  - will be able to interact with each other and appreciate and understand the impact of their specialist subject both on the assessment scope and each other's specialism;
  - work as a team and are able to manage group dynamics to produce an accurate and consistent report;
- being able to turn the analysed information into data and risks that management can understand and use to drive the organization;
- the ability for different teams to analyse the same data to produce consistent results;
- the ability to analyse different data from different assessments, and identify meaningful and credible trends.

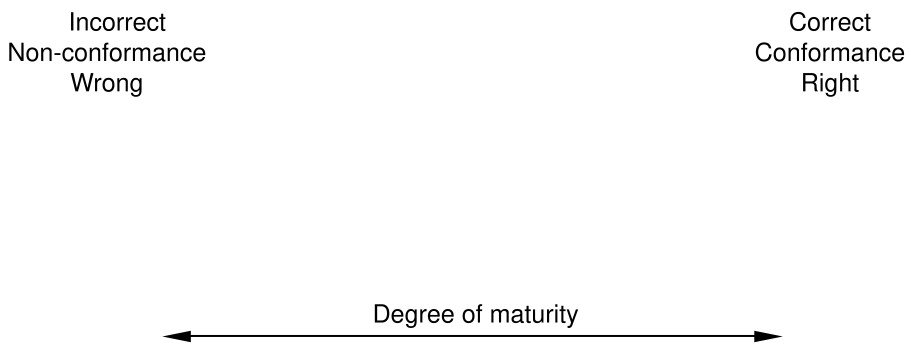


Figure 1.6

In addition, something could be better than all right or OK, or simply conforming. That is, something may conform but it may be being carried out in such a way that it is better than OK – it could be best in class or show an area where the risk of failure is low (see Figure 1.7). How does the auditor recognize this level of performance or effectiveness that is well beyond pure compliance? Clearly these are areas of strength and need to be recognized as such, but what value can be attached to them? How do they compare with others and with 'best in class'? We need to expand the degree of maturity beyond compliance to provide higher level risk information that management can actually use to drive performance.

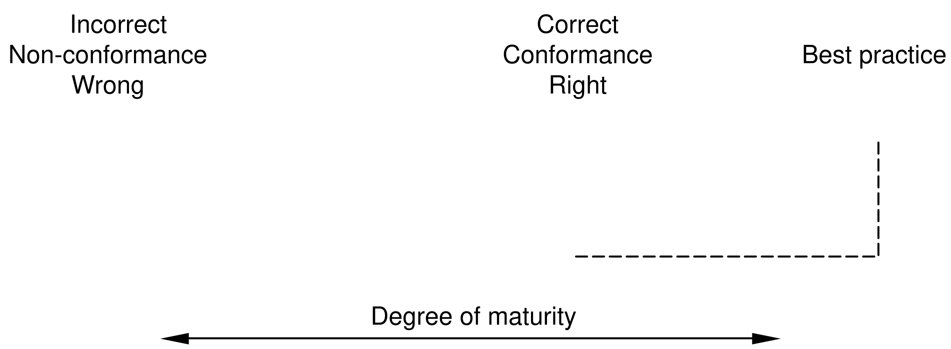


Figure 1.7

The range of information and sources

This complicated analysis needs to be carried out consistently and where appropriate across one or more auditors. This is further complicated by the range of information, which links together in some form, gathered from different sources when the audit was carried out. The example below will explain this further.

Example

If management want to know how effective the organization's supplier management is in supporting the business, then we need to define what this means for the business itself. Let's say this means:

- suppliers are managed and controlled;
- suppliers deliver what is required;
- meaningful relationships with suppliers are managed.

If this is what management want to know about, because the effectiveness in each of these areas will have an effect on overall business performance, we need to gather different evidence from different people who have experiences of these areas. This enables us to gather sufficient information which, when added together, will demonstrate the appropriate degree of effectiveness or maturity against these performance drivers or objectives, i.e. what management are really interested in.

So, let's assume that the following people were involved, as they all have some experience or connection with supplier management:

- supplier 1;
- supplier 2;
- customer 1;
- end user 1;
- procurement manager;
- procurement administration;
- order clerks;
- production manager;
- production planning;
- operators.

Because each individual or group involved will see the same issue from a different perspective, each will need to be asked similar – but not necessarily the same – questions. The complexity of the different answers with their associated differing levels of maturity or risk therefore build into an increasingly complicated model, shown in Figure 1.8.

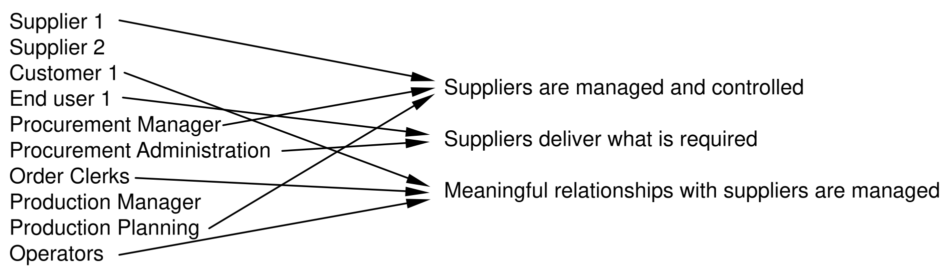


Figure 1.8

Using the information

This complexity needs to be understood and used by the auditor to produce findings that relate to what is being asked in the first place. The amount of information needed makes this dynamic extremely difficult to manage and use, and auditors often default back to compliance because they have no real alternative.

Another useful point to make here is that in compliance auditing the question is asked and response listened to. The result is that the reply either indicates compliance or it doesn't. With an assessment of effectiveness, the issue is this: what does the reply actually mean in the context of what needs to be established? If conformance to a clause of a standard is being pursued, then there is often a one-to-one relationship with the question being asked, e.g. “Do you evaluate your suppliers?”. The main difference with assessing effectiveness is how the answer to this question relates to what we are really trying to find out, i.e. “How effectively are suppliers being managed?”.

Analysing the findings – summary

To summarize, the following weaknesses may prevail at this stage of the auditing process.

- How are findings that are not non-conformances measured when there is no right or wrong? How is the level of risk measured?
- How does the auditor deal with findings that are beyond compliance in terms of maturity and risk avoidance?
- How does the auditor balance and work with information coming from a variety of sources with different levels of maturity, and distil this into a single finding?
- How can analysis be consistently carried out, when different auditors look at the same information?

Stage 4. Reporting the findings

With the analysis complete, the last stage in this simple auditing process is to produce the report and gain management ‘buy in’ to the findings. Traditionally, the findings have been presented as text, recording non-conformances and where they can be located. This works well for non-conformances because these are normally either right or wrong. With the assessment of effectiveness, where findings are not right or wrong, how does the auditor record them? How ‘right’ is ‘right’ in terms of effectiveness?

One way is to place some form of value or measurement on the findings to indicate a ranking, level of compliance, or area of risk. But if we have not addressed the problems with planning an audit, carrying it out and then analysing the information, what worth does this final measurement have? There are many examples of good graphs, charts and other information displays, but if the preceding steps have flaws then the final results will be misleading at best and of little use at worst. They may well be diagrams to impress rather than to help!

Managers often receive text-based audit reports, but there is much evidence to suggest that information can be more meaningfully conveyed by using graphs and charts. This of course presupposes that the individual audit activities that have led up to this point are robust and have operated effectively. (If they haven't, then whatever method is used to display the information will be irrelevant, as the findings by definition will be flawed.) Graphs and charts are particularly relevant where areas of effectiveness and high risk are being considered across different departments, functions or locations, or where benchmarking is required to help identify areas for improvement. Few audit reports are able to achieve this, given the constraints of the other parts of the auditing process. But such information is what managers need to help identify where valuable improvement resource can be targeted for maximum effect.

The other main problem with reports is that they tend to convey tactical information, which is often of low value in a whole-organization sense, and focuses on compliance – that is, things that do or do not happen. This focus on tactical rather than strategic information means that if managers act on the information in the reports, the actions are likely to lead to a tactical change rather than strategic improvement. While this may have worked for measuring compliance to ISO 9001:1994 and to check people are doing what they should be doing, it will not work for the latest management systems standards and where managers are looking for information that will help them to:

- manage future business risks overall;
- identify where improvements need to be made that best meet the business objectives;
- provide demonstrable evidence of the risk management needed to manage corporate social responsibility, business sustainability and corporate governance issues such as SOX and Basle II.

Reporting the findings – summary

To summarize, some of the problems associated with reporting are as follows:

- The bottom line: reports will have little value if there are inherent weaknesses in the previous steps of the auditing process. All other comments about reports are subservient to this main point, as it doesn't matter how good the report looks if the basis on which it has been produced is flawed.

- Text-based results often do not provide the level of information required to help managers identify their business risks, drive improvement and change. Text-based reports are often one-dimensional.
- Reports often do not address or comment on areas that are important to management teams and the needs of their stakeholders.

What are the implications of this?

To appreciate the implications of all this we need to go back to our simple audit process in Figure 1.1. As we have seen, there are some inherent weaknesses built into the auditing process using current methods, and we must therefore assume that if each stage of an audit is not 100 per cent effective then neither can the auditing process overall be 100 per cent effective.

From process thinking we understand that if departments, functions or locations operate independently and do not consider themselves to be part of a wider process, then the process itself will not perform as it should. This is often called 'silo' thinking (see Figure 1.9). An organization that is focused on its cross-functional processes will understand that process performance is optimized by all these functions working together.

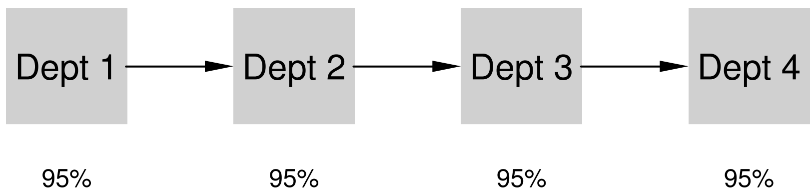


Figure 1.9

In Figure 1.9, each of the four departments is shown as performing to 95 per cent of its potential, which, in terms of their individual performance, may well seem satisfactory. However, when the 'handoffs' between the departments are understood and we see the true result of their collective efforts – that is, what customers and other stakeholders see as a result of the whole process – the performance is quite different. In Figure 1.10, if department 1 is only 95 per cent effective then when department 2 receives the product or service, it is already 5 per cent wrong. Unless department 2 puts the errors right, which is a waste of resource, and it in turn is only 95 per cent effective, then the result is 95 per cent of 95 per cent, that is, 90 per cent in terms of the two activities added together. This logic goes on throughout the process until the true level of its overall effectiveness is identified.

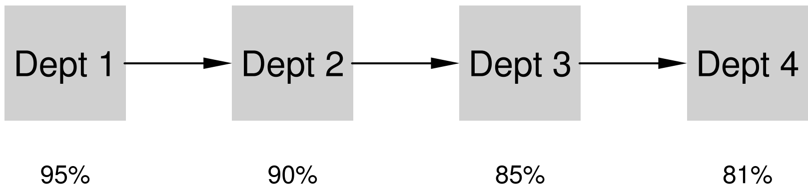


Figure 1.10

We can use the same example for the auditing process we have been discussing. The inherent weaknesses will have an effect on the performance of the auditing process as a whole. As we have seen from the analysis, the weaknesses are pronounced when it comes to assessing effectiveness, and we can safely say that each stage is only 80 per cent effective. We could argue the exact number at this point, but it is the overall principle that counts, that is, the effect of the failures accumulating across the overall process. Figure 1.11 shows the performance of each stage on this basis, while Figure 1.12 shows the result of all these potential weaknesses on the quality and appropriateness of the final report.

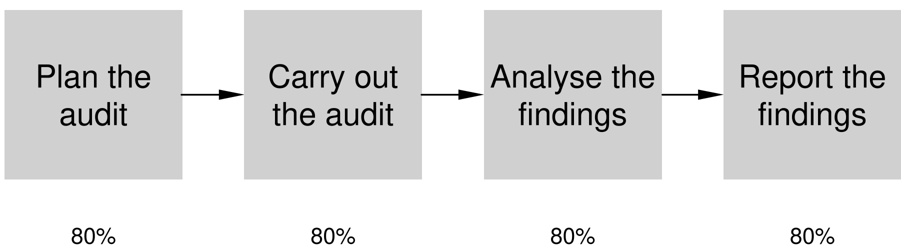


Figure 1.11

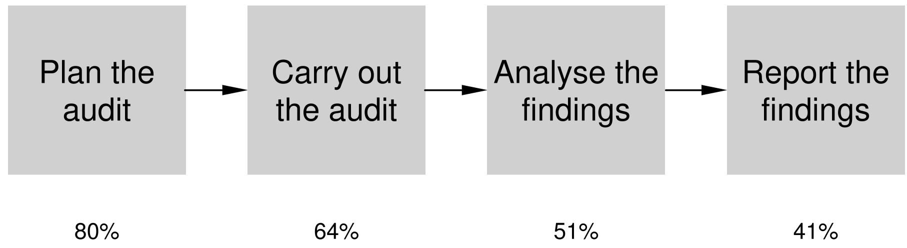


Figure 1.12

The overall effectiveness of our simple auditing process with all the inbuilt weaknesses in our example is just 41 per cent – a far cry from what people would like to achieve or need.

Of course, these issues are not just associated with a simple process. The same applies to auditing a management system against any of the known standards, models or frameworks, competence assessments, customer and staff satisfaction, supplier and supply chain management… the list goes on. If this is the impact on a system, what is the impact on auditing a system – for ISO 9001:2000 for example? The larger the ineffectiveness of each step, the greater the overall effect on the outcomes.

So far we have looked at one business process, but this will be only one of a number of business processes that make up a management system. There is only one management system in any organization (individual systems such as health and safety and environment systems do not operate on their own, as the individual elements that make up these are naturally part of the whole business management system). These lower level frameworks are important, but the whole organization management system is critical, as this is what should and will be assessed by regulators, investors and shareholders.

When looking at the management system as a whole, the problems shown earlier are magnified. As an example, consider an auditor assessing an organization against the requirements of a far-reaching standard such as ISO 9001:2000 or Sarbanes Oxley, and we mean auditing its effectiveness and not just compliance to its specific elements. Auditors need to understand:

- business process management and all the sub-frameworks that make up such a management system;

- all the management disciplines that such frameworks require, such as human resource management, supply chain management, asset management, business improvement methodologies, information technology, strategic planning, sales and marketing, finance, and of course the main purpose or deliverable of the organization;
- the 'softer' management issues such as culture, leadership, teamwork and organizational politics;
- how the business environment affects the organization along with the different and sometimes conflicting needs of stakeholders.

Given this list, which is by no means comprehensive, and the constraints placed upon the different elements of the auditing process, it is perhaps not surprising that it is not delivering what is really required, is costly to industry and needs enhancement, improvement and change. This has been recognized by many, but few are actually addressing the root causes to make a difference.

So what is the auditing industry doing about these inherent weaknesses? Some are moving on, but others are wedded to the old ways. Let's take the certification industry as a good example. This is regulated by a document called Guide 62, which outlines how much auditing time is needed given the size of the organization. In the industry this is often taken to mean the number of auditing person-days. Notice the word 'person' in this last sentence and its absence in the previous one. This has driven the myth that to carry out audits effectively you need to apply a person-day business model to the auditing approach and, surprise, this is exactly what has been happening. Concentrating on the time needed may bring bigger profits for the registration industry, but will do very little for the value of the reports produced because the underlying auditing methodology is flawed. Interestingly, this has had the opposite effect on registration bodies who try to apply this! Their type of registration has become a commodity, with their customers often buying from the one with the cheapest day-rate, driving down competence levels with those auditors who can see the bigger picture being priced out of the market.

Of equal importance in driving the person-day business model into industry is that industry has assumed, apart from a few organizations that refuse to play this game, that this is the correct and largely only way to audit effectively, either internally or by third-party. This is not the case, and there are a host of other auditing methods that can and perhaps should be used to increase the value of the investment that industry has made. These will be explored in later chapters.

We have seen many examples of where the amount of resource needed to carry out audits has increased. The introduction of ISO 9001:2000 and the new requirements of Sarbanes Oxley in the US and corporate reporting on business sustainability in the UK are good examples. At the time of writing, the supply of suitably qualified graduates in the UK to undertake such work has been exhausted, so there are justifiable concerns about the value of the reports being prepared.

For many people this chapter and the issues raised will come as no surprise: they are not new and have been inherent problems for many years. The question is: why has change been so slow?

So what do we do – give up?

Not at all: auditing has a fundamental role to play in any organization when carried out correctly and where it is seen to be supporting the business in improving overall performance. The problem is that to change something you have to first acknowledge a problem exists, and too many people within the Auditing industry have an interest in maintaining the status quo. However, when a major player admits there is a problem and understands why this is the case, and then follows this up with action, there is no doubt that auditing itself will change. The mainstream auditing organization that makes the first move will be the one that organizations who truly want to improve will want to work with. This organization will understand the real reasons for the change, they will have done something about it and will have led the way.

More training for auditors will not work on its own, nor will increasing the length of audits, so in the following chapters we discuss what options we have, how this change could be brought about and what this really means for auditors and organizations who use their services.

2. Auditing against standards has to change

For many private and public sector organizations, understanding the individual risks their particular organization faces is a key part in planning what they will do in the future and what objectives they will set. Senior managers are expected to provide leadership to their teams, giving direction and a sense of purpose. They are expected to predict the future, setting strategies and plans that will move the organization forward and/or meet the prioritized stakeholder requirements.

Yet often, assessments against standards are retrospective: the events have already happened and the audits either confirm that they have taken place as planned or they have not – that is, compliance auditing. As we have seen, the nature of compliance auditing and the way it is traditionally carried out are ill-suited to providing an analysis of the past and translating this into information that managers can use to plan for the future. A range of 'added value' assessment services are seeking to resolve this issue but, as far as we are able to ascertain, they are still using the same audit techniques of the past. The result is that both standards and their processes are still being assessed for compliance rather than effectiveness. This 'lack of value' is caused by the failings of the audit process, which is still using compliance techniques rather than the effectiveness techniques that are needed. Perhaps this is not surprising, as the bodies that regulate registration bodies are themselves testing for compliance rather than effectiveness and they are in turn being audited for compliance. So the pressure from the top of the registration industry is one of compliance, whereas the pressure from those being assessed is for a real-world balance between effective performance and compliance. Senior managers are dealing with effectiveness and results, and are often presented with tactical compliance issues that do not represent or address the risks of something going wrong – the language is different and there is therefore a gap, a lack of connection between auditing and business needs.

Furthermore, the lack of consistency between auditors and especially third-party auditors and registration bodies further reduces the impact and value of their registrations. Organizations, particularly those adopting best practice, know that there are businesses registered to ISO 9001:2000 that have adopted very different approaches. In their eyes they have not applied the standard correctly, yet are still registered or afforded the same level of recognition. Even the performance and the results achieved by those organizations that just achieve ISO 9001:2000 registration is suspect, so the value of the registration itself is questioned. This is further evident from the number of customer audits an organization may be subject to, whereas the main purpose of third-party registration is to reduce that need. If the third-party audit was credible, then the number of customer audits would be significantly reduced.

The registration industry and therefore the auditing world is governed and driven by a 'person-day business model' that drives their quest for more person-days and more customers to drive their business growth rather than the quest for increased value. Many registration bodies, and auditing organizations generally, seem to base their activity on the number of days to carry out the task; the more complicated or time-consuming the task, the more days that can be justified and therefore the increased costs. Just imagine an auditing regime that required no auditors and therefore no person-days to be paid for. Yes, this may sound far-fetched, but there are already organizations that have reduced the number of bought-in person-days, preferring to use other methods to collect and analyse the data needed to help them drive their business performance.

It seems that there is reluctance for most auditing bodies to reduce the number of person-days and use other methods. Perhaps this is because they do not understand or are not aware of what these methods are, or what problems are inherent in the existing auditing techniques. The result is, however, the same: default back to compliance in some form and a lack of focus on effectiveness.

For registration bodies this focus on person-days comes from *Guide 62*, as mentioned in the previous chapter. *Guide 62* sets out the rules and criteria applying to a registration body's auditing activity. Part of *Guide 62* requires that audits cover a certain number of person-days. The assumption made is that these person-days are made up of face-to-face auditing activity, but they don't have to be. There is nothing in the *Guide* that says audits have to be face-to-face, it is an assumption made by those who see it as the easiest way to assess and therefore derive a business model that is simple to understand. The result of this, however, is to drive the wrong behaviour: why can't the audit be carried out by e-mail, survey or more intelligent inbuilt assessment activity that does not need an auditor? The audit days guideline is based on the amount of time the organization should submit itself to audit – but the *Guide* has been taken to mean the number of days a registration body should have its auditor carrying out their audit. This has been the case for the past couple of decades, but the advent of technology-based assessment platforms and the increasing realization that compliance is not everything is driving change. The question is, how long will registration bodies hang on to these person-day business models that are already becoming discredited?

ISO 9001:2000

Let's consider some implications associated with ISO 9001:2000.

Auditors are not business managers

Rarely do auditors have the opportunity to manage organizations at a senior level; equally, it is rare for senior managers to become auditors. Consequently, auditors lack the experience, for example, to understand what processes typically would be concerned with ensuring an organization is customer-focused and how this information is translated into business plans and strategies. This manifests itself by auditors focusing on, for example, the tactical acceptance of taking orders and agreeing what should be delivered rather than the strategic intent of customer focus to drive business planning.

This results in auditors not fully appreciating the linkages and interplays between all the different business facets and disciplines needed to drive effectiveness, and so not being able to produce reports that identify improvements and risk areas required at board level. So they often default back to compliance, even though ISO 9001:2000 auditing requires auditors to engage with senior management and to audit for effectiveness.

Auditors audit for compliance

Given the constraints of the auditing process outlined in this book, inevitably auditors focus on what they have to do rather than perhaps what they should be doing. The auditing industry seems to define what is needed for its own convenience without reference to what organizations actually need, so it is not surprising that auditors follow this lead rather then their business leaders' requirements, which are much more difficult for them to achieve. They therefore make a straight comparison between the standard and what they often see documented as evidence. Evidence does not have to be documented, and factors that affect organizational performance such as culture, teamwork, organizational politics and leadership rarely are documented, but the constraints of current thinking and practice mean that these critical items cannot be fully explored and linked to the performance in other areas to gather a high level understanding of what is happening. The auditors default back to compliance, not necessarily because they want to, but because the auditing environment and techniques used mean they have to. Some registration bodies mistakenly believe that feeding information into a spreadsheet or some mechanism will turn compliance data into effectiveness data, but the information is being collected using old compliance-based techniques so is likely to be weak and of little value. Of course, auditors do need to test some critical areas of compliance, but there are many examples where compliance is being tested for compliance's sake – it doesn't mean that business risks are being managed.

The main purpose of auditing against the requirements of ISO 9001:2000 is to ensure the organization's activities comply with the standard. The registration body is audited by its regulator, which also tests for compliance, and the regulator in turn is audited for compliance to a defined standard. Until the regulators change their own auditing approach, what and who is going to be the driver for change? In any market where there is a gap between what is being delivered and what is required, new players enter the market or old players get smart, see the opportunity and change the way products and services are delivered. This will undoubtedly happen in the auditing industry.

Auditors are not business process management system experts

Business process management, systems thinking and the whole organization management system, including softer issues such as leadership, brand image, reputation, culture, are the subject of much academic research. To understand the subject in any depth requires acceptance that being a specialist in one particular area will often reduce one's appreciation of how a whole organizational management system operates at a strategic level – the subject specialist view often clouds the strategic view, where it needs to work alongside other specialisms practiced by other experts. Few business managers, and even fewer auditors will have undergone strategic management training and/or received training in business planning and stakeholder engagement to understand why the process approach is critical to business performance – yet this is central to ISO 9001:2000 and its ever-growing list of related standards and frameworks that organizations are often required to adopt.

In the change over from ISO 9000:1994 to ISO 9001:2000, there were many training courses about conversion. But even now there are major registration bodies running training courses that take their auditors and their clients through the clauses of the standard, rather than imparting knowledge about business process management and systems thinking first and then relating the outcome of applying that knowledge to the standard. This approach may have worked for the old standard with its defined set of compliance requirements, but the 2000 version is concerned with the application of a management model, a set of principles that need to be understood, interpreted and applied to an organization and then assessed against the standard. Focusing on compliance with the requirements of the standard first and foremost often sends people away thinking, 'How do I do it?'

This lack of understanding of business process management means that the auditors cannot challenge the organization's management on the application and importance of process thinking at a strategic level. The result is once again a default back to compliance with little appreciation of effectiveness of implementation. Our recent experience highlights this, where we have found some registration bodies insisting that the six procedures required by the standard are elevated to the same level of importance as the management system itself, implying that they are more important than other procedures, processes, business results and even, in one case we have recently seen, more important than an activity that prevents fatalities. Of course it does make the procedures easier to audit, particularly if they are called what the standard calls them rather than being described in the normal business language of the organization!

This leads onto the next point about ISO 9001:2000 and the definitions of what the various aspects are called. By way of example, the standard requires that organizations have a preventive action procedure. It does not say that this procedure has to be called 'preventive action'. It doesn't even say it has to be called a procedure. Organizations call activities associated with managing their risks many different things, based on their field of expertise and the business need. 'Preventive action' and 'risk management' are the same subject, just with different labels, yet it is surprising how many auditors insist on there being a preventive action procedure that can somehow be applied every time a risk is managed. The standard does not say there is only one such procedure, or that it is only applied in certain instances, or it has to be called 'preventive action', the term being a generic title for the subject.

The same applies to other aspects, such as:

- corrective action;
- management review (no one says there is only one, what the frequency should be or even what it is called);
- audits (why can't they be 'reviews', 'discussions' or 'checks'?)

Audit reports are text-based

Registration body reports are mainly text-based and focus on compliance, although some will cover areas of strength and improvement where these have been identified. Often there is little real information for senior management to work with. Usually they explain what has been audited, who was involved, a general summary, clauses addressed and any non-conformances. There are rarely graphs, benchmarks or risks-based information presented in a format that management can use to drive the organization forward. Sometimes an organization has been audited many times, both internally and externally by customers, and non-conformance issues may well have already been mostly driven out and tested. It seems pointless for a registration body to then come along to test the same issues, resulting in the organization questioning the value of the expense and, not getting what it needs; the organization having moved on to other approaches and hoping that performance rather than compliance will be tested and the results presented accordingly. Just take the time to ask your senior management what they actually need and compare this to what they currently get. The results may well surprise you if you haven't done this before.

Auditors use person-days

Person-days are the key criteria for defining how much auditing time is needed, with adjustments being based on certain circumstances. This has been interpreted by the industry as the number of days an auditor should be auditing and not the number of days the organization should be subject to audit. The two are not necessarily the same thing. Using auditing approaches other than face-to-face audits allows the registration body to gather information on the organization that can easily be included as part of the registration process, but in the body's interpretation of the Guide this wouldn't count as auditing. Perhaps that is why few registration bodies use a mix of techniques, with most focusing on the face-to-face activity. The use of person-days can drive the wrong behaviour – 'we've got to do the person-days needed because it says so'.

Auditors are not multi-disciplinary

Auditors, like other professionals, tend to focus their technical expertise in one or maybe two areas. Often they, like their professional colleagues, will be qualified in that area and have worked within that environment for many years. They are unlikely to have a detailed understanding of all management disciplines required for ISO 9001:2000, let alone running a business. These areas include procurement, stakeholder engagement, business planning, marketing, sales, asset and facilities management, IT and human resources. How can we realistically expect auditors to be experts in all these areas? Of course they cannot be – with the inevitable result being a default back to compliance auditing, especially in the areas in which they are not confident.

Auditors are picked for their technical competence, not their management competence

The auditing standard ISO 19011 requires auditors to be technically competent in the industry in which they operate. Consequently, auditors are selected based on their detailed knowledge of the industry. However, ISO 9001:2000 is about effective business management, not the technical knowledge of the particular industry. The auditor's aim is not to test their knowledge of the industry, but to test the effectiveness of the processes that ensure the organization knows what it should be doing and keeps itself up to date. It does pose the question of how many auditors auditing ISO 9001:2000 are qualified in an appropriate management discipline with the ability to test management's effectiveness to manage.

Summary

This book is concerned with the relative strengths and weaknesses of the auditing process and of course there are exceptions to every rule. However, as we will show, there are too many inherent weaknesses in the auditing process to make the auditing of standards robust, consistent and safe. Standards quite rightly offer considerable value in helping organizations to focus on what is important to them, their customers and other stakeholders, and describe best practice in the given area. However, increasingly management system standards are following a defined strategy, which require them to be interpreted by an organization in context, and recognize that compliance is simply not enough. Even other compliance-based standards such as Sarbanes Oxley (SOX) in the US are falling into this same trap, which results in documents, screens and automated workflows being implemented and checked at huge expense to industry, driving compliance into the business in the mistaken belief that this will meet SOX and other corporate reporting requirements. This activity will do little to test effectiveness and manage business risk, which is what SOX is really about, only allowing auditors to sign off bits of paper and directors to look as though they are discharging their (basic) responsibility.

Does there need to be a change in the way standards are assessed? If they are to support industry rather than be a constraint or overhead, the answer has to be yes.

3. Why do we bother to audit at all?

A very good question, and one that many managers and investors in auditing services and resources have asked themselves over the years. The real question, of course, is what value does auditing, whether it is third-party or internal, add to the performance of the business? In terms of compliance, it checks that people are doing what they say they are doing, or at least that is what the many books and training courses would have us believe and, to a degree, this is the case. This checking is achieved by collecting documented objective evidence to confirm that a particular activity is actually taking place. In the beginning, or when organizations are immature, this may be the most relevant form of auditing, but once a level of maturity has been reached and everyone is generally conforming, what happens then? Where does the organization go?

There often seems to be a continuation of the same old compliance auditing, repeating what has gone on in the past, and checking to make sure that people continue to do what they should, even though the management system, people's competence and knowledge of what they need to do and compliance is high. This would appear to apply to internal auditing as well as third-party assessments. For example, third-party auditing programmes often seem to repeat the same activities over and over again, which can cause frustration in organizations that expect more for their money, especially once the compliance issues have been driven out. Continually going over old ground leads to auditees and auditors alike getting bored, and management receiving reduced levels of information to work with, and questioning the value of the activity.

Some organizations change the standard, model or framework they are using as the base information from which to work, in an attempt to introduce new ideas and ways of working. Although many of these are perfectly valid, the assessment against the framework, standard or model often uses the same compliance-based approach. Some will use more sophisticated assessment approaches, such as consensus-reaching or paper-based submissions that can then be assessed against the framework, but they often default back to compliance rather than consistently measure effectiveness, which is usually their true intent. In turn, management get bored with this 'search' and realize that no one model will fix all organizational ills and that most models simply describe good management practice – the question is how to best assess this management good practice.

Accepting that compliance auditing checks that 'we are doing what we are supposed to be doing', what we need to understand is, what else are we auditing for and why are we doing it? This understanding needs to be reached before we even start to consider our audit plans or the assumption is that we are auditing compliance. It is still amazing how often audits are planned without really asking, let alone answering, this basic question.

This understanding is based upon the objectives or purpose of the subject of the audit. Some examples follow.

- If the scope is the assessment of an individual's competence, the assessor shouldn't ask people who interacted with the person being assessed about that competence: they should look for information, activity, experiences and workplace deliverables which, when added together, measure how well that competence has been met.
- If the scope is an internal business process, this could be the objectives of the business, the purpose of the process, management best practice in the chosen area or, most likely, a combination of all three.
- If the scope is the assessment of a business management system to ISO 9001:2000, this could be the eight quality principles, or business sustainability issues, but it is unlikely to be the clauses of the standard – that is, compliance.
- If the scope of the audit is to assess customer satisfaction, then this could be those aspects of management and the organizational activities that would demonstrate that customer relationships are being managed and optimized to the benefit of the organization. They are issues that the organization would wish to know about, but even today, very many are unlikely to directly ask the customer. And for some issues, how would the customer know how to comment on some of the internal activities of the organization? Often organizations carry out customer surveys in an attempt to gain feedback, but this tends to be a one-dimensional activity, and rarely addresses the question that management really wants the answer to: are customer relationships being managed and optimized to the benefit of the organization and, critically, to what degree?

- If the scope of the audit is a whole supply chain, then management would want to find out about the strengths and weaknesses of that chain against a set of indicators that are relevant to the performance of the whole chain, such as whether the supply chain performance is optimized, or members of the supply chain act ethically. Again these are areas that an auditor would not ask direct questions about, but there should be a vast amount of information that could be obtained and analysed that would provide answers to these questions. Just think what the reply would be if suppliers were asked ‘Do you act ethically?’ Would the replies they get really help the organization manage the risks inherent in a global supply chain?

We could list many more examples where the assessment or survey is superficial, tactical and not strategic, and not answering the real questions that organizations need answered. If you purchased this book to look specifically at the auditing of processes or management systems against ISO 9001:2000 or another management standard, you may be surprised to hear that auditing or assessment generally has the same problems, whatever the subject. In other words, it is a structural problem within the assessment and auditing world. This global auditing world needs to urgently wake up to the fact that it needs to reduce the impact of the inherent failings of the auditing process, as defined in Chapter 1, and provide answers to the difficult questions that drive change and improvement?

ISO 9001:2000 has been included here because the same issues apply to auditing against standards carried out by third parties as they do to internal audits. Are audits carried out to check compliance or to assess the effectiveness of the implementation of the standard and its principles? This is critical, as many ISO 9001:2000 practitioners understand that the quality and appropriateness of different implementations of business process management (the management technique needed to apply ISO 9001:2000) vary considerably, yet they are all still registered. While we could discuss the quality of the compliance auditing to the standard to check that it has been applied in some form, the fact that an organization complies should not stop the registration body assessing the effectiveness of that implementation and reporting accordingly. Indeed, ISO 9001:2000 requires auditing for both compliance and effectiveness, so this should not be taken as read? Perhaps the increasing number of people who are becoming sceptical about registration to standards will be able to distinguish between those organizations that have implemented the standard based on good practice and are clearly managing their business using the principles, from those that have just done something to pass an audit. Perhaps this is why they feel the need to carry out their own supplier audits in such depth?

When starting to audit and having defined the scope, you need to identify precisely why the audit is taking place based on the information at the beginning of this chapter. What do management want information on? What do we manage that, if effective, would result in the performance of the subject defined in the scope of the audit being optimized? In this book, we call these 'performance drivers'. There is no one answer and different organizations will have different requirements based on their objectives and stakeholder needs, but listed below are some real examples of business drivers, which will help our understanding and hopefully make this concept more real.

Business management system

- A customer and stakeholder focused organization.
- Clear leadership is provided.
- People are fully involved and contribute.
- Adopts a process approach.
- Uses a system approach to management.
- Continual improvement is embedded.
- Uses facts for decision making.
- Creates mutually beneficial supplier relationships where needed.
- Product and service life cycle is managed.
- Process management takes place.
- The business management system covers the whole organization.

An internal IT management process

- Close alignment exists between IT and the business needs.
- Security is an integral part of the IT system(s).
- Suppliers of IT services and products deliver what is required.
- IT is designed to support business processes.
- Policies are in place for all IT resources and their complete life cycles.
- IT service performance targets are set and reviewed with the business.
- Improvement activity takes place.
- IT projects are business-driven and project performance is known.
- IT system availability and performance meet the business need.

An internal business improvement process

- Improvements undertaken contribute to business performance.
- Process activities take place.

- Process and improvement projects are managed and controlled against targets.
- Appropriate people are involved in improvement activity.
- Improvement activity is prioritized against business needs.
- Improvements are embedded into the business.
- The process is managed and controlled.

Customer satisfaction assessment

- The organization is attentive to customer needs.
- The organization looks forward for future developments.
- The organization moves fast to keep up with customer demands.
- The organization provides a 'personal' service aimed at satisfying customers.
- Customers come back to repeat buy.
- The organization's performance is better than other suppliers.
- The organization understands its customer needs.
- Customers find it easy to deal with the organization.
- Customers understand the organization and what it can supply.

Staff satisfaction assessment

- The organization acts ethically.
- Communication across the organization is effective.
- Decision making is effective.
- People's performance is managed and promoted to deliver the organization's objectives.
- People's financial and non-financial rewards recognize what they do.
- Career development takes place and is equitable.
- The organization's culture is focused on satisfying stakeholder needs.
- People have a supportive relationship with their line manager.
- The organization works in an open and supportive cultural environment.

Corporate social responsibility/business sustainability assessment

- Stakeholder needs drive organizational activity.
- Business plans balance long-term and short-term stakeholder needs.
- The organization is managed through a single all-encompassing management system.
- Key cross-functional business processes are managed and controlled.
- Management competency is appropriate for good governance and corporate social responsibility.

- Stakeholders have a clear understanding of both operational approach and performance.
- Organizational improvements effectively increase stakeholder satisfaction.
- People within the organization know how well its stakeholders are satisfied.
- The organization applies appropriate legal and statutory standards, frameworks and controls.
- Critical resources are identified and optimized.

IT service management assessment

- Service management is focused on delivering the customers' needs.
- Security is an integral part of the IT system(s).
- IT is designed to support business processes.
- Required policies and procedures are in place.
- IT service performance targets are set and reviewed with the business.
- Improvement activity takes place.
- IT projects are business-driven and project performance is known.
- IT systems availability meets the business need.
- IT support services and processes are effective and efficient.
- Users of IT systems understand how to operate them.
- Required processes are managed and understood.
- People are competent to deliver the service.
- Resources and information needed to deliver the service are managed.
- Processes are delivered within an overall management system.
- Performance is measured.

As has already been said, but needs repeating often, it is critical in assessing effectiveness to understand that auditors should never ask any questions directly about the performance driver. As soon they do, they are defaulting back to compliance.

The other way of looking at performance drivers is to describe them as the key risk areas for the part of the organization covered by the scope. If they are not being effectively managed, there is a risk to the overall performance – and the amount to which they are not being managed gives an indication of that level of risk.

So the real point of auditing is to report against those performance drivers that are important to the management and performance of the organization and the objectives it is seeking to achieve. The list above is therefore only indicative. Remember at this stage we have not asked any questions, prepared checklists or even thought about who should be involved in the audit – we have just thought about what we should be reporting against, that is, why are we auditing. Example reports in Chapter 8 show real examples of how performance drivers are used to identify business risks and therefore potential improvement opportunities.

These drivers of performance must be agreed with the management team to confirm that the audit will address the areas that concern them. Identifying performance drivers needs to be undertaken by experts in the chosen field, not an expert in auditing. For instance, if we are auditing a process that is all about business planning, someone who really knows what makes a difference to the effectiveness of this process is needed to define them – the auditor is highly unlikely to have the experience in this field to do so. Successfully identifying business drivers requires a broad appreciation and understanding of how the subject fits into and affects the wider operation of the business and, indeed, the business environment in which the subject sits.

This thinking goes against the current approach defined in auditing standards such as ISO 19011, which maintains that to audit something you need to be a specialist in it. However, when auditing effectiveness, being a specialist can be positively dangerous. The specialist must have a wide appreciation not only of their own specialism, but also of the wider environment in which that specialism sits. For example, if you were a human resources expert, knowing all about HR law would not be sufficient to assess an HR process. Rather, you would need to understand at a high level how HR interacts with:

- understanding stakeholder needs;
- business planning;
- new product development;
- marketing and selling;
- change and improvement;
- asset management;
- IT, etc.

Few auditors operate at this level and this is a far cry from auditing compliance, but there are those who currently can and do audit strategically. These individuals have a vast range of experience often derived from running their own businesses or having been successful in senior management positions, which allows them to appreciate the interaction of these different facets on business performance. It is unlikely that people can be trained to this degree of understanding, but the approach to identifying and creating the appropriate performance drivers can be. It may also mean that some auditors will be unsuited to this new world of moving beyond compliance auditing.

For practising auditors this could be either good or bad news. Those that embrace the change and understand why it is needed will welcome the advancement and see great opportunities to further their careers. Others will fear it as the comfort of traditional auditing is slowly stripped away and will no doubt fight the inevitable evolution of auditing.

Summary

To summarize this chapter, we need to go back to our audit process in Figure 1.1 and update it with the knowledge we have gained from this chapter. We need to add a new critical activity in the whole auditing process that is so often missing – define business drivers, as shown in Figure 3.1.

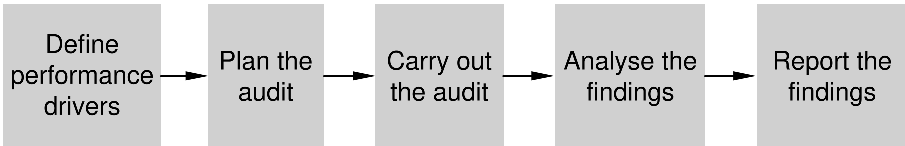


Figure 3.1

4. Involving the right people to make the audit valid

Having identified why an audit needs to be carried out, the next step is the planning, which is an area that is all too often relegated to a minor step in the process, whereas in reality it is as important as all of the others. When an audit is planned to assess the effectiveness of something, we need to take into account and resolve the inherent weaknesses of this step identified in Chapter 1. This starts with identifying the right people to be involved.

To identify these people correctly, we need to reconsider the information we used in Figure 1.5.

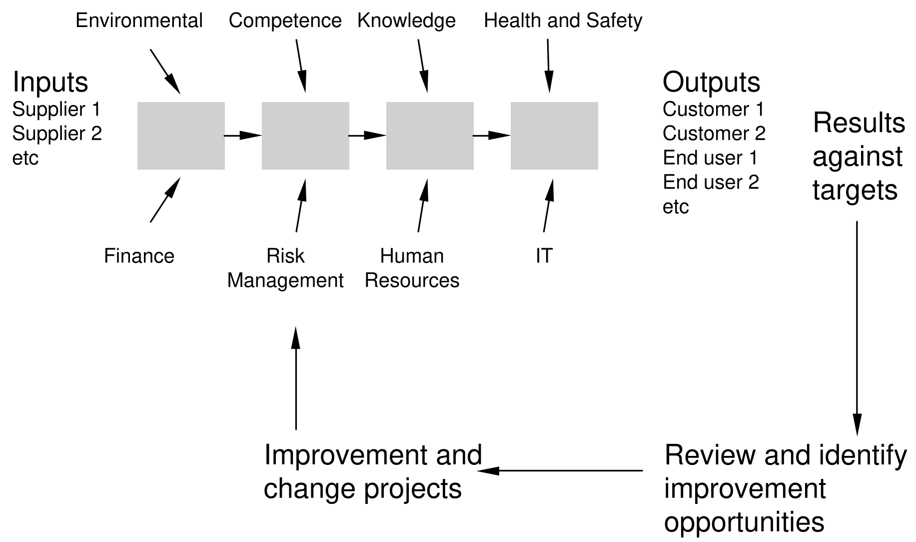


Figure 4.1

We used this figure to show that when we assess effectiveness, information needs to be gathered from the range of people who:

- affect or constrain the process or scope;
- supply things to the process or scope;
- receive something from the process or scope;
- manage and improve the process or scope;
- carry out activities within the process or scope.

Each of these groups will have a different experience of the scope and its effectiveness, see the subject from different perspectives and have their own views on its performance as it relates to them. These groups or individuals need to be identified and the audit planned in such a way that it can gather evidence and information from them all (as all will have a valid view), which can subsequently be analysed and findings produced. This is not a complicated task, but does require some thought.

For example, below are lists of people who could be involved in particular types of audit.

ISO 9001:2000 management system audit

The following people could be involved in this type of audit:

- customers;
- suppliers;
- end users of the products or services (which may not be direct customers);
- some regulators;
- directors;
- managers;
- supervisors;
- staff;
- local community members;
- trades unions;
- investors.

These groups could then be sub-divided, depending on the size of the organization and/or the level and type of benchmarking data required, to identify the levels of risk for each group associated with the drivers of performance, or clauses of the standard. This should be done based on the needs of the organization and the need for a credible and usable output from the assessment itself, i.e. based on the objectives of the assessment.

On most occasions a registration body would restrict involvement to internal people, asking them questions about the effectiveness of, and compliance to, the organization's management system. Very rarely would this type of assessment involve customers, end users or suppliers, etc. although these are the very people who would best know how well an organization is performing in delivering customer satisfaction, which is the whole point of a management system that meets the requirements of this particular standard. This lack of involvement is often due to traditional face-to-face auditing methods being used, and the 'person-day' business models that registration bodies currently employ. Expanding the assessment to those who should be involved would increase the number of days needed using traditional methods and therefore the overall cost to their clients. This may be something that some registration bodies want to do, but will clients pay more for what is, in effect, the same service delivered in the same way? Or should the registration body use this dynamic to offer complementary services? However, assessing the effectiveness of an organization's management system and their compliance to it should involve those who are affected by and contribute to that system in some way as much as those working within the system itself.

An internal IT management process

The following people could be involved in this type of audit:

- IT staff members;
- management users of IT;
- staff users of IT;
- IT department managers;
- Suppliers of IT products and services.

These groups cover people in the IT function and its supply base, together with those who use IT. Each group then needs to be further sub-divided so that specific evidence can be obtained from each group about IT and what they experience. For staff members not involved in the IT department this will include the usability and appropriateness of the IT to help them do their work. As for their managers, they are concerned with the level of IT support to meet their business objectives. From a different perspective, IT managers and staff have an understanding of how the IT infrastructure is designed and delivered, which will be a different viewpoint.

An internal business improvement process

The following people could be involved in this type of audit:

- people who will use the improvements made;
- people involved in improvement activity;
- people who lead improvement projects;
- people who provide advice and guidance to the project;
- customers of what is being improved;
- suppliers to what is being improved;
- those who are responsible for overall improvement in the organization.

These groups include people who manage and deliver improvements and changes into the business, and those that have to implement such changes in their everyday work. Dividing up and defining the scope into these different groups not only allows the collection of the widest possible range of evidence, but also allows comparisons and risks to be identified between the groups. It has been known for improvements to be made that have resulted in little worthwhile change materializing – that is, there is a low level of process effectiveness even though all of the improvement activity has been carried out in compliance with the procedures.

Customer satisfaction assessment

The following people could be involved in this type of audit:

- those who accept the delivery of a product or service from the organization;
- those who order products and services from the organization;
- those negotiating prices with the organization;
- those who use products and services that have been supplied;
- those delivering products or services to the customer;
- those who manage the delivery of products and services;
- those creating the product or service.

Typically, an assessment of customer satisfaction would concentrate on external customers, but those creating and delivering the services will also have their views. There could be significant risk if the difference in understanding between these groups is high, as well as for any low scores attributed to one or more performance drivers of customer satisfaction. This is a good example to demonstrate that the subject can be assessed from many directions and then the results analysed and reported against the drivers determined earlier. Remember, by assessing effectiveness we are in reality trying to provide a risk profile that will allow the organization to understand and manage individual risks or drivers of performance with the aim of increasing overall effectiveness and consistent delivery.

Staff satisfaction assessment

The following people could be involved in this type of audit:

- members of senior management;
- those delivering products and services;
- anyone interacting with the organization;
- those who support the delivery of products and services;
- leaders or managers of teams or departments;
- those providing guidance or advice;
- people who have worked for the organization for less than three months.

Notice that once again this list includes people external to the organization, even though this is a staff satisfaction assessment. On this occasion they are included because the managers and staff in the organization often project their satisfaction levels onto customers, that is, customers may get a feeling for how satisfied staff are and that will affect the performance of the business. Also note that by looking at people new to the organization, we may get another perspective. The effectiveness of, for example, the current induction process may affect future satisfaction levels.

Corporate social responsibility/business sustainability assessment

The following people could be involved in this type of audit:

- corporate affairs department;
- shareholders;
- managers;
- main board;
- staff;
- customers;
- supply chain members;
- investors;
- regulators;
- external accountant;
- institutional shareholders;
- stockbrokers.

Each group of people will have experiences that relate to the subject. They see and experience the subject from different viewpoints and with very different expectations. The skill of the auditor is to seek out this information from such disparate groups, many of which will be from a very different background and knowledge set than themselves. Having obtained adequate levels of evidence from these groups, the challenge is then to analyse this information and report maturity against the performance drivers and possibly also the sections of one or more framework or standard the organization is trying to apply.

Dividing up scopes in such a way allows risks between the different groups to be identified and benchmarked. If the audit plan created to assess a particular scope is saved, then the same assessment can be run again at some future date to identify and report on performance trends over time.

Groups can be further sub-divided to help identify risks and different levels of performance, for example:

- staff members can be sub-divided by branch, department or location name;
- managers can be sub-divided by department, role or seniority;
- customers could be split by product type, geographic location or level of custom.

In planning an assessment these considerations are critical if the audit is to ensure that the appropriate people are seen, and that when the findings are analysed the information is relevant and organized in such a way that managers can use it to identify potential improvement opportunities and manage risks. By planning the assessment in this way, the information and evidence gathered can be used to maximize its value to the organization, rather than providing the relatively low value reports typically provided today. It will provide the basis of focused improvement activity aimed at improving effectiveness and efficiency whilst reducing overall business risk – just what managers need to run their organizations in the way demanded by legislation and stakeholders alike.

5. Don't ask questions, look for behaviours

With the audit planned, the next stage is to engage the people identified on the plan and gather information from them that can be subsequently analysed to produce the results managers require. At this stage most auditing books and training courses would start to discuss different questioning techniques, which are the most appropriate, what questions to ask and so on.

As this an auditing book concerned with assessing effectiveness, we are going to assume that auditors are able to ask questions and not try to reiterate what other books have already done. Indeed we may need to challenge the use of questions on any topic, as there are now examples of audits where questions are not asked at all, but more of this later. What we are concerned with initially is why we should need to ask the questions (or should we say gather evidence?) in the first place.

When we audit for compliance we ask typical questions to establish whether or not planned activity is taking place. As far as compliance auditing is concerned, how effective or appropriate this is, is often not as significant as the focus on doing the task. When we move beyond compliance we are asking questions or gathering evidence to help establish some level of performance based on individual or organizational behaviour, that is, what behaviour is being demonstrated that links to the effectiveness of the subject being discussed. For example, 'Is a particular form used?' may be a compliance question put to the person who completes the form. 'How accurately is the form completed?' or 'How useful is the information contained in the form?' may be questions to the person who receives or works with the content of the form. The second and third questions seek information about effectiveness. If the people responding to the second question can show the auditor the form, this confirms the compliance element, but we are interested in the accuracy of the form and what they do with the information, that is how effective the form is when it is used in progressing the activity. Indeed, often compliance can be a by-product of gathering effectiveness evidence, rather than needing its own set of questions or other evidence gathering technique!

This is a simple example, but if you asked 10 people about the usefulness of the form, you may get 10 different answers, especially if these ten people use the form for different purposes. Remember, in assessing the form we might be asking the people who complete and receive the form and the people who supply the information, use the information it captures, check the information, or work with the analysis of the information being supplied. Just completing the form with information that can be read does not make the form effective. We are interested in what people do – how they and the organization behave with the form, its information and its use – not just in the fact that it exists. This is the basis of effectiveness assessment, and as we have seen, requires much more in-depth capture of evidence for a wider population than has been involved in the past.

Understanding the organization's and people's behaviour is key to understanding what is actually happening, i.e. what people are doing in the real world that cannot be written down in a process or procedure document, which can only be a 'sanitized' version of the real world. It is clear that people behave in different ways at different times according to their personal maturity, experience, confidence and the environment in which they work. Therefore, a form used in one place is potentially going to be used differently in another – the challenge for the auditor is to identify where this is the case, that is, areas of potential high risk or improvement opportunity.

Although potentially time consuming, this is reasonably straightforward when we are looking at a form, but how about such things as the softer management issues like communication, leadership, understanding of a subject and teamwork? In these areas there is no objective evidence in the traditional sense: there is nothing to see, touch or feel. The behaviours demonstrated by management in leading teams and whole organizations can vary considerably depending on the leadership style and the culture and maturity of the organization. It is also of very limited value asking managers about their leadership style. Although this will elicit certain information, the people who are being led will have more information about the effectiveness of the leadership style and the impact on the organization, so the auditor would be wise to include these people in any audit concerned with this – which is probably most of them. The real power of auditing leadership effectiveness in this multi-dimensional way is to compare the results between different sources of information, as this will expose the level of risk to the organization, in this case of adopting a particular leadership style. A large difference between the two indicates that the management behaviour may not be having the desired effect on those that report to them and hence on organizational performance.

Some assessments take this much further by having experts in their chosen field define the organizational and people behaviours that would typically be demonstrated, and using these in the assessment. These definitions are focused on the different people or groups taking part in the assessment and they may be different for each group. As we have discussed, this is needed as people see and experience the same thing from different perspectives. These behaviours can be identified in the planning stage before the audit takes place, so that the auditor can determine who will be spoken to and about what and in what way. For those who have received traditional audit training, this would be the modern equivalent of an auditor's checklist, although for effectiveness assessment it would need to be three-dimensional when the different groups are added, because the auditor might need to ask one or more groups about one or more behaviours based on the individual group's perspective on the subject. Traditionally the question-answer relationship has been one-to-one when compliance auditing, as in Figure 5.1.

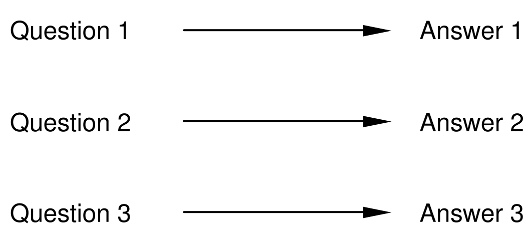


Figure 5.1

Some auditors have realized that there is more to auditing than this simple relationship. More than one question has to be asked to generate the behavioural information needed to get to the real answer about what is happening within the organization, and questions could be put to different people. Figure 5.2 shows this changing relationship, with questions being replaced by checking on organizational or individual behaviours. It is not the question that matters, but the behavioural information that the question elicits, and asking different groups for different behavioural information about the same subject will generate the single answer needed.

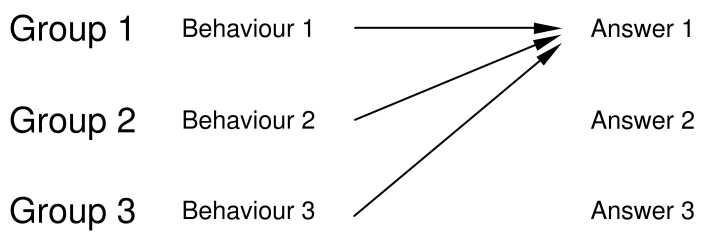


Figure 5.2

The problem is further complicated by needing to seek behavioural evidence from more than one group, where each of the groups will often have different experiences. In order to build a complete picture and then answer the question will often increase the length and cost of the assessment. Adding time and cost to assessments is perceived as the negative aspect of this approach, but nonetheless auditors are right to pursue it, as it provides a much greater depth of understanding of what is really happening and, hence, is of more value to the organization. As well as taking more time, the amount of information gathered for future analysis has at least tripled with this approach.

In Figure 5.2 there are three behaviours gained from three groups about one subject, but one behaviour may relate to and have implications for more than one subject. For example, when auditing ISO 9001:2000 there is a clause about business objectives. Asking about objective setting will have a strong relationship with the particular clause that explains the need to have objectives. The existence of objectives also has an impact on other parts of the standard, for example the need for human and other resources and infrastructure (asset) requirements, and new product and service developments and organization changes. This relationship or influence between one behaviour and, in this case, many clauses varies and needs to be understood in the planning stage of the audit. The model in Figure 5.2 is in reality much more complicated, especially when more groups are added, as shown in Figure 5.3.

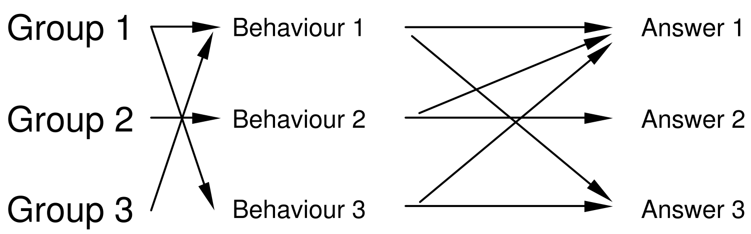


Figure 5.3

But even this is not the end of the story. Organizations and people display many behaviours as they carry out their activities, all varying depending on the people concerned, and whether they are inside or outside the scope of activity. The final picture could therefore be even more complicated, as shown in Figure 5.4, where many behaviours are asked all linking in some form to the same number of performance drivers or issues. The problem for auditing in the way it is currently applied is where to stop on this ever-increasing level of complexity, time and analysis.

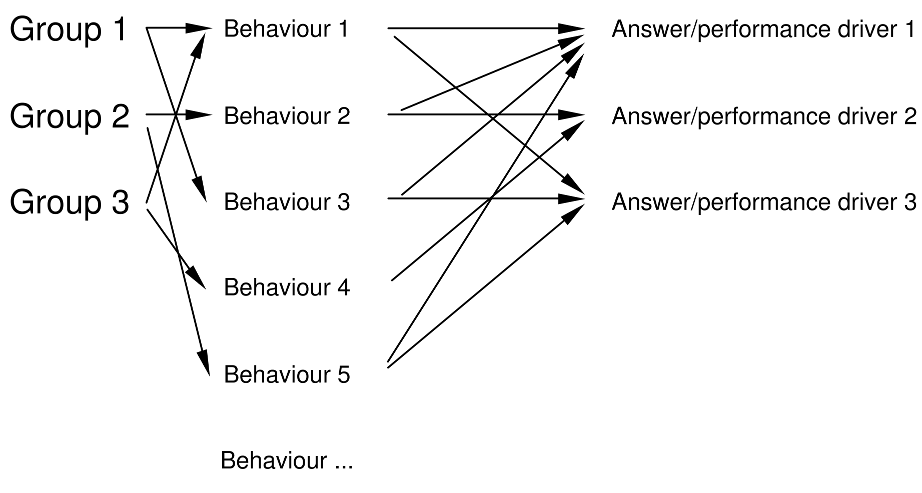


Figure 5.4

The real world that auditors work in to assess effectiveness is complicated. To be able to cope with this level of complexity auditors need to have:

- huge mental capability to understand these links and interrelationships;
- the ability to understand and assess the level of impact of the behaviour on the performance driver or clause being assessed;
- a detailed knowledge and understanding of all management disciplines that are demonstrated in the behaviours, including ‘soft’ issues such as leadership, teamwork, skill and competence.

Can auditors do this? It is unrealistic to expect them to be able to. It is not that auditors are not trained or lack the will to succeed, it is just that the size of the task to really understand what is happening, balancing all the different parameters in their heads consistently over time, is beyond them technically, as human beings. The situation is worse when there is a need to be consistent between auditors, cultures and management experiences and even over time. Some auditors will try, and there are some very good ones who are able to piece the different parts together, but in the final analysis, without changing approach, the task may be beyond them. The key is in the planning and having the tools and techniques to address the problems that arise.

Let’s not use an auditor

If it is unrealistic to expect an auditor to carry out this task, then an alternative needs to be found that will bring all these different elements together, and thereby reduce the inherent weaknesses in current auditing techniques, discussed in Chapters 1 and 2. The following list shows what needs to be done.

- Gather data from the range of people required (as we have seen in Chapter 4, sample sizes are currently too small).
- Analyse the data consistently, applying the same logic to all data (as discussed in Chapter 5).
- Report against the drivers of business performance (the real reason we audit, discussed in Chapter 3).
- Present the report using graphs, tables and benchmarks that managers can use to manage their business rather than in lists of non-conformances (see the case studies in Chapter 8).

The answer may lie in using increasingly sophisticated IT platforms that are able to gather behavioural data from a range of sources and analyse them to produce the required report. Such systems already exist and have been proved to work.

The key point to mention here is that we are not talking about online surveys that have little or no value. There are a large number of these, but readers are advised that using them for auditing purposes will not provide the depth of analysis required, as few are behaviour-based. Just think about the relationships described earlier in this chapter and whether surveys actually do this or not. They miss the point of the multi-dimensional linkage of evidence to provide the required information needed.

If IT-based approaches are to be used, then these must be assessment methodologies reporting findings against drivers of performance and not just surveys where the results of individual questions are presented in the form of graphs, tables, etc. The two approaches may appear to be the same, but the underlying principles being applied are very different and the value to the organization will be significantly different.

Online (and for that matter offline) surveys are relatively easy to construct, while assessments require far more thought and application in the planning stage if the final results are to be of value. They also need to recognize this multi-dimensional linkage in the analysis of the responses being made.

Those organizations that regulate the auditing market offer little guidance in this area. We can therefore expect confusion as the inherent problems with current approaches are recognized and new techniques are adopted and introduced as 'a continuation of their normal business' before those who regulate the market react. From our experience, and that of many we speak to, it seems that change to the way audits are carried out may well be bottom-up – driven by the market – rather than top-down – driven by the regulators. Are the regulators serving the interests of their customers by not insisting on change rather than reacting to it?

So far in the planning stage we have seen that:

- we need to define the real reason we are carrying out the audit, which in this book we have called 'drivers of performance';
- all the people involved in the scope need to be included;
- the behaviours these people see and experience can be predetermined, before we actually speak to them.

This is a range of tasks that most auditors would not have considered as part of the planning phase of the audit; perhaps this represents most of the problem. As the old saying goes, 'If you fail to plan, you plan to fail.'

6. Collecting information

The next task is to collect the data, but first a word of warning: audit the real world, not the pretend 'paper' world. Not sure what this means? Then read on.

In order to explore this area, it is worthwhile considering the common misconception that something can only be audited if it is written down in some form of process, procedure or implemented in some form of IT workflow system, because the records will exist to prove that the steps have been taken. This is a common misconception that seems to be true for standards, models and frameworks across the governance field, but it is not the real world: it is the world of compliance.

The world of effectiveness is about what is happening in the real world, not the documented version, which includes many things that cannot be written down. For example, in the quality industry some auditors, consultants and quality managers cling to process maps, procedures and other such documents as if they are what really happens. Remember Figure 1.5? This is only a diagram, just like a process map is only a diagram, a depiction of what the organization would like to think might be happening in the real world – but it isn't the real world, it is just an image that helps everyone to think in a similar way about it. Audits can be planned using these documents but they are not the whole story, just like the records they produce are not the whole story.

The truth is that auditors with a good auditing technique can audit anything without it being written down beforehand!

So how do we gather information about these things that are not written down – in other words this behavioural information? There are a number of techniques we could use. The most obvious one is for the auditor to have a face-to-face meeting with the auditee, so let's consider this technique first.

Auditing/collecting evidence face-to-face

This is the traditional approach promoted by most auditing books and training courses. Face-to-face auditing is best used when covering compliance-related issues, because, as described in the previous chapter, this is mostly a one-to-one question-answer relationship. Adopting the same approach to assess effectiveness can be time-consuming, and then relating one conversation with another is problematical. It is a useful approach when discussing business aspects with small groups of people such as senior managers or CEOs, but has limited effect when information needs to be gathered from a wide range of people.

When auditing for effectiveness face-to-face there is a simple model you can use to help with each interview. Its use ensures that the auditor covers broader aspects of the subject and gets a wider perspective other than the subject itself, which is just compliance. This model is shown in Figure 6.1.

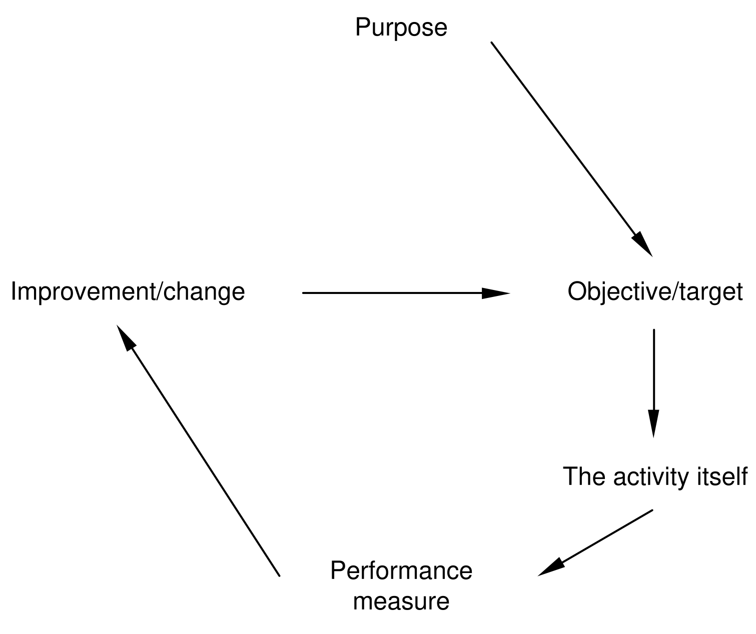


Figure 6.1

The aim of the model is to ensure that the auditor keeps track of the conversation by first discussing the aim or purpose of whatever is being assessed, that is, why it is taking place, followed by the objective(s) that have been set for the activity. With this established the next stage is to review the activity that will deliver the objective and then consider the results achieved. The auditor then checks that results are analysed and improvement or change activity progressed to either deliver the objective or improve overall performance. If we are gathering information from face-to-face interviews, some examples of the type of information we would find useful to help in assessing effectiveness follow.

Auditing a sales agent or representative

Purpose

- What job do you do?
- Who tells you what you need to achieve?
- Where does the work come from that enables you to do your job?

Objective

- What are your objectives?
- When are these set?
- How do these relate to the organization's objectives?

The sales activity

- Do the facilities or equipment you use help you to do your job?
- Does this equipment work?
- How do you do your job?
- What training have you received?
- What information do you have/need? Is it up to date?
- How do you work with others in this activity?

Measuring performance

- How do you know when you have done a good job?
- When was the last time your performance was discussed with your manager?
- How do you find out how well the organization is performing overall? How does this affect you?

Improvement and change

- If there was one thing that you would like to change, what would it be?
- What changes have you seen take place recently?
- How has your job been made easier?
- Does the organization let you know when and how things have improved?

Auditing a senior manager or process owner

Purpose

- What is the aim of your job?
- How does it meet customer needs?
- How does it meet stakeholder needs?
- What standards, frameworks and requirements do you apply in the business and why?

Objective

- What are your objectives?
- How were these objectives arrived at?
- How do these objectives support the overall business objectives?
- How are they measured?
- How do you know that the people reporting to you understand them?

The management activity

- How do you manage the resources you need?
- How do you plan your team's work to optimize performance?
- How do you know this plan is effective?
- Please describe the processes you use.
- What key controls do you have?
- How are the required standards, frameworks and other requirements embedded into the activities?

Measuring performance

- How do you know the team is performing?
- What methods do you use to communicate these results to the team?
- How do you know the team has understood what they mean to them?

- What do you do with the results?
- How do you analyse the results to identify improvements?

Improvement and change

- How many people have been involved in any change activity?
- What improvement projects are currently running?
- How successful have these projects been? How do you know?
- How do you prioritize resources for improvement projects?

Auditing a staff member

Purpose

- What do you do?
- Who gives you your work?
- Who tells you what to do?
- Who do you give your work to?
- Who benefits from what you do? Why?

Objective

- What standard of performance do you have to achieve?
- What targets do you have?
- Who sets these for you?

The activity

- How do you do your job?
- What equipment do you use? How well does it work?
- How do you know you are doing your job the correct way?
- What health and safety issues are associated with your job?
- What happens when something goes wrong?
- How do you all get on as one team?

Measuring performance

- How do you know when you have done a good job?
- How do you know how well your department/location/site has done?

Improvement and change

- Do you think we learn from our mistakes?
- What could be improved that would make your job easier?
- How much wasted effort do you make?
- What sort of things go wrong? How often?
- What has improved in, say, the last six months?

This list is not exhaustive and is only a general indication. The precise questions will be based on:

- the behaviours on which you are trying to get information;
- the ability and experience of the person being interviewed;
- the subject matter or the nature of the job;
- the style and language that the people are used to.

The exact questions to ask can never be precisely defined and questioning technique is a skill that, like any other, needs to be practised and refined, with many questions being chosen based on what you have just been told, but always keeping the model shown in Figure 6.1 in your head.

Auditing/collecting evidence from groups of people

Groups are useful when discussing subjects that are common to everyone. An example could be how everyone works together in a process or management system, when the auditor is seeking to find out how effective the cross-functional team really is. Other examples could be some of the softer management issues such as communication, leadership and cultural aspects of the organization.

Audit groups could also include the suppliers and customers of that group so that these people can contribute to the discussion. Involving external people in the discussion could be a higher risk strategy, but it may identify issues that are relevant when it comes to meeting customer needs. Of course, understanding and managing the team dynamics will be essential for the auditor in any situation where they have a group of people together.

When working with groups the auditor needs to be a skilled facilitator, a competence not always developed as part of auditor training courses. Consequently there are a number of points that the auditor needs to bear in mind.

- Unless they are trying to gain specific evidence by doing so, don't have people at different hierarchical levels in the same organization in the same group. There is a tendency for those with lower grades to not contribute for fear of their more powerful colleagues.

- Ensure that different people have the same opportunity to express their views and opinions. Some people will naturally be less reluctant to talk in front of their peers and others will sometimes seek to dominate the session. The auditor needs to be aware of this dynamic and manage the session accordingly.
- Taking notes and guiding the discussion are two separate tasks and are more difficult than a face-to-face audit with only one auditee. Guiding the discussion means making sure that the auditees stick to the subject and do not digress. Some groups will need prompting with comments, questions and encouragement to speak, others not so much. This guiding/supporting role requires the auditor to pay attention to the answers and the discussion the auditees are having between themselves, while thinking about the next issue, making sure the discussion stays on track, and making notes on the discussion to capture the information provided. There is a lot going on in a group activity, not least the 'politics' between individual group members, and for this reason auditing with groups is often carried out by two people, one to facilitate the discussion and another to capture the information.
- And of course, auditing a group may only involve observation of what is happening rather than directing/facilitating a discussion. This is really observing the behaviours of an everyday situation to gather evidence. But beware – the group may be play-acting because the auditor is there, so be careful that the evidence gathered is an indication of reality.

Surveys

Surveys are not assessments: they are simply a way of gathering information about individual topics that are asked about. Survey data are often accumulated and analysed to produce overall results that look impressive and in-depth, but as an assessment methodology on their own they have limited appeal. This also applies to the increasing use of online knowledge tests and questionnaires. While these are excellent tools to gather data, they do not generally use this information in an intelligent way to produce audit results against the drivers we mentioned in Chapter 3. Table 6.1 shows the main differences between assessments and surveys.

There are a number of different types of survey but a major inherent problem is that they are normally designed to be quick and easy to complete, e.g. giving people the ranges 1 to 5 to select. The problem for those being surveyed is knowing what 1 or 5 or any other value scale actually represents. What does it mean to the person filling in the questionnaire? What, for example, does "strongly agree" or "partly disagree" actually mean in terms of the behaviours of the organization? If there is any doubt or confusion in this regard then the results are of limited or no value. The other inherent problem with using surveys when assessing for effectiveness is that all the survey can do is supply the auditor with information – not the multi-faceted analysis they need to come to meaningful findings.

Table 6.1 Surveys vs assessments

Feature or element	Survey	Assessment
Uses a set of *questions* about the issue being surveyed	✓	✗
Uses a set of *statements* about the issue being surveyed based on behaviours	✗	✓
Provides a set of *responses that are pre-set*	✓	✓
Can provide *free-text responses* for some questions/statements	✓	✓
Responses normally in a range, such as 1 to 5, totally false to totally true, very unlikely to very likely, extremely dissatisfied to extremely satisfied, etc. for the item	✓	✗
Responses provide descriptions of the behavioural approaches taken or outputs for the item covered by the statement. These are not ordered or given 'values' so responders do not know how their choice will affect the overall result	✗	✓
Questions/responses *asked of any number of people* who have a valid view on the issues being reviewed.	✓	✓
All questions/statements are *available to 'view' and respond to until the end* of the survey/assessment	✓	✗
Each question/statement is *responded to in isolation of all others* and cannot then be changed once accepted	✗	✓
Reporting is a result of *calculating and reporting back against* the issues covered within each of the questions/statements	✓	✓
Reporting looks at the drivers of the issues or performance covered by the questions/statements and reports against these	✗	✓
There is the *application of intelligence as well as numerical analysis* to provide linkage between responses	✗	✓

E-mails and telephone calls

There is a widespread assumption that auditing has to be face-to-face, but there is no reason why the auditor cannot telephone, e-mail or use video-conferencing to help with gathering the information required. And when the potential range of auditees is spread across the world, this would lead to significant cost savings.

Obviously, no one method needs to be used in isolation and a combination of methods may be the most appropriate solution. The need to gather sufficient behavioural information from a variety of sources will largely determine which approach is most appropriate, but it is safe to say that traditional face-to-face auditing is only one of a number options.

Above all, as far as auditees are concerned, confidentiality is important no matter which approach is used. If the approach is not seen to be confidential by the auditees then they are unlikely to be fully open about what is really happening in the organization – and they are the ones that know. It doesn't matter how many records are checked and documents looked at; where there is no confidentiality, people may be doing little other than 'covering their backside'. It is the real world that counts when auditing, not what people want to show you.

I am reminded of a recent experience told to me by one of the world's biggest manufacturers and service providers, which had just had a major incident that would no doubt cost it millions of dollars to correct, and cause considerable damage to its reputation. It concerned a unit that had completely collapsed in terms of its service to its customers and the quality of what it produced, yet it had been audited 'to death' internally and by third-party registration and accounting bodies. None of these had picked up the problem, but a few guys on the production line actually providing the service knew what it was. Now ask yourself, why did the auditing process fail to engage these people and gather the critical information they knew? The answer is not simple or straightforward, but it covers most of what is discussed in this book, including the need for internal auditors and third-party registration and auditing bodies to create a truly confidential environment in which everyone will feel able to 'speak up' and be honest. Yes, the organization should have identified the issues for themselves, but the external auditors were, we believe, also partly to blame in not identifying and reporting the risks the company were running by not engaging staff fully with problem identification, which was a general issue, not just restricted to this particular problem and a key element of the standards they were purporting to register against.

Our company assesses organizations against the requirements of ISO 9001:2000 using a combination of offsite, onsite and online activity. By comparing our approach with the traditional approach registration bodies normally use, we can explain the key differences, which are shown in Table 6.2. The result of this approach is a more accurate assessment against the standard, reduced onsite activity and a greater depth of understanding that organizations can use to improve their effectiveness and performance. These are all things that organizations are increasingly demanding from their registration bodies and internal auditors.

Table 6.2 Traditional vs mixed approach to assessment

Traditional	Mixed approach	Impact of mixed approach
Onsite pre-assessment	Online pre-assessment using the techniques in this book	• More people involved in the assessment • Less intrusive for the organization • Reports against main clauses and quality principles • Identifies in which parts of the organization improvement is needed
Onsite initial assessment	Online initial assessment using the techniques in this book	• More people involved in the assessment • Less intrusive for the organization • Reports against main clauses and quality principles • Identifies where potential risk areas are • Benchmarks clauses and quality principles against different departments, locations and groups of people
	Reduced onsite activity	• Much reduced compared to traditional onsite approaches, which are time-consuming, ineffective and do not provide the necessary information to make appropriate registration decisions

The case studies at the end of this book give further examples, but hopefully this real example of adopting different tools, techniques and audit process steps proves that change can occur and that an auditing industry wedded to a person-day approach to auditing does not have to prevail.

Whichever method or combination of methods the auditor uses to gather the information required, thought needs to be given before they even set foot on site as to how this will be analysed to produce the report.

7. Interpreting effectiveness and identifying business risks

With information gathered, the next stage is to analyse it and produce a report that will provide the answers to the issues that managers defined when the assessment was planned. That is, the issues they need to know about in order to ensure their organization is effective.

The purpose of any audit is to provide management with the information they need to manage the risks associated with the subject of the audit. The aim of the audit is not to precisely pinpoint how things need to change or improve but to identify risk areas. Often auditors get confused between these two points and think that they have to identify not only what needs to improve, but also why and what the improvement should be. This is not the case: it is for management to decide what needs to improve based on the business objectives they are seeking to achieve, which auditors can only glimpse during an audit. While any non-conformances can be addressed by taking appropriate short-term action to correct them, improvements that make the organization more efficient or effective often need extensive investigation and careful implementation. They also need to carefully consider the organization as a whole, and not just the area where a problem may surface. Too often improvements address the effect and not the cause of problems.

This improvement and change activity is based on an understanding of the organization's business process improvement, which itself should be part of any management system. The purpose of this change process is to take any improvement project or activity identified by the business, whether from an audit or not, and to progress it through to fruition. Many organizations carry out a range of activities to measure their performance, and any one or a combination of activities could identify an improvement opportunity. An effectiveness audit is only one such activity. Figure 7.1 shows some measurement activities, but not necessarily all, that might be applicable to an organization.

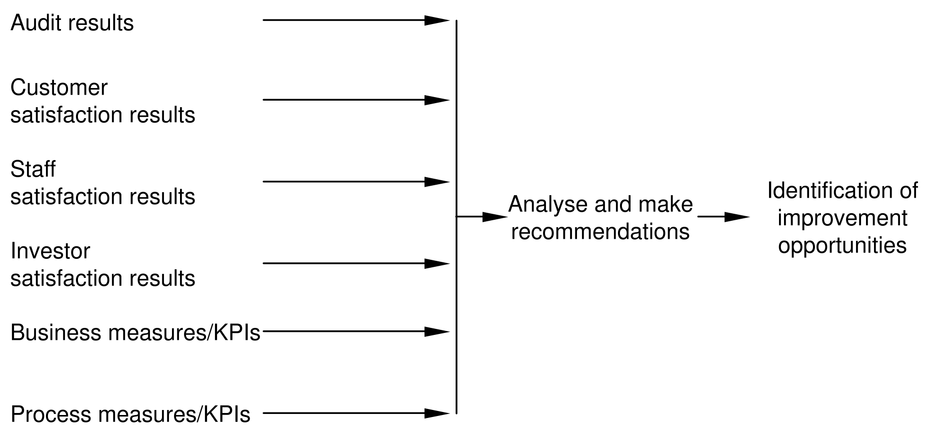


Figure 7.1

Once the improvement opportunity has been identified, it is progressed through an improvement process. Although there are many such improvement processes, typically these cover a number of steps or activities, just like any other process. A simple improvement process is shown in Figure 7.2.

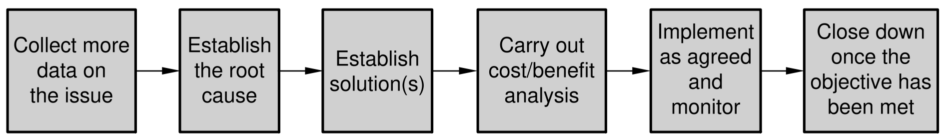


Figure 7.2

It follows that until this process or some such activity has been completed, the actual improvement project that will address the risk or improve efficiency and effectiveness will not be known. Such improvements can take time and it is perhaps not surprising that auditors do not seek to identify what needs to be changed to address the improvement need they have identified. They will not necessarily have the time, understanding, knowledge or resources to do so. At best they can guess or make an informed recommendation to help the manager; at worst they can make suggestions that may be interpreted by the manager as seeking to do their job for them. What the auditor should not do is ask the person signing off the report to commit to a specific course of action at that stage: they won't know until the improvement process has been activated so they shouldn't be asked.

This desire to agree a course of action immediately, almost as part of the audit, is a throw back to the audit training and requirements associated with compliance auditing, where the improvement activity was fairly obvious. Some auditors have sought to bring these same steps and approaches to assessing the effectiveness of a subject. In compliance thinking it is straightforward: where a form is completed, the corrective action is easy – tell people to complete it or throw it away. If an activity that should be performed is missed out for some reason, then tell people to do it, train them to do it, or explain why it should not be carried out. This is not the case when auditing effectiveness. Snap decisions like this cannot be made – so they shouldn't be. Improvements are subject to the organization's change or improvement process, and of course subject to the management's decision on whether it is deemed necessary to make such an improvement or change at all. Auditors who insist on managers making decisions on improvements as part of the audit process, for example at the closing meeting, should consider what they are doing!

Audit reports produced from assessing the effectiveness of activity are naturally as varied as the scopes, behaviours and people that take part in the assessment, and need to be produced based on the needs of the organization concerned.

Certain information is however always useful to the managers concerned:

- a risk profile against the performance drivers or critical success factors, enabling key areas of weakness and strength to be identified;
- maturity values to allow for trend analysis;
- benchmarks between departments, locations and sites to determine where potential improvement is required.

An audit report should allow the manager concerned to critically analyse the findings and identify:

- what non-conformances need addressing;
- which areas should be subject to an improvement project.

This analysis is carried out taking into consideration the organization's objectives at the time to ensure that any report is set within their context and that any risk or improvement area identified would support the achievement of those objectives.

Chapter 8 provides real case studies and examples of the approach discussed in this book.

8. Case studies and examples

Managing business risks and identifying improvements

What follows is a collection of real audit reports carried out without auditors interviewing anyone. The results were achieved by following the logic outlined in this book; all are real and have been included to show what some people are now achieving. They cover a range of effectiveness and compliance issues and provide the manager with information to identify business risks and improvement opportunities.

In reviewing these reports it is suggested that you pay particular attention to:

- the risk profile showing the performance drivers for that particular audit;
- where the risks to the business actually are, having reviewed all the findings;
- where performance drivers and individual statements or questions are below the 40 per cent threshold, which is set as normal 'compliance', that is, an acceptable standard or level of performance;
- benchmarks between different departments or functions and roles to better identify where risks and non-conformances can be found.

Audit reports will normally take the form of a written document but this needn't be the case. Presentation software and slides can also be used – the case studies are mainly written documents, where as the information for case study 3 came from a presentation. Videostreaming, CD Rom technology or any other method can be used to provide an immediate visual impact of the summarized results. Who says the report has to be in a written traditional format?

1. Facilient Ltd –Winning Facilities Management business process audit

The following example has been kindly provided by Facilient Ltd (www.facilient.co.uk). Facilient manages its clients' facilities as an outsourced service and has built a process-based business management system that not only meets the requirements of ISO 9001:2000, but will also meet the corporate social responsibility and corporate governance requirements that the organization faces. The aim of this system is to support the achievement of business objectives and in particular the growth aims of its stakeholders.

A number of business processes make up the management system and one of these, Winning Facilities Management, was the subject of this internal audit. The report is shown below, with some information amended to protect confidentiality. What follows is the manager's interpretation of this data with regard to what it means to the business and where improvement is needed based on the organization's objectives. This analysis, rather than the full report, was presented to the management team. It provides a good example that demonstrates the following.

- Audits can only identify potential risks and where these may be most prevalent.
- Audits cannot say exactly what needs to be improved. Defining the cause and then the possible solutions are the subject of an improvement project, not the audit, and auditors should not (contrary to popular belief) compel the manager to say what improvement actions will be taken. How will they know, at the time of receiving the report, when an improvement project is needed to establish what actions will be taken? Auditors that do insist on agreeing actions to correct something at the time the audit report is presented are carrying out compliance, not effectiveness audits.
- All audit results need interpretation to identify what would best meet the ongoing needs of the business. Just because an issue is raised does not mean that it should be progressed. Auditing is only one of many measuring devices used by an organization. Customer satisfaction, business results, staff satisfaction and level of complaints, for example, are all equally valid, and all information needs to be analysed and prioritized to identify appropriate improvement projects. Audit results are just one aspect.

Title:	Winning Facilities Management
For:	Business Development Audit
Organization:	Facilient Ltd

This assessment provides you with an **independent and consistent review of performance, within the scope defined**. Strengths and weaknesses are reported against areas that drive performance, along with non-conformances.

Contents of report:

1. Overview and result
2. Participation
3. Performance by group
4. Areas of strength
5. Areas of improvement
6. Non-conformance
7. Results by individual statements
8. Confirmation form
9. Further actions
10. Summary

Description of assessment:

Assesses the effectiveness of the Winning Facilities Management (FM) business process.

Scope:

Assessment of Winning FM Business Process. The following people comprised the complete scope as defined when the assessment was set up:

Department/Team/Function	Estimated no. of people
Horsham	7
Sevenoaks	4
Kings House	7
Coley Park	3

Users of the report need to assure themselves that this is, in reality, a reasonable and complete definition of this scope. These numbers have been used to check whether an adequate sample size of participants has been involved. If the numbers are significantly different, the result must be treated with caution.

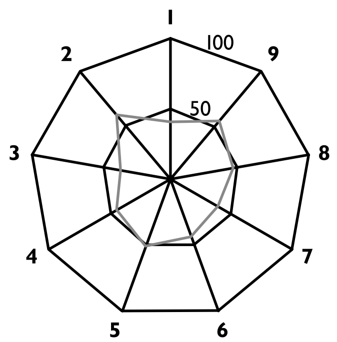
Assessment administration:

Date set up:	10/11/2005
Date completed:	23/11/2005
Set up by:	Roger McConnell
Administrator:	Roger McConnell

Overall result: 44.5 per cent – unclassified result (more than 20 per cent of performance drivers are below the minimum level)

Although your overall average result may have reached the minimum required to achieve a classified result, there are a significant number of individual areas where performance has not reached this level. The overall result is therefore unclassified, and does not meet the requirements of the framework being assessed.

Overview and results against performance drivers



Performance driver	Description	%
1	Customer relationships are managed	40.4
2	Sales margins are maximized	62.0
3	Accepted contracts can actually be delivered	35.9
4	Sales opportunities are progressed and risks managed	44.9
5	The market understands what the business has to offer	51.4
6	The process is managed, controlled and improved	44.6
7	Process activities take place	39.7
8	Customers receive what they are sold/expect	46.3
9	Long- and short-term sales opportunities are maximized	54.0

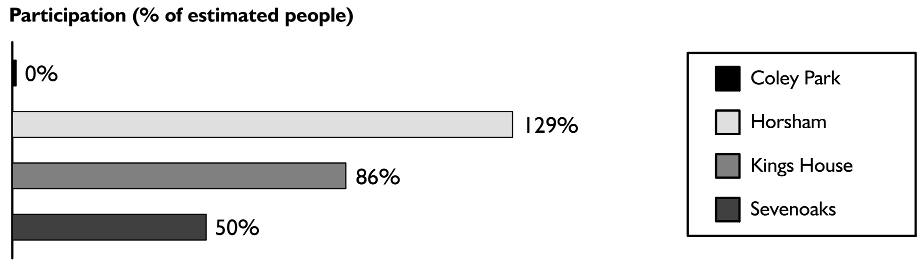
Performance over time

If this assessment covers the same scope as one carried out before, the overall results are shown below, so that you can see how your performance has changed over time.

As this is your first assessment against the scope no previous results are available.

PARTICIPATION

Participation by the main groups of people involved in the assessment is shown below as a percentage of the number indicated in the scope.

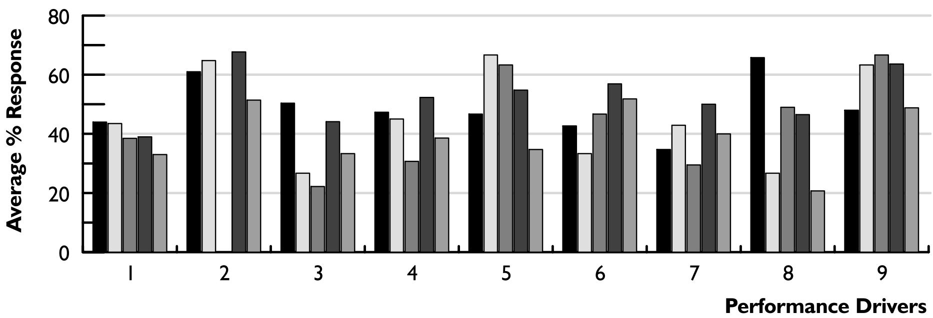


PERFORMANCE BY GROUP

The responses for each performance driver are shown below. This shows the difference in perception between the main groups.

You can:

- consider these differences and where they may affect performance, this may identify risk areas;
- review any specific elements where individual groups have a low result;
- understand any real gaps between the perception of different groups.



	Performance driver								
Group	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
My main involvement in the Winning Business Process is to:	All figures are percentages								
be a non-development member of the senior management team	44.0	61.0	50.4	47.3	46.7	42.7	34.7	65.8	48.0
provide support services to the business development team during the bid process	43.5	64.8	26.7	45.0	66.7	33.3	42.9	26.7	63.3
manage or deliver contracts after they are won	38.5	n/a	22.2	30.7	63.3	46.7	29.5	49.0	66.7
promote/market products and services	39.0	67.7	44.1	52.3	54.8	56.9	50.0	46.5	63.6
commit the company to provide a product or service	33.0	51.4	33.3	38.6	34.7	51.8	40.0	20.7	48.8

Key

- Be a non-development member of the senior management team
- Provide support services to the business development team during the bid process
- Manage or deliver contracts after they are won
- Promote/market products and services
- Commit the company to provide a product or service

The largest differences are likely to indicate that there may be business risks.

The most significant differences are shown below.

Performance driver		**Highest**	**Lowest**	**% difference**
8	Customers receive what they are sold/ expect	Be a non-development member of the Senior Management Team	Commit the company to provide a product or service	45.1
5	The market understands what the business has to offer	Provide support services to the business development team during the bid process	Commit the company to provide a product or service	32.0
3	Accepted contracts can actually be delivered	Be a non-development member of the senior management team	Manage or deliver contracts after they are won	28.2

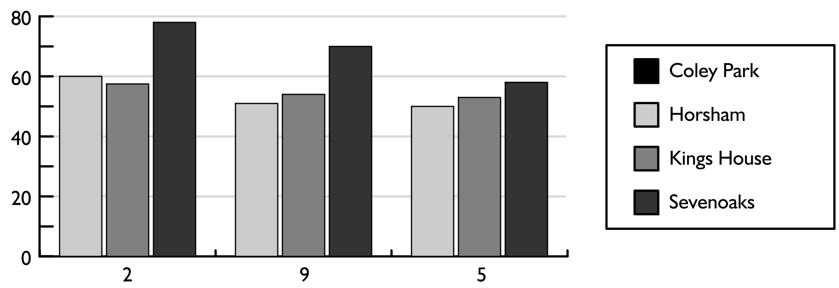
AREAS OF STRENGTH

Listed below are the strongest areas. Where they are above 60 per cent they may be considered a strength.

Performance driver		%
2	Sales margins are maximized	62.0
9	Long- and short-term sales opportunities are maximized	54.0
5	The market understands what the business has to offer	51.4

Analysis:

For each of these strengths, reviewing the differences between each department, team or function may indicate where further improvement could be made. Where a '%' is shown without a number this indicates this department, team or function was not asked about this performance driver.



AREAS OF IMPROVEMENT

Listed below are the weakest areas, which indicate an opportunity for improvement.

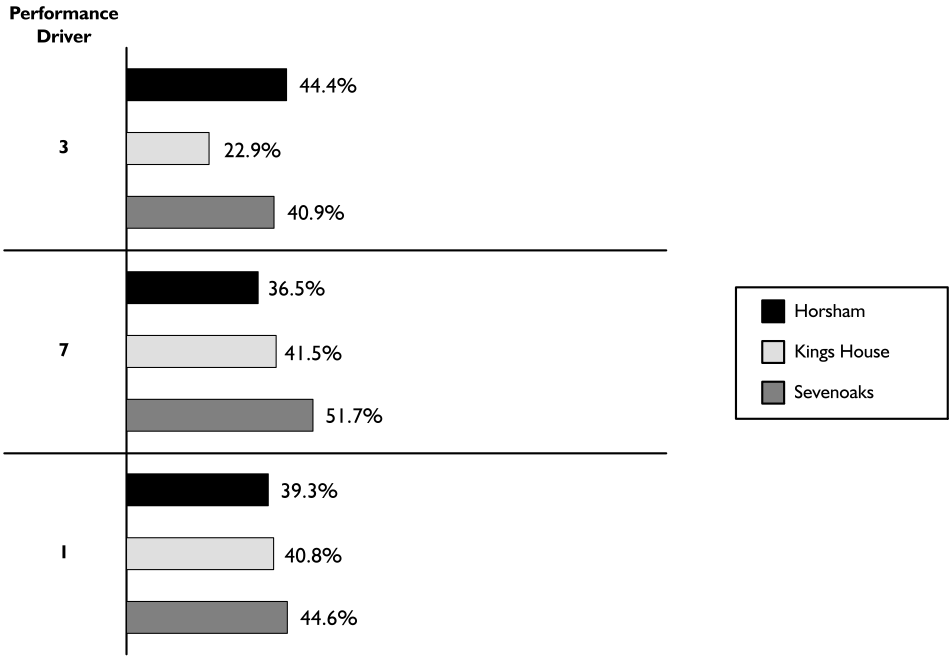
Performance driver		%
3	Accepted contracts can actually be delivered	35.9
7	Process activities take place	39.7
1	Customer relationships are managed	40.4

Analysis:

For each of these improvement areas, further investigation of the differences will identify possible improvement actions.

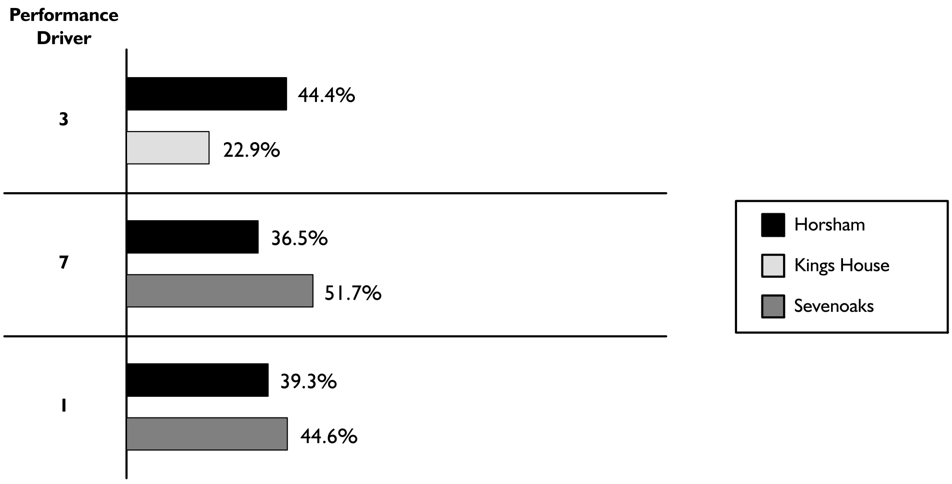
Results by department/function/team

Where a group is not shown it was not asked about this performance driver.



Widest variance between departments/teams/functions

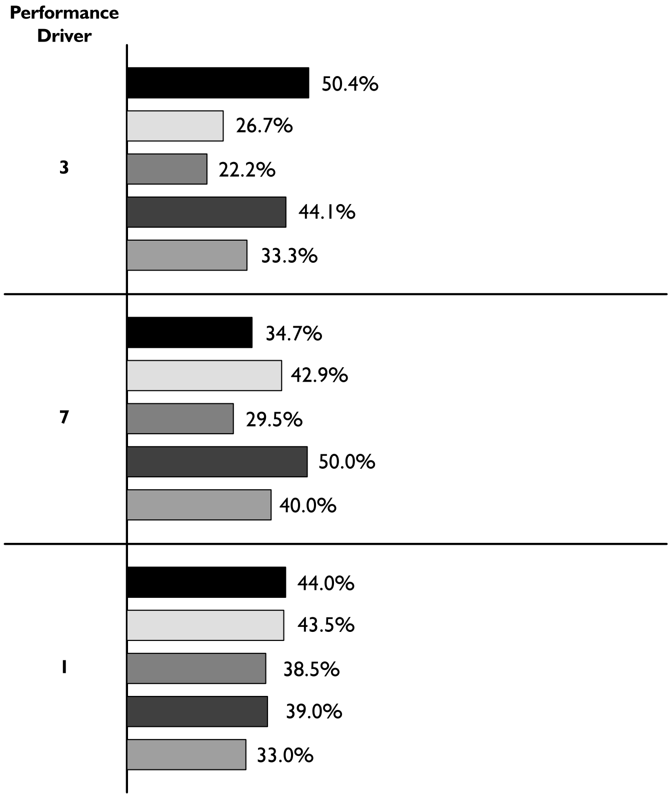
The highest and lowest scores are:



When more than one group scores the same level, they are all shown.

Results for groups involved

Where a group is not shown they were not asked about this performance driver.



My main involvement in the winning business process is to...

- be a non-development member of the senior management team
- provide support services to the business development team during the bid process
- manage or deliver contracts after they are won
- promote/market products and services
- commit the company to provide a product or service

NOTE Although this analysis will be useful, further insights into where you can improve performance would be provided by increasing the level of participation by the following groups:

Group	Participation
Coley Park	0%

NON-CONFORMANCE REPORT

There is non-conformance with the following:

	%
Detailed customer visit reports are used	25
Commercially sensitive information is securely managed	20
Bid success is reviewed	23
Development plans are created based on the needs of the market	27
Contracts are properly executed before commencement	24
Contract documentation is complete and adequately describes the obligations	18
Contracts that are won can be delivered	27

Conformance with the following is low:

	%
Development performance is routinely monitored	37
Customers' requirements are identified before we commit resources to bid	38
Bid records are maintained with customer information	30

Results by individual statements

Statement no.	Statement description
1	Bid records are maintained with customer information
2	Bid success is reviewed
3	Commercially sensitive information is securely managed
4	Contract documentation is complete and adequately describes the obligations
5	Contracts are properly executed before commencement
6	Contracts that are won can be delivered
7	Customer requirements are communicated
8	Customer requirements are identified before we commit resources to bid
9	Detailed customer visit reports are used
10	Development activity is reviewed against targets
11	Development performance is routinely monitored
12	Development plans are created based on the needs of the company
13	Development plans are created based on the needs of the market
14	IT systems and software programmes enhance the efficiency and effectiveness of this process

15	Identified opportunities are managed proactively
16	Improvements to this process take place to enhance performance
17	Information about our products and services is communicated to customers
18	New contracts are handed over to the operations team
19	Our bidding efforts are targeted and clearly focused
20	Potential new contracts are identified against selection criteria
21	Reasons why we do not secure an opportunity to bid/contract are understood
22	Risks in responding to a bid are reviewed
23	Tenders are developed to win the business
24	The organization understands exactly what its customers need
25	The organization understands what the customer requires beyond what is actually specified
26	The performance of the overall process is measured and communicated

	Statement no.												
Group	All figures are a percentage of the maximum score												
	1	2	3	4	5	6	7	8	9	10	11	12	13
Horsham	7	7	20	16	13		70	40	13	57	36	40	20
Sevenoaks	100	60	0	30	0		40	60	60	60	40	60	60
Kings House	100	47	25	17	47	27	20	0	60	60			
Coley Park													

	Statement no.												
Group	All figures are a percentage of the maximum score												
	14	15	16	17	18	19	20	21	22	23	24	25	26
Horsham	67	69	40	53	100	52	77	67	44	64	60	60	33
Sevenoaks	60	100	30	40	100	100	40	40	40	70	60	20	80
Kings House	100	60	53	50	13		40	40	33	67	40	65	53
Coley Park													

STATEMENTS ACHIEVING THE LOWEST OVERALL SCORES

Question No. 4 – Contract documentation is complete and adequately describes the obligations

Overall percentage score	18%
Horsham	16%
Sevenoaks	30%
Kings House	17%
Coley Park	–

Question No. 3 – Commercially sensitive information is securely managed

Overall percentage score	20%
Horsham	20%
Sevenoaks	0%
Kings House	25%
Coley Park	–

Question No 2 – Bid success is reviewed

Overall percentage score	23%
Horsham	7%
Sevenoaks	60%
Kings House	47%
Coley Park	–

Question No 5 – Contracts are properly executed before commencement

Overall percentage score	24%
Horsham	13%
Sevenoaks	0%
Kings House	47%
Coley Park	–

Question No 9 – Detailed customer visit reports are used

Overall percentage score	25%
Horsham	13%
Sevenoaks	60%
Kings House	60%
Coley Park	–

CONFIRMATION FORM

Confirmation of acceptance of assessment findings

(To be completed by the manager responsible for the overall performance of the scope involved in this assessment.)

It is confirmed that:

- the responses provide suitable evidence on which to base this report;
- the analysis of the evidence has provided findings that are fair and reasonable with which I agree;
- the findings are a suitable base for improvement activity.

Signed: ________________________ **Name:** ________________________

Position: ________________________ **Date:** ________________________

Counter signatures:

Signed: ________________________ **Name:** ________________________

Position: ________________________ **Date:** ________________________

Signed: ________________________ **Name:** ________________________

Position: ________________________ **Date:** ________________________

Further actions and general comments

Acting on these results:

1. This report should be presented to the person responsible for this performance area for their agreement to its findings.
2. These results should be used to prioritize improvement activity.
3. We strongly recommend that a robust improvement plan is created, with agreed ownership for the actions and deliverables.
4. On completion of the improvement plan you should confirm that the deliverables have been achieved. It may then be appropriate to re-run this assessment.

Should you feel that further analysis of the responses would help you to focus better on the improvements that you wish to make, please e-mail enquiries@the-hpo.com.

We can, by arrangement, carry out a more detailed analysis against your specific needs.

Future action:

If this assessment and report is being used as a part of your application of an externally certified standard or framework, then you will need to carry out a re-assessment in accordance with that scheme's requirements. If you are unsure of these requirements, please contact us at enquiries@the-hpo.com.

Regardless of such requirements, we would suggest a re-assessment in 12 months' time to take into account the changing world.

In accordance with the conditions of contract under which this report has been produced, the organization for whom it is provided undertakes to disclose to any party using it all regulatory non-compliances and occurrences within the scope of the assessment for which any regulatory authority requires notification.

In accepting and using this report the client confirms that such disclosure has or will take place so that it and any associated certificate can be understood in its full context.

The analysis that follows is the manager's interpretation of what the findings in the report mean for the business. It formed the basis for the report to the management team. The recommendations include improvement projects that are a combination of non-compliances and effectiveness issues highlighted from the performance drivers. The reader is drawn to some of the issues raised in the audit, which are shown on the left-hand side of the analysis. These areas are focused on the commercial activities, the maturity of which will affect business performance, in this case of winning sales to support the organization's growth objectives. Where the analysis states that improvement or corrective action is not required, this is because the process was put in place shortly before this audit was taken and therefore no suitable evidence had subsequently been created.

Summary of key findings and action plan

The audit was set up to test nine key performance drivers derived from the process, measured against responses received to 26 individual statements. Areas of improvement have been identified against three of the drivers, namely:

- Accepted contracts can actually be delivered
- Process activities take place
- Customer relationships are managed

Within these drivers, 10 areas of non- or low conformance were identified, which upon detailed analysis can be broadly grouped into three categories:

1. Improvement plan required to be effected
2. Procedure in place and in use but not communicated
3. Business not yet mature enough

The following table summarizes the required improvement and where applicable, the recommended action to secure such improvement.

Area	**Cat**	**Comment**	**Recommended action**	**Status**
Driver: Customer relationships are maintained				
Commercially sensitive information is securely managed	1	Accepted weakness	Improvement plan needed – to be discussed at group level. Requested inclusion on next meeting agenda	See board meeting minutes after meeting
Development plans are created based on needs of the market	1	Accepted weakness	Improvement project 001 already addresses	Appointment of 'special adviser' agreed
Customer requirements identified before we commit to bid	2	Communication issue	Prospect Sheet template F/DEV/010 is available on Resource Centre and is in use	To be communicated to staff as part of rollout and training programme

Driver: Process activities take place				
Detailed customer visit reports are used	2	Communication issue	Marketing Call Log template F/DEV/020 is available on Resource Centre and is in use	To be communicated to staff as part of rollout and training programme
Bid success is reviewed	2	No bids submitted so far this financial year. Prequalification success however has been reviewed	Feedback pro forma template F/DEV/021 is available on Resource Centre, plus Commercial Portfolio F/DEV/001	To be communicated to staff as part of rollout and training programme
Development performance is routinely monitored	2	Communication issue	Commercial Portfolio template F/DEV/001 is tabled each month at management meetings	To be communicated to staff as part of rollout and training programme
Bid records are maintained with customer information	3	No bids submitted so far this financial year	None necessary at this stage	Will be reviewed during bid process
Driver: Accepted contracts can actually be delivered				
Contract documentation is complete	3	No contracts awarded this financial year to date	None necessary at this stage	Will be reviewed during bid process
Contracts properly executed	3	No contracts awarded this financial year to date	None necessary at this stage	Will be reviewed during bid process
Contract won can be delivered	3	No contracts awarded this financial year to date	None necessary at this stage	Will be reviewed during bid process

2. Monitoring Results to Identify Improvements process audit

In this organization, the management system contains a process that is dedicated to activities that show how performance information such as business results, customer satisfaction, audit results, complaints and other performance data are collected, collated and analysed to identify areas that require business improvement. This process audit considers how effective the organization is at doing this.

A risk profile shows the results against the performance drivers identified by the management team before the audit took place. Using the principles in this book, these were first designed and created by the auditor. The behaviours were then sought as part of the audit and the individual findings linked to these performance drivers, as described in Chapter 5. The drivers that require attention are:

- feedback is handled in a proactive way – only 39.4 per cent effective;
- corrective and preventive actions taken are effective – only 44.9 per cent effective.

The compliance issues (shown later in the report) were identified as:

- complaints are handled – 24 per cent;
- improvement projects are logged – 11 per cent.

(Note that non-compliances also have a score to indicate the extent of that non-compliance.)

As the report considers effectiveness rather than just compliance and has many people taking part, the audit data can be analysed in many different ways that would be beyond a traditional audit. In this case the use of IT allows this to take place and leads to other areas that need investigation to make the process more effective. Notice, for example, the following.

- Those who make decisions based on customer satisfaction data believe the information to be correct, whereas those actually collecting the data have a different view. The extent of the gap is the risk. In this case, 40 per cent is a large gap, and this needs investigation as the management may be making decisions based on inaccurate customer satisfaction results. The reason for this should be a subject for an improvement project and should not concern the auditor. The auditor's role is in establishing that there is a problem.
- Likewise those that 'make decisions' to identify improvement projects believe that they 'review performance' to identify key improvement areas, whereas the people who actually 'carry out the improvements' believe this is

not the case, that is, that the wrong projects are being addressed. Again, why this is happening is not the auditor's concern, just that it is happening.

Further down in the report, particularly where the performance drivers with the lowest scores are analysed in further detail, it is clear that staff are experiencing something very different to the management team when it comes to corrective actions being effective, feedback being handled proactively and customer satisfaction being monitored.

Overall the results show that the organization largely complies, but improvement is clearly required in terms of effectiveness. In fact, this audit report was considered by the management team and two improvement teams set up. One looked at the need for corrective actions to be effective in stopping the same problem recurring, and the other at making sure feedback from customer satisfaction was correct and representative.

The strengths are also interesting in that the one with the highest score, at 57.7 per cent, is: 'Internal audits identify real business issues'. Even though this driver has the highest result, the indications are that improvement is still possible so that the organization is able to generate more value from the activity. It is worth noting here that the organization does not use auditors in the traditional sense, but carries out its internal audits online.

Title:	Monitoring Results process
For:	UK Operations
Organization:	The Organization Ltd

This assessment provides you with an **independent and consistent review of performance, within the scope defined**. Strengths and weaknesses are reported against areas that drive performance, along with non-conformances.

Contents of report:

1. Overview and result
2. Participation
3. Performance by groups involved
4. Performance by roles involved
5. Areas of strength
6. Areas for improvement
7. Non-conformance
8. Results by individual statements
9. Confirmation form
10. Further actions

Description of assessment:

This assessment looks at the process by which The Organization understands the current level of performance across the business, with the aim of initiating actions that improve performance or reduce business risk. It also includes the ways in which non-conforming services are managed, and corrective and preventive actions carried out.

Scope:

Entire UK operations except new arrivals. The following number of people comprised the complete scope as defined when the assessment was set up:

Department/Team/Function	Estimated no. of people
Directors	4
Managers	5
Staff	15

Users of the report need to assure themselves that this is, in reality, a reasonable and complete definition of this scope. These numbers have been used to check whether an adequate sample size of participants has been involved. If the numbers are significantly different, the result must be treated with caution.

Assessment administration:

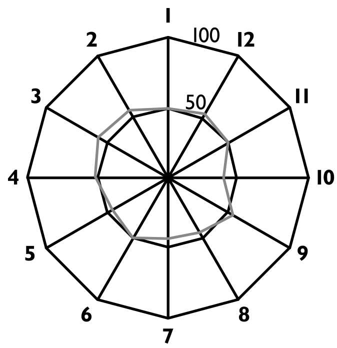
Date Set up:	23/10/2005
Date completed:	01/11/2005
Set up by:	Assessment manager
Administrator:	Assessment administrator

Overall result: 51.1 per cent – Bronze level

Based on the evidence provided by the people taking part in the assessment, the results show that your organization has met the minimum level required to be classified as meeting the requirements of the framework from which this assessment was created.

Congratulations, **you have achieved our Bronze Award**.

Overview and result against performance drivers



Performance driver	**Description**	**%**
1	Process activities take place	50.1
2	A range of performance information is gathered	54.3
3	Internal audits identify real business issues	57.7
4	Performance is measured and results communicated	53.3
5	Customer satisfaction is determined	46.7
6	Review of performance identifies key improvement areas	49.5
7	Corrective and preventive actions taken are effective	44.9
8	The business understands what its stakeholders think of it	46.9
9	Non-financial data is used to drive improvement	54.5
10	Feedback is handled in a proactive way	39.4
11	Supplier performance is understood	51.4
12	The process is managed	53.6

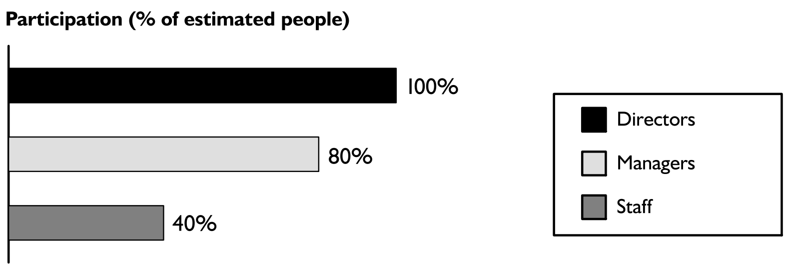
Performance over time

If this assessment covers the same scope as one carried out before, the overall results are shown below, so that you can see how your performance has changed over time.

As this is your first assessment against the scope no previous results are available.

PARTICIPATION

Participation by the main groups of people involved in the assessment is shown below as a percentage of the number indicated in the scope:

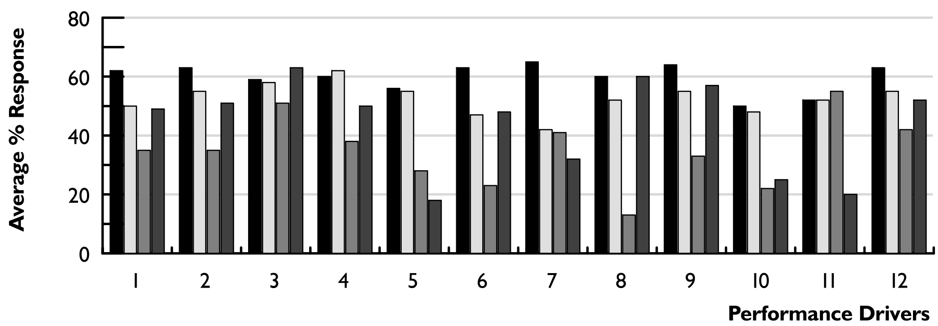


PERFORMANCE BY GROUP

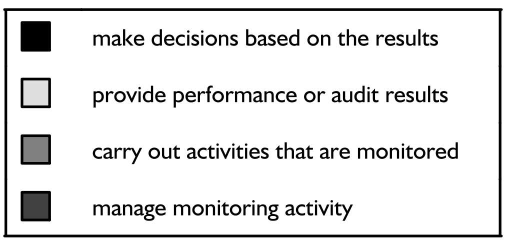
The responses for each performance driver are shown below. This shows the difference in perception between the main groups.

You can:

- consider these differences and where they may affect performance, this may identify risk areas;
- review any specific elements where individual groups have a low result;
- understand any real gaps between the perception of different groups.



My main involvement in reviewing the organizations results is to:



The largest differences are likely to indicate that there may be business risks. The most significant differences are shown below.

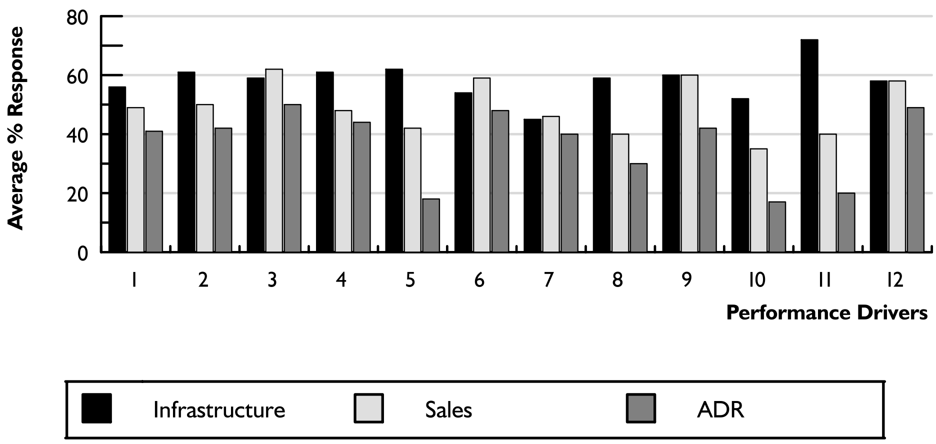
Performance driver		Highest	Lowest	% difference
8	The business understands what its stakeholders think of it	Manage monitoring activity	Carry out activities that are monitored	46.7
5	Customer satisfaction is determined	Make decisions based on the results	Manage monitoring activity	40.4
6	Review of performance identifies key improvement areas	Make decisions based on the results	Carry out activities that are monitored	39.8

PERFORMANCE BY ROLE

The responses for each performance driver are shown below. This shows the difference in perception between the roles that you identified as being involved in this assessment.

You can:

- consider these differences and where they may affect performance, this may identify risk areas;
- review any specific elements where individual roles have a low result;
- understand any real gaps between the perception of different roles.



The largest differences are likely to indicate that there may be business risks. The most significant differences are:

Performance driver		Highest	Lowest	% difference
11	Supplier performance is understood	Infrastructure	ADR	51.4
5	Customer satisfaction is determined	Infrastructure	ADR	44.6
10	Feedback is handled in a proactive way	Infrastructure	ADR	36.1

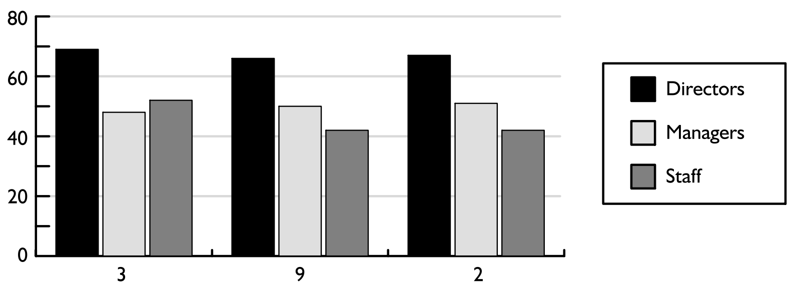
PERFORMANCE DRIVERS WITH HIGHEST SCORES – AREAS OF STRENGTH

Listed below are the strongest areas. Where they are above 60 per cent they may be considered a strength.

Performance driver		%
3	Internal audits identify real business issues	57.7
9	Non-financial data is used to drive improvement	54.5
2	A range of performance information is gathered	54.3

Analysis:

For each of these strengths, reviewing the differences between each department, team or function may indicate where further improvement could be made. Where a '%' is shown without a number this indicates this department, tteam or function was not asked about this performance driver.



PERFORMANCE DRIVERS WITH LOWEST SCORES – AREAS FOR IMPROVEMENT

Listed below are the weakest areas, which indicate an opportunity for improvement.

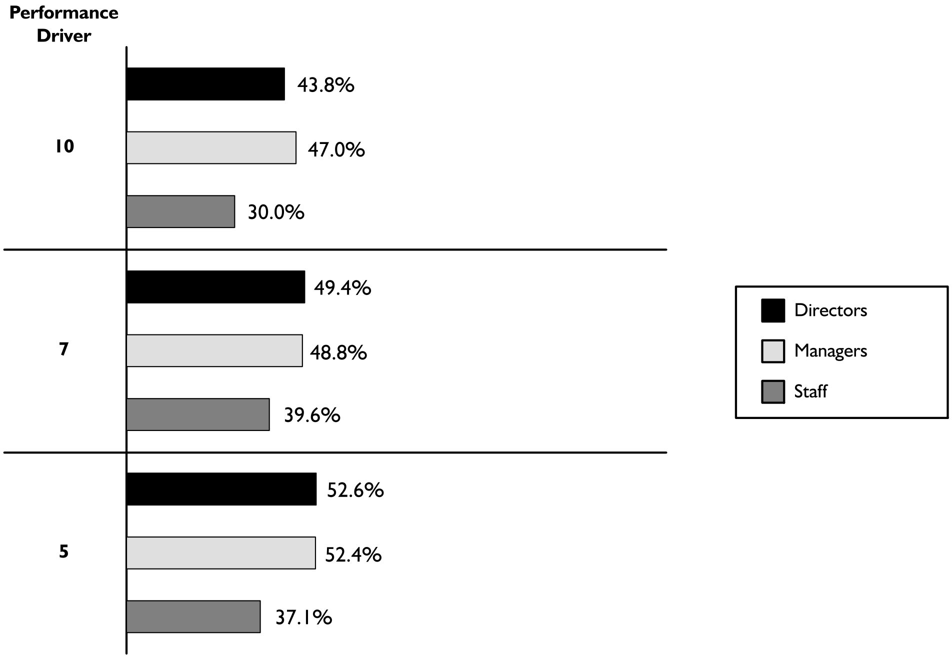
Performance driver		%
10	Feedback is handled in a proactive way	39.4
7	Corrective and preventive actions taken are effective	44.9
5	Customer satisfaction is determined	46.7

Analysis:

For each of these improvement areas, further investigation of the differences will identify possible improvement actions.

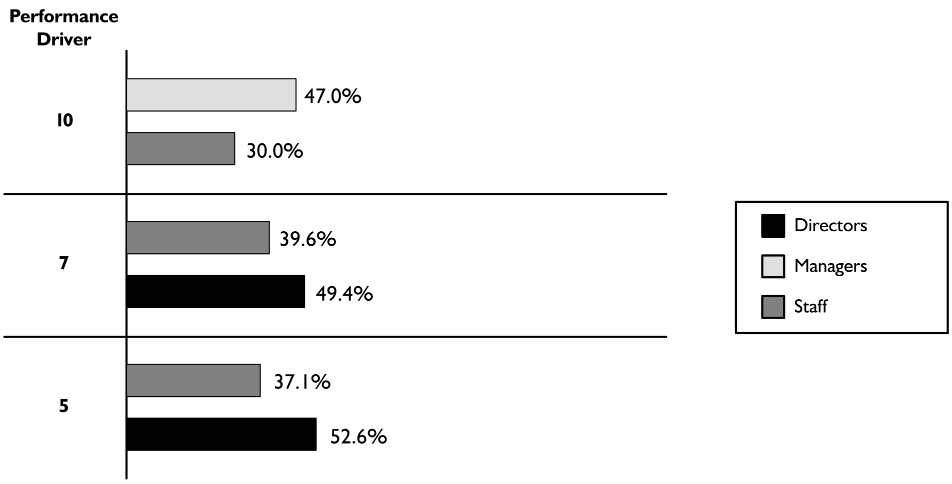
Results by department/function/team

Where a group is not shown it was not asked about this performance driver.



Widest variance between departments/teams/functions

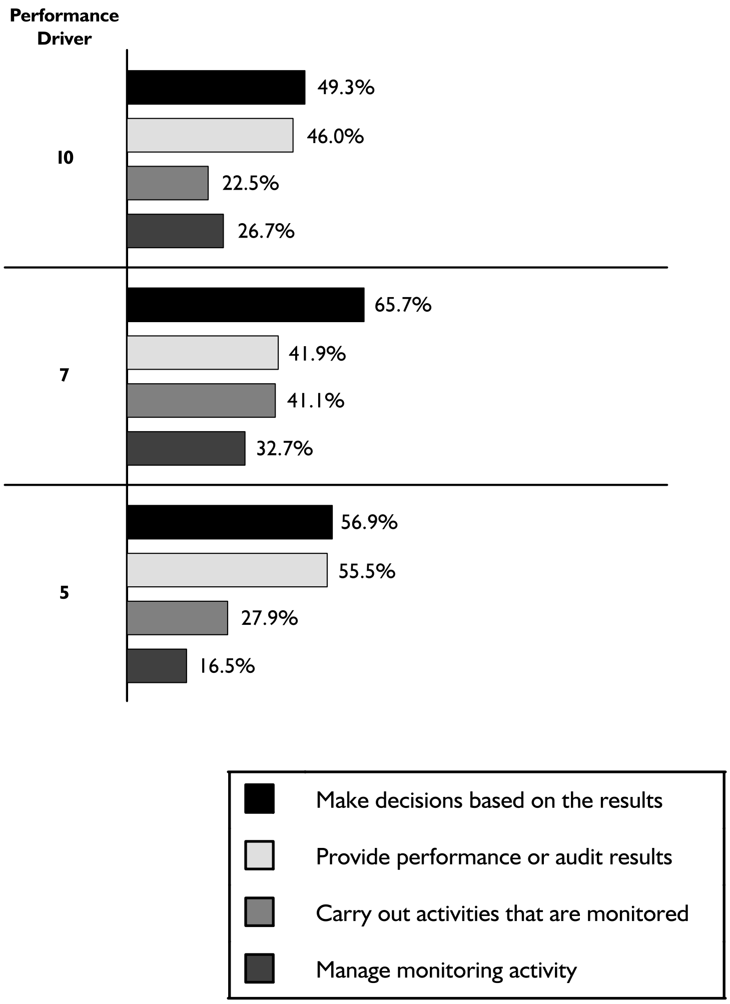
The highest and lowest scores are:



When more than one group scores the same level, they are all shown.

Results for groups involved

Where a group is not shown they were not asked about this performance driver.



NON-CONFORMANCE REPORT

Non-conformance is indicated with the following:

	%
Complaints are handled	24
Improvement projects are logged	11

Conformance is indicated as low with the following:

	%
Information on customer perception is communicated	30
Staff perception of the organization is gathered	39

RESULTS BY INDIVIDUAL STATEMENTS

Statement no.	Statement description
1	Audit methods are appropriate
2	Audit records are kept
3	Audit reports are used
4	Audit results are communicated to responsible managers
5	Audits are planned and resourced
6	Complaints are handled
7	Corrective actions arising from audit non-conformances are implemented
8	Defined procedures and other work instructions are audited
9	Improvement decisions affect results
10	Improvement projects are logged
11	Information on customer perception is collected
12	Information on customer perception is communicated
13	Key performance indicators (KPIs) used are appropriate for the business
14	Management review system/business performance
15	Management system processes are measured
16	Management systems and individual processes are audited
17	Non-conforming product reports are reviewed by the Management Review
18	Outsourced services are audited
19	People know what to do when non-conformances happen during normal working
20	Performance information is communicated
21	Process and product KPIs are analysed
22	Product/service performance is measured
23	Solutions are appropriate to the problem being solved
24	Staff perception of the organization is gathered
25	The effectiveness of how issues have been addressed is checked
26	The need for corrective action is seen as positive

Group	Statement no. All figures are a percentage of the maximum score												
	1	2	3	4	5	6	7	8	9	10	11	12	13
Directors	73	50	100	40	100	25	70	20	70	15	60		60
Managers	60	60	45	50	60	30	60		50	15	60		60
Staff		10	50	40	80	20	27	45	50	7	60	30	60

Group	Statement no. All figures are a percentage of the maximum score												
	14	15	16	17	18	19	20	21	22	23	24	25	26
Directors	70	75	80	65	45	20	80	60	85	70	55	30	70
Managers	50	40	30	45	55		87	40	70	60	55	47	75
Staff	50	50	50	50	53	50	60		53	47	17	80	77

NOTE Where no number is shown in the table, this group was not asked to respond to this statement.

STATEMENTS ACHIEVING THE LOWEST OVERALL SCORES

Question No. 10 – Improvement projects are logged

Overall percentage score	11%
Directors	15%
Managers	15%
Staff	7%

Question No. 6 – Complaints are handled

Overall percentage score	24%
Directors	25%
Managers	30%
Staff	20%

Question No. 12 – Information on customer perception is communicated

Overall percentage score	30%
Directors	–
Managers	–
Staff	30%

Question No. 24 – Staff perception of the organization is gathered	
Overall percentage score	39%
Directors	55%
Managers	55%
Staff	17%

Question No 8 – Defined procedures and other work instructions are audited	
Overall percentage score	40%
Directors	20%
Managers	–
Staff	45%

CONFIRMATION FORM

Confirmation of acceptance of assessment findings

(To be completed by the manager responsible for the overall performance of the scope involved in this assessment.)

It is confirmed that:

- the responses provide suitable evidence on which to base this report;
- the analysis of the evidence has provided findings that are fair and reasonable with which I agree;
- the findings are a suitable base for improvement activity.

Signed: ________________________ **Name:** ________________________

Position: ________________________ **Date:** ________________________

Counter signatures:

Signed: ________________________ **Name:** ________________________

Position: ________________________ **Date:** ________________________

Signed: ________________________ **Name:** ________________________

Position: ________________________ **Date:** ________________________

Further actions and general comments

Acting on these results:

1. This report should be presented to the person responsible for this performance area for their agreement to its findings.
2. These results should be used to prioritize improvement activity.
3. We strongly recommend that a robust improvement plan is created, with agreed ownership for the actions and deliverables.
4. On completion of the improvement plan you should confirm that the deliverables have been achieved. It may then be appropriate to re-run this assessment.

Should you feel that further analysis of the responses would help you to focus better on the improvements that you wish to make, please e-mail enquiries@the-hpo.com.

We can, by arrangement, carry out a more detailed analysis against your specific needs.

Future action:

If this assessment and report is being used as a part of your application of an externally certified standard or framework, then you will need to carry out a re-assessment in accordance with that scheme's requirements. If you are unsure of these requirements, please contact us at enquiries@the-hpo.com.

Regardless of such requirements, we would suggest a re-assessment in 12 months' time to take into account the changing world.

In accordance with the conditions of contract under which this report has been produced, the organization for whom it is provided undertakes to disclose to any party using it all regulatory non-compliances and occurrences within the scope of the assessment for which any regulatory authority requires notification.

In accepting and using this report the client confirms that such disclosure has or will take place so that it and any associated certificate can be understood in its full context.

3. Staff Satisfaction Assessment

This assessment uses exactly the same principles as outlined in this book, only this time applied to an assessment of staff satisfaction rather than a process. It is included to show that the same disciplines can be applied. Typically a staff satisfaction survey is carried out using traditional survey-based techniques, but these often have the same inherent weaknesses as audits covering any scope, leading to a devaluing of the final results.

In this case the performance drivers are those factors that the organization sees as being important to it and what it is seeking to do as a business. As with all the assessments, no one was asked any specific questions about these drivers; rather, behavioural information was collected from a range of people both inside and outside the organization. This was then analysed automatically to report against the drivers.

Instead of showing the complete report, which ran to 35 pages, the following presentation was provided to senior management as a summary to focus attention on the key issues. As mentioned earlier in the book, all audit results need to be interpreted and reviewed so that the key findings are presented in a meaningful way to management rather than simply presenting the whole report. Often, this interpretation of audit results is not needed as the reports focus on compliance rather than effectiveness issues.

STAFF SATISFACTION ASSESSMENT – OCTOBER 2005

Methodology

- Define assessment scope and objectives*
- Construct assessment*
- Performance drivers:
  - Statements and responses (that the user sees)
  - Linkages
- Set up groups to be reported against*
- Invite and monitor participation – sample achieved: 85 per cent
- Run automated reporting routine*

*reviewed with UK management team

Summary of results

Overall result: 40.9 per cent. Good base level of performance from which to build.

Performance driver	Description	%
1	The branch acts ethically	58.1
2	Communication across the branch is effective	40.7
3	Decision making is effective	39.8
4	People's performance is managed and promoted to deliver the branch's objectives	40.4
5	People's financial and non-financial rewards recognize what they do	40.2
6	Career development takes place and is equitable	35.8
7	Staff retention is optimized	40.6
8	The branch's culture is focused on satisfying stakeholder needs	42.4
9	People have a supportive relationship with their line manager	40.6
10	The branch works in an open and supportive cultural environment	40.9

Areas of relative strength

	%
The branch acts ethically	58.1
Culture is focused on satisfying stakeholder needs	42.4
Open and supportive culture	40.9

Areas of relative improvement

	%
Career development takes place and is equitable	35.8
Decision making is effective	39.8
People's financial and non-financial awards recognize what they do	40.2

Other significant findings

There are issues with:

- new managers and staff being appointed in a timely manner;
- people having an equal chance of promotion;
- people being supported to make the most of their talents;
- what satisfies staff being understood;
- system and procedure complexity;
- recognition of performance.

The assessment confirms:

- people are proud to work for our branch;
- working in an ethical organization is important;
- the flexi-hours system is important.

How do we improve?

Integrate into business strategy and tactical implementation.

- Build on strengths – continue what we are already doing well.
- Investigate and address areas of improvement.

Incorporate into the overall business strategy the following elements:

- promoting customer and stakeholder focus;
- reducing system and process complexity;
- people recruitment, development and recognition;
- regular communication of performance and rationale for decisions.

Monitor performance and repeat assessment mid-2006.

4. ISO 9001:2000 Clause 5 Assessment Report

This case study is part of a programme designed to maintain ongoing registration to ISO 9001:2000. It is included to show that third-party registration bodies could provide much more data and information if they wished.

This report is in two sections. The first looks at the maturity of the subclauses that make up Clause 5 of the standard and the second, drivers of business improvement. Compare the two and see which you think is the most valuable in helping an organization move forward.

In section 1 the results were used by the auditor to carry out a reduced on-site assessment, which focused on the areas shown as the greatest risk. In this case it would have been the activities associated with Clauses 5.3 and 5.4 to establish what was happening and if there were any real problems. At the end of this section you will see that there are no non-conformances.

Section 2, however, shows a different picture in that the same data are analysed differently and instead of reporting against clauses, the results are shown against drivers of performance associated with the content of Clause 5 – that is, the results are not concerned with compliance to the clause, but to the drivers of performance that assess effectiveness. In this case the weakest drivers were:

- customer and other stakeholder needs drive the business plan – 51.6 per cent;
- the organization is customer focused – 52.1 per cent;
- a single business management system covers all activities required – 52.5 per cent.

The strongest were:

- everyone understands how the organization is performing – 75.0 per cent;
- everyone knows what they are responsible for achieving – 67.1 per cent;
- resources are managed to deliver performance – 66.8 per cent.

While the organization still has some way to go with embedding its management system into the business and maximizing the benefits both of the standard and the system itself, it has clearly adopted best practice business process management.

Remember that 40 per cent represents compliance with the standard. These scores show that the organization is moving beyond compliance in its adoption of business process management and in applying the standard, and show a level of maturity that should give confidence to those that work with the organization that it is being managed and controlled, at least in terms of the activities associated with Clause 5 of the standard. It certainly is not just a case of having a ‘badge on the wall’. Of course, as part of the ongoing registration the organization will carry out similar improvement assessments taking an in-depth look at the other clauses of ISO 9001:2000.

In terms of management activity the audit results were used to communicate to the staff and customers that progress had been made, with the only improvement project being the need to focus more on customers in terms of finding out what they need prior to the creation of business plans.

Title:	Improvement Opportunity Assessment – ISO 9001:2000 Clause 5
For:	ABC
Organization:	ABC

This assessment provides you with an **independent and consistent review of performance, within the scope defined**.

Contents of report

General assessment description
Section 1 – Certification assessment report
Section 2 – Business improvement report
Section 3 – Confirmation form

Description of assessment:

Once initial certification has been achieved, it is a requirement of the certification process to demonstrate continuous improvement of your ISO 9001:2000 management system. It is also necessary for the certifying body to make sure that you are maintaining and using the system in accordance with the requirements of the standard. This **online assessment** addresses both of these requirements.

It takes a closer look at the **elements contained within Clause 5 (Management Responsibility)** of the standard. In doing so, it reviews your continued adherence to the principles which this clause defines and identifies where improvements could benefit your overall business performance.

Scope:

Entire company except new arrivals. The following people comprised the complete scope as defined when the assessment was set up:

Department/Team/Function	Estimated no. of people
Founders	4
Managers	5
Staff	15

Users of the report need to assure themselves that this is, in reality, a reasonable and complete definition of this scope. These numbers have been used to check whether an adequate sample size of participants has been involved. If the numbers are significantly different, the result must be treated with caution.

Assessment administration:

Date set up:	10/11/2005
Date completed:	18/11/2005
Set up by:	GHI
Administrator:	GHI

Participation in the assessment

Participation by the main groups of people involved in the assessment is shown below:

Founders	100%	Managers	100%	Staff	53%

SECTION 1 – CERTIFICATION ASSESSMENT REPORT

This section of the report provides you with a review of the performance against the individual clauses of the standard being assessed, and is the major element that is taken into consideration when reviewing your suitability for registration. The on-site review is used to validate and support this decision.

This section links the responses made by everyone who took part in the assessment to the appropriate clauses, and analyses what this means in terms of your 'maturity' against these clauses and the standard itself. It also provides a review of the result indicated by the main groups of people who took part, allowing you to see differences of view and hence identify potential weaknesses and strengths.

Contents of this section

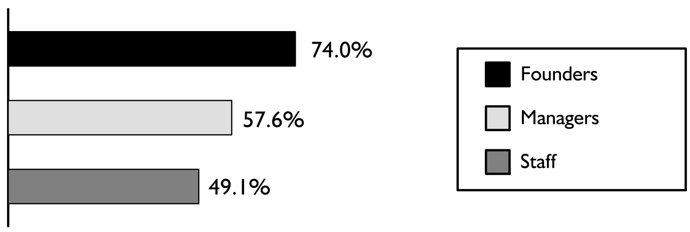
Review of Clause 5 result
Non-conformance report

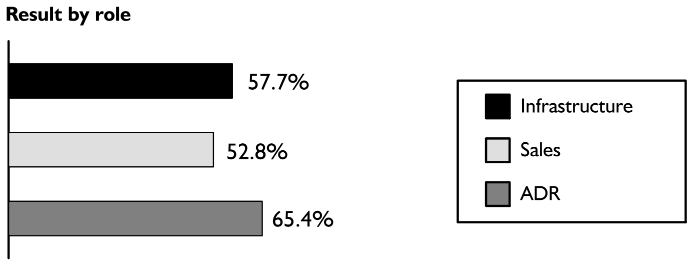
RESULT FOR CLAUSE 5

Overall result: The overall result indicated for this Clause is **58.4 per cent**.

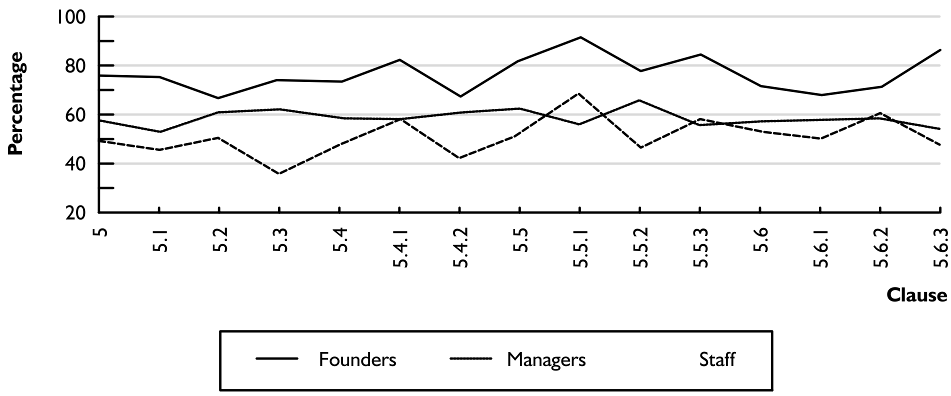
It is important to understand the different responses from the various groups involved in the assessment, as these differences will often be the cause of business risks. This understanding will also allow you to start your analysis of potential areas for driving improvement against the requirements of this Clause.

Result by department/function/team

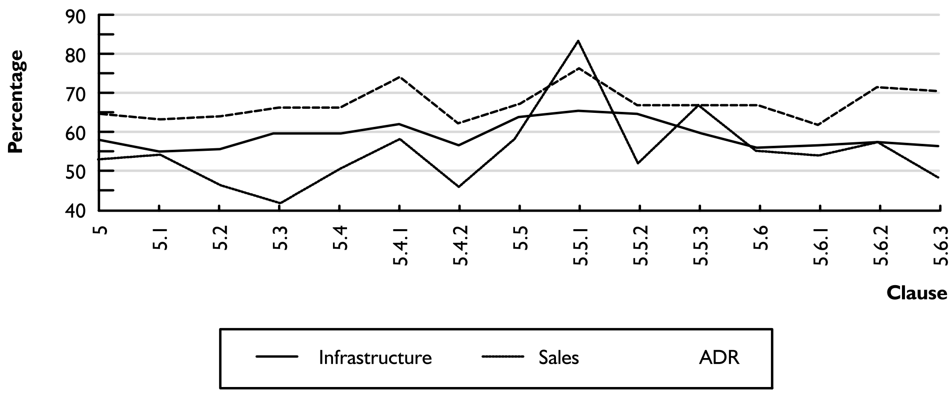




Results for each subclause by department/function/team



Results for each subclause by role



NON-CONFORMANCE REPORT

No non-conformances or low conformances have been indicated by this assessment.

SECTION 2 – BUSINESS IMPROVEMENT REPORT

This section of the report provides you with additional information that is not part of the formal third-party assessment against the standard. It provides you with a review of your performance against a set of key performance drivers that will allow you to relate the findings directly to the important issues that your organization can address to improve your overall performance and system maturity.

Like section 1 of this report, it links the responses made by everyone who took part in the assessment to the appropriate driver, and analyses what this means in terms of your 'maturity' against these. It also provides a review of the result indicated by the main groups of people who took part, allowing you to see differences of view and hence identify potential weaknesses and strengths.

The overall result shown for the formal standard or framework may be different to that shown in this Business Improvement Report. This is to be expected, as although the same information is used, it is being analysed against different criteria and therefore produces a different overall result.

Contents of this section

Result by indicator
Performance by main involvement group
Performance drivers with the highest scores – areas of strength
Performance drivers with the lowest scores – areas of improvement
Performance by role
Low and non-conformance report

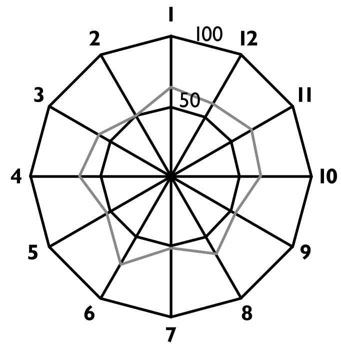
RESULT BY INDICATOR

Overall result: 59.2 per cent – Bronze level

Based on the evidence provided by the people taking part in the assessment the results show that your organization has met the minimum level required to be classified as meeting the requirements of the framework from which this assessment was created.

Congratulations, **you have achieved our Bronze Award**.

Overview of result against performance drivers



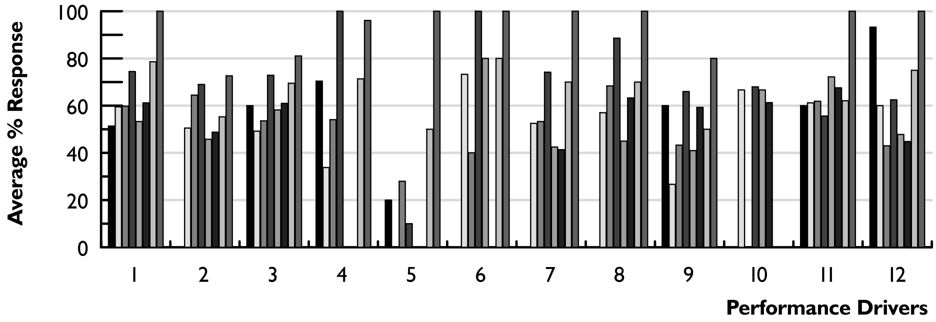
Performance driver	Description	%
1	Management leads the organization by using the management system	63.6
2	Customer and other stakeholder needs drive the business plan	51.6
3	The management system is designed to deliver the organization's objectives	60.3
4	Everyone knows what they are responsible for achieving	67.1
5	Quality/business policy is understood	52.9
6	Everyone understands how the organization is performing	75.0
7	The organization is customer-focused	52.1
8	Continuous improvement enhances what is being delivered over time	64.5
9	A single business management system covers all activities required	52.5
10	The organization balances and prioritizes all stakeholder needs	64.4
11	Resources are managed to deliver performance	66.8
12	Performance is measured	59.2

PERFORMANCE BY GROUP

The responses for each performance driver are shown below. This shows the difference in perception between the main groups.

You can:

- consider these differences and where they may affect performance, this may identify risk areas;
- review any specific elements where individual groups have a low result;
- understand any real gaps between the perception of different groups.



My main involvement in the organization is to:

- be a new staff member with less than 3 months' service
- communicate, sell and listen to customers
- deliver a service
- manage or lead a product or service delivery team
- manage or lead non-product or service delivery team
- manage the organization overall
- support the people who make or deliver a product or service
- take finished products to customers

The largest differences are likely to indicate that there may be business risks. The most significant differences are:

Performance driver		Highest	Lowest	% difference
5	Quality/business policy is understood	Take finished products to customers	Manage or lead a product or service delivery team	80.0
4	Everyone knows what they are responsible for achieving	Manage or lead a product or service delivery team	Communicate, sell and listen to customers	66.2
6	Everyone understands how the organization is performing	Take finished products to customers	Deliver a service	60.0

Results for each of the groups against the performance drivers

	Performance driver											
Group	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
	All figures are percentages											
Be a new staff member with less than 3 months service	51.4	–	60.0	70.4	20.0	–	–	–	60.0	–	60.0	93.3
Communicate, sell and listen to customers	59.5	50.5	49.2	33.8	–	73.3	52.5	57.0	26.7	66.7	61.2	60.0
Deliver a service	59.8	64.5	53.6	54.1	28.0	40.0	53.3	68.4	43.3	–	61.9	43.0
Manage or lead a product or service delivery team	74.5	69.0	72.9	100	10.0	100	74.2	88.6	66.0	68.0	55.6	62.5
Manage or lead non-product or service delivery team	53.3	45.8	58.2	–	–	80.0	42.5	45.0	41.0	66.7	72.2	47.8
Manage the organization overall	61.2	48.8	61.0	–	–	–	41.4	63.3	59.3	61.3	67.6	44.8
Support the people who make or deliver a product or service	78.6	55.3	69.5	71.4	50.0	80.0	70.0	70.0	50.0	–	62.1	75.0
Take finished products to customers	100	72.7	81.1	96.1	100	100	100	100	80.0	–	100	100

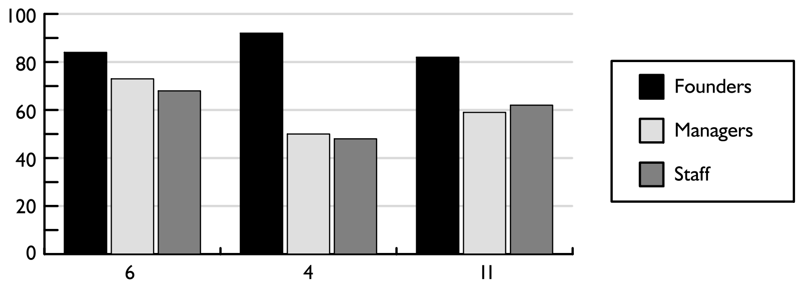
PERFORMANCE DRIVERS WITH HIGHEST SCORES – AREAS OF STRENGTH

Listed below are the strongest areas. Where they are above 60 per cent they may be considered a strength.

		%
6	Everyone understands how the organization is performing	75.0
4	Everyone knows what they are responsible for achieving	67.1
11	Resources are managed to deliver performance	66.8

Analysis:

For each of these strengths, reviewing the differences between each department, team or function may indicate where further improvement could be made. Where a '%' is shown without a number, this indicates this department, team or function was not asked about this performance driver.



PERFORMANCE DRIVERS WITH LOWEST SCORES – AREAS OF IMPROVEMENT

Listed below are the weakest areas, which indicate an opportunity for improvement.

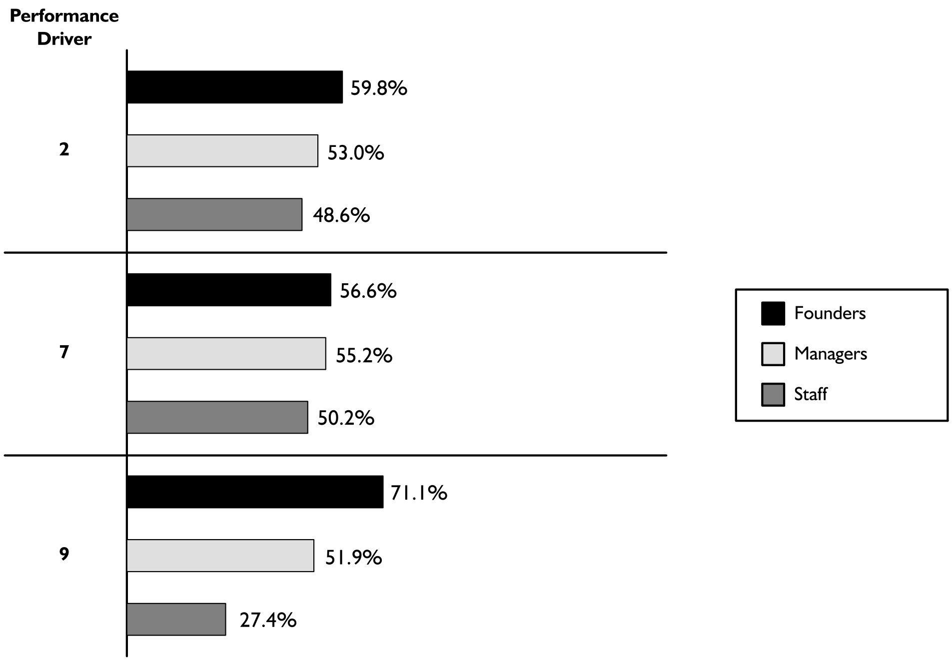
Performance driver		**%**
2	Customer and other stakeholder needs drive the business plan	51.6
7	The organization is customer-focused	52.1
9	A single business management system covers all activities required	52.5

Analysis:

For each of these improvement areas, further investigation of the differences will identify possible improvement actions.

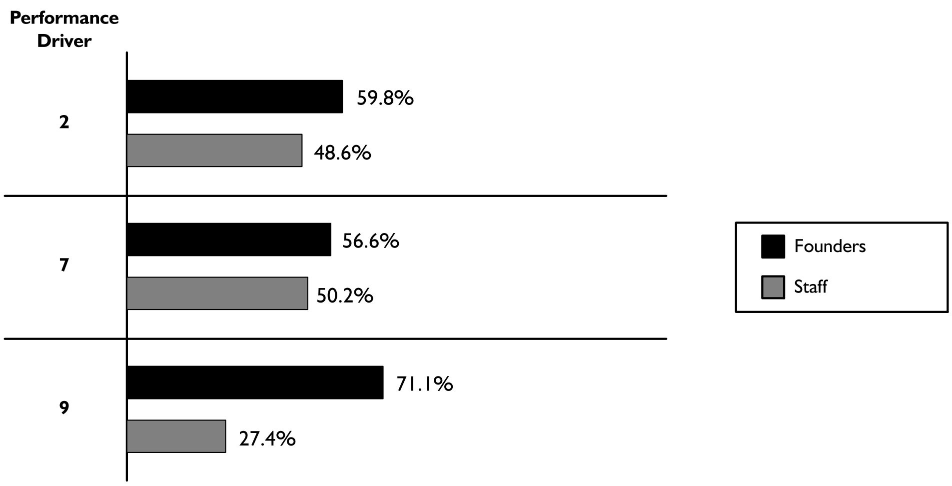
Results by department/function/team

Where a group is not shown it was not asked about this performance driver.



Widest variance between departments/teams/functions

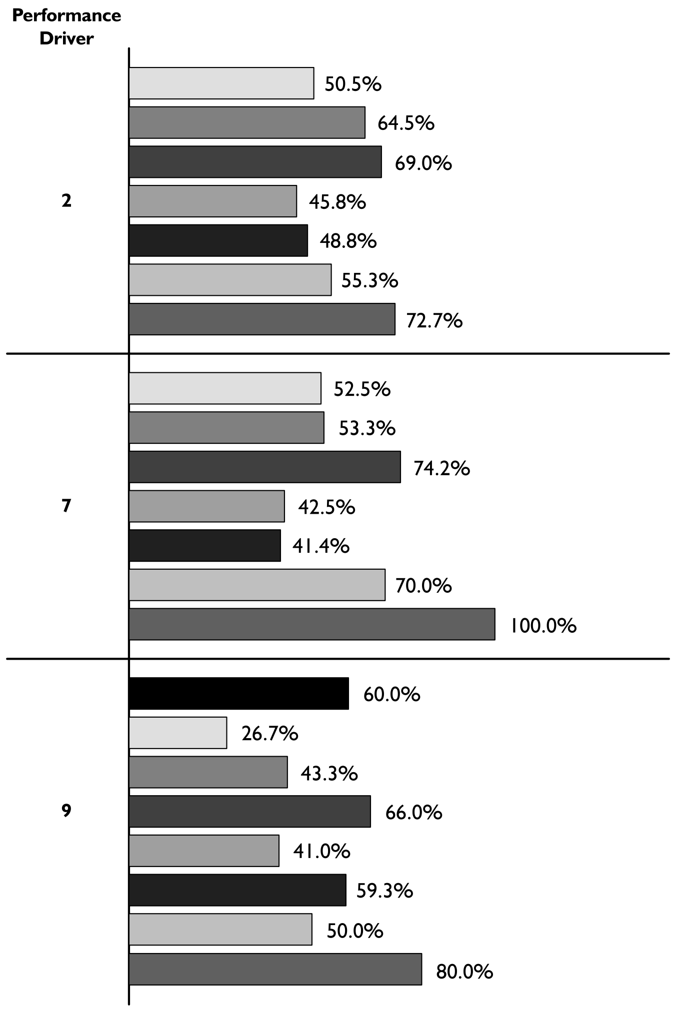
The highest and lowest scores are:



When more than one group scored the same level, they are all shown.

Results for groups involved

Where a group is not shown it was not asked about this performance driver.



My main involvement in the organization is to...

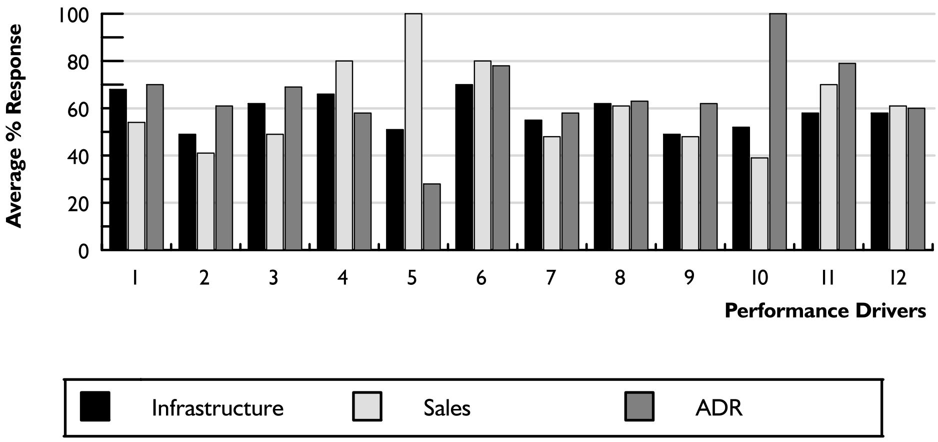
- be a new staff member with less than 3 months' service
- communicate, sell and listen to customers
- deliver a service
- manage or lead a product or service delivery team
- manage or lead non-product or service delivery team
- manage the organization overall
- support the people who make or deliver a product or service
- take finished products to customers

PERFORMANCE BY ROLE

The responses for each performance driver are shown below. This shows the difference in perception between the roles that you identified as being involved in this assessment.

You can:

- consider these differences and where they may affect performance, this may identify risk areas;
- review any specific elements where individual roles have a low result;
- understand any real gaps between the perception of different roles.



The largest differences are likely to indicate that there may be business risks. The most significant differences are:

Performance driver		Highest	Lowest	% difference
5	Quality/business policy is understood	Sales	ADR	72.0
10	The organization balances and prioritizes all stakeholder needs	ADR	Sales	61.8
11	Resources are managed to deliver performance	ADR	Infrastructure	22.8

NON-CONFORMANCE REPORT

Non-conformance is indicated with the following statements used in the assessment:

	%
Legal and regulatory requirements are communicated	27
Resources are available for improvement projects	0
Managers review performance using a set agenda	17

Conformance is indicated as low with the following statements used in the assessment:

	%
Required standards and other frameworks are applied	37
Major customer groups have been established	38
Stakeholders' needs are confirmed	35
Statutory and regulatory requirements are identified	33

SECTION 3 – CONFIRMATION FORM

Confirmation of acceptance of assessment findings

(To be completed by the manager responsible for the overall performance of the scope involved in this assessment.)

It is confirmed that:

- the responses provide suitable evidence on which to base this report;
- the analysis of the evidence has provided findings that are fair and reasonable with which I agree;
- the findings are a suitable base for improvement activity.

Signed: ________________________ **Name:** ________________________

Position: ________________________ **Date:** ________________________

Counter signatures:

Signed: ________________________ **Name:** ________________________

Position: ________________________ **Date:** ________________________

Signed: ________________________ **Name:** ________________________

Position: ________________________ **Date:** ________________________

5. Fulfilment process audit report

This audit was carried out by an organization that has been subject to third-party registration by a well-known registration body for the last five years. The process describes the organization's main activity: it sells and delivers a product that has been imported from other countries. Although the company has a huge turnover, the subject of the audit was one branch with a large turnover serving Europe. The third-party registration body had picked up a few non-conformances, and as a consequence the management team had become disillusioned with the registration to ISO 9001:2000 and changed registration bodies.

While the second process audit case study considered service-oriented activities, this case study consists of a warehousing operation. The issues are therefore quite different and include other requirements such as health and safety as well as security concerns. Again, the drivers of performance shown in the report were defined by the management team with the support of the auditor. The assessment was then carried out by looking for behaviours across the operation that would provide evidence determining the effectiveness of the fulfilment process. This included behaviour of people in the fulfilment process, such as pickers and despatchers, as well as those who experience the process in action, such as sales people (because they have to hear the complaints and views from customers), finance (because they have to issue credit notes) and health & safety representatives (because the process must be carried out safely).

The overall score of 32 per cent suggests that there is much opportunity for improvement, with the lowest scoring drivers being:

- non-product customer requirements are met – 25.4 per cent;
- waste is minimized – 28.2 per cent;
- stock is protected from damage – 29.1 per cent.

As before, no auditee who took part was asked about these issues directly. Instead they were asked for typical behaviours that they saw happening around them on a day-to-day basis that when linked together formed sufficient objective evidence against these drivers.

As the maturity scores for these drivers are low, an auditor could expect to see a number of non-conformances that would provide the supporting evidence. These non-conformances were as follows.

- Process performance is measured.
- Trends in process performance are known.
- Performance of this process is measured.
- Goods are stored to prevent damage.

- Orders for picking are managed.
- Picking and packing errors are investigated and resolved.
- Customers receive what they expect.
- Goods are protected during delivery to the customer.
- Returned goods are investigated and corrective action agreed.
- Stock levels are managed.
- People (from purchasing to despatch) involved in the process work as one team to deliver what customers require.
- Stock is used in an efficient way.

In the audit the auditees were asked about these and other issues and the experiences and behaviours that they saw happening around them. Their responses were analysed to provide the high-level data for management to review and identify performance issues and improvement projects.

Note that many of the compliance issues relate directly to performance and business results – picking errors, damaged goods, etc. It is unknown why the organization's registration body did not pick up these issues as part of the routine surveillance visit, but perhaps it is tangible evidence that the existing person-day auditing approaches and the inherent weaknesses in the auditing process are too constraining in being able to identify the issues that matter in a consistent manner.

Title:	Fulfilment Process
For:	Fulfilment
Organization:	ABC Ltd

This assessment provides you with an **independent and consistent review of performance, within the scope defined**. Strengths and weaknesses are reported against areas that drive performance, along with non-conformances.

Contents of report:

1 – Overview and result
2 – Participation
3 – Performance by group
4 – Areas of strength
5 – Areas of improvement
6 – Non-conformance
7 – Confirmation form

Description of assessment:

This assessment covers the fulfilment process of ABC Ltd.

Scope:

Internal online audit of the fulfilment process.

The following people comprised the complete scope as defined when the assessment was set up:

Department/Team/Function	Estimated no. of people
Product Management	5
Purchasing	5
Sales	5
Finance	5
Goods Inwards	3
Picking/QC	6
Despatch	4
Ops Support	5
Inventory	4
Human Resources/Health & Safety/Security	5

Users of the report need to assure themselves that this is, in reality, a reasonable and complete definition of this scope. These numbers have been used to check whether an adequate sample size of participants has been involved. If the numbers are significantly different, the result must be treated with caution.

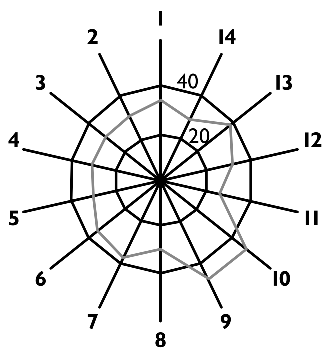
Assessment administration:

Date set up:	12/06/2005
Date completed:	20/06/2005
Set up by:	A Person
Administrator:	A Person

Overall result: 32.8 per cent – unclassified result (more than 20 per cent of performance drivers are below the minimum level)

Although your overall average result may have reached the minimum required to achieve a classified result, there are a significant number of individual areas where performance has not reached this level. The overall result is therefore unclassified, and does not meet the requirements of the framework being assessed.

Overview of result against performance drivers



Performance driver	Description	%
1	The process is managed and controlled	34.2
2	Process activities take place	31.5
3	The correct items are dispatched	30.2
4	Stock is managed to optimize performance	30.4
5	Despatch deadlines are met	29.5
6	Stock is available when needed for despatch	35.3
7	Information flows support the process	37.2
8	Stock is protected from damage	29.1
9	Health and safety requirements are followed	47.6
10	The security policy is effective	46.9
11	Non-product customer requirements are met	25.4
12	Items are correctly taken into stock	31.3
13	Stock received matches product orders	38.7
14	Waste is minimized	28.2

Performance over time

If this assessment covers the same scope as one carried out before, the overall results are shown below, so that you can see how your performance has changed over time.

As this is your first assessment against the scope no previous results are available.

PARTICIPATION

Participation by the main groups of people involved in the assessment is shown below as a percentage of the number indicated in the scope.

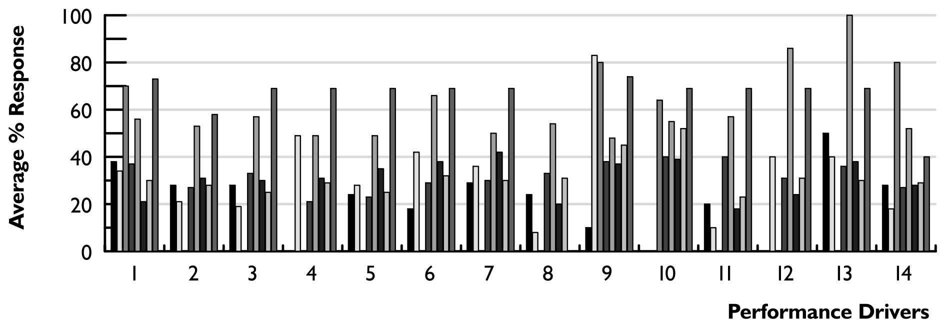
Despatch	25%	Finance	0%
Goods Inwards	0%	Human Resources/ Health & Safety/Security	60%
Inventory	125%	Ops Support	100%
Picking/QC	0%	Product Management	140%
Purchasing	60%	Sales	60%

PERFORMANCE BY GROUP

The responses for each performance driver are shown below. This shows the difference in perception between the main groups.

You can:

- consider these differences and where they may affect performance, this may identify risk areas;
- review any specific elements where individual groups have a low result;
- understand any real gaps between the perception of different groups.



My main involvement in the fulfilment process is to:

- discuss and agree orders to be sent to customers
- lead or supervise warehouse teams
- lead or manage non-warehouse teams
- purchase stock
- check orders before despatch
- manage stock levels
- provide operational support to customers
- provide guidance and advise on health and safety issues

The largest differences are likely to indicate that there may be business risks. The most significant differences are shown below.

Performance driver		Highest	Lowest	% difference
9	Health and safety requirements are followed	Lead or supervise warehouse teams	Discuss and agree orders to be sent to customers	73.3
13	Stock received matches product orders	Check orders before despatch	Provide operational support to customers	70.0
14	Waste is minimized	Lead or manage non-warehouse teams	Lead or supervise warehouse teams	63.1

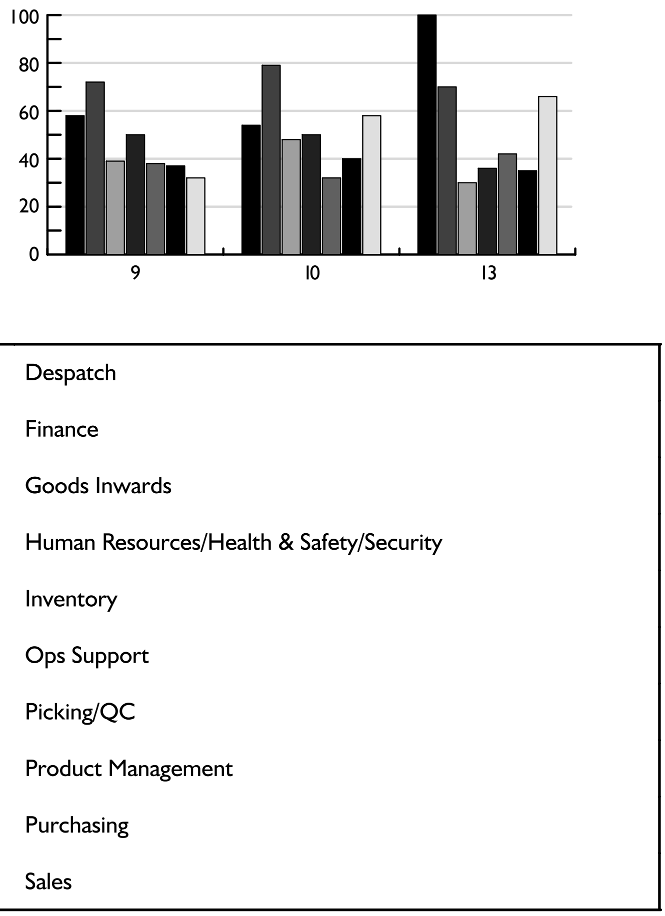
AREAS OF STRENGTH

Listed below are the strongest areas. Where they are above 60 per cent they may be considered a strength.

Performance driver		%
9	Health and safety requirements are followed	47.6
10	The security policy is effective	46.9
13	Stock received matches product orders	38.7

Analysis:

For each of these strengths, reviewing the differences between each department, team or function may indicate where further improvement could be made. Where a '%' is shown without a number, this indicates this department, team or function was not asked about this performance driver.



AREAS OF IMPROVEMENT

Listed below are the weakest areas, which indicate an opportunity for improvement.

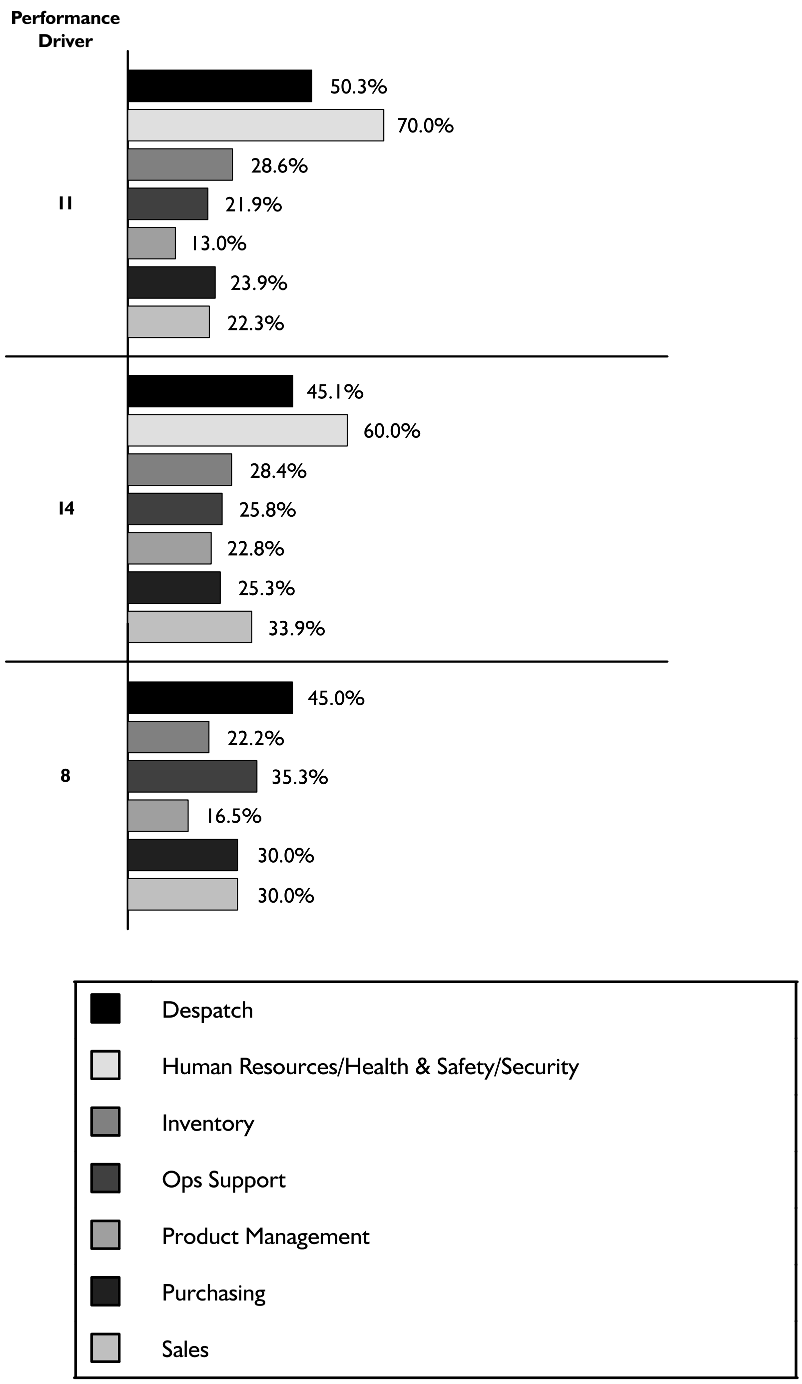
Performance driver		%
11	Non-product customer requirements are met	25.4
14	Waste is minimized	28.2
8	Stock is protected from damage	29.1

Analysis:

For each of these improvement areas, further investigation of the differences will identify possible improvement actions.

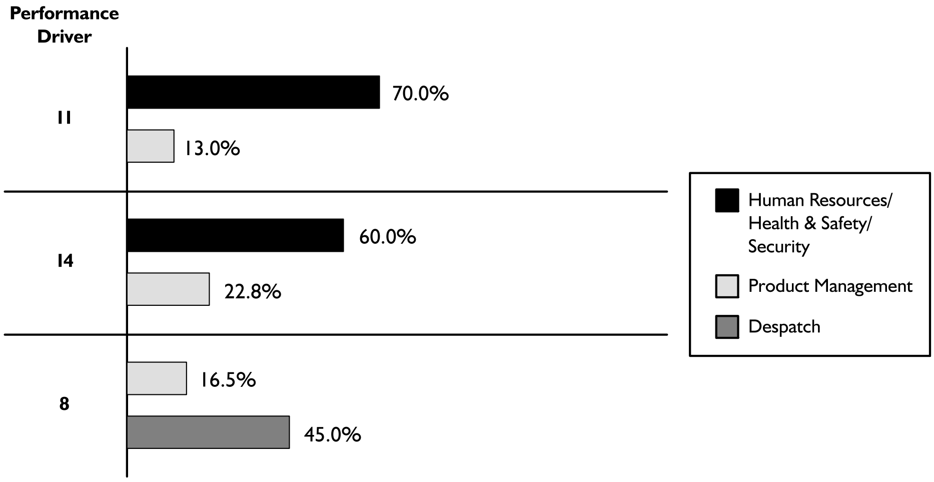
Results by department/function/team

Where a group is not shown it was not asked about this performance driver.



Widest variance between departments/teams/functions

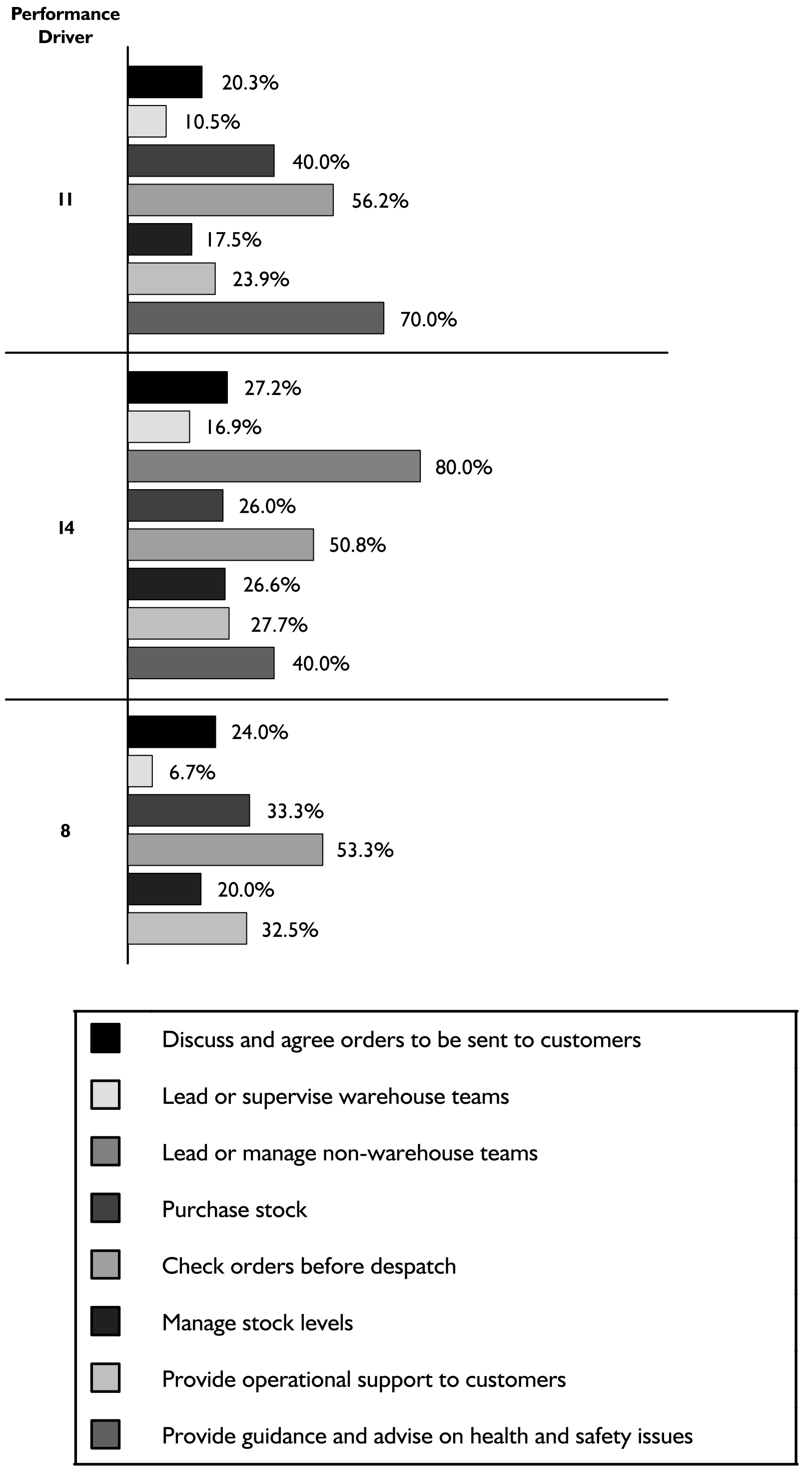
The highest and lowest scores are:



Where more than one department/team/function scored the same level, they are all shown.

Results by the interested parties

Where a department/team/function is not shown it was not asked about this performance driver.



NOTE Although this analysis will be useful, further insights into where you can improve performance would be provided by increasing the level of participation by following groups:

Group	**Actual participation**
Finance	0%
Goods Inwards	0%
Picking/QC	0%

NON-CONFORMANCE REPORT

There is non-conformance with the following:

	%
The performance of this process is measured	16
Trends in process performance are known	22
Goods are stored to prevent damage	25
Orders for picking are managed	0
Picking and packing errors are investigated and resolved	20
Customers receive what they expect	20
Goods are protected during delivery to the customer	28
Returned goods are investigated and corrective action agreed	16
Stock levels are managed	22
People (from purchasing to despatch) involved in the process work as one team to deliver what customers require	28
Stock is used in an efficient way	23

Conformance with the following is low:

	%
Improvements to this process take place	36
Records showing what has happened are available	32
Goods are packed following the customer requirements	33
Goods received can be found where indicated	33
Order details can be found on the XYZ system	33
Part deliveries are managed	38
Packed goods are inspected	30
Customers receive goods on the date they expect them	30
Damaged or returned goods are protected to prevent them being accidentally picked and packed	33
The warehouse can deliver what is sold	30
Planned deliveries are managed to meet deadlines	32

CONFIRMATION FORM

Confirmation of acceptance of assessment findings

(To be completed by the manager responsible for the overall performance of the scope involved in this assessment.)

It is confirmed that:

- the responses provide suitable evidence on which to base this report;
- the analysis of the evidence has provided findings that are fair and reasonable with which I agree;
- the findings are a suitable base for improvement activity.

Signed: ______________________ **Name:** ______________________

Position: ______________________ **Date:** ______________________

Counter signatures:

Signed: ______________________ **Name:** ______________________

Position: ______________________ **Date:** ______________________

Signed: ______________________ **Name:** ______________________

Position: ______________________ **Date:** ______________________

6. Understanding Markets audit report

At the start of any business management system there is activity that seeks to identify what customers and other stakeholders expect from the organization. Typically an organization will use this information to create business strategies and plans so that when it implements the plan and delivers the products and services, it knows these will meet the customer and stakeholder needs.

This process audit considers this stakeholder engagement process and the drivers that may be important in ensuring such a process is effective.

The risk profile for this audit shows conformance to performance driver no. 8 ('The business understands the regulatory, legal and sector frameworks it needs to apply') to be low. indicating that there is no method for consistently identifying the legal and regulatory requirements the organization needs to apply. The non-conformances towards the end of the report provide the evidence to support this main finding and also show other areas of risk associated with the market and business opportunities on which the organization may be missing out.

Title:	Understanding Our Market Process Assessment
For:	Understanding Our Market
Organization:	COMPANY NAME

This assessment provides you with an **independent and consistent review of performance, within the scope defined**. Strengths and weaknesses are reported against areas that drive performance, along with non-conformances.

Contents of report:

1 – Overview and result
2 – Participation
3 – Performance by group
4 – Areas of strength
5 – Areas of improvement
6 – Non-conformance
7 – Confirmation form

Description of assessment:

This assessment looks at both the effectiveness of your 'Understanding Our Market' process and conformance with the specific actions defined within it. It provides a review against the process itself as well as against some key 'drivers of high performance' that will increase its effectiveness.

Scope:

Audit P1 covering General Management, direct reports and other managers. The following people comprised the complete scope as defined when the assessment was set up:

Department/Team/Function	Estimated no. of people
Top-level management	1
Operations managers at all levels	16
Sales managers	6

Users of the report need to assure themselves that this is, in reality, a reasonable and complete definition of this scope. These numbers have been used to check whether an adequate sample size of participants has been involved. If the numbers are significantly different, the result must be treated with caution.

Assessment administration:

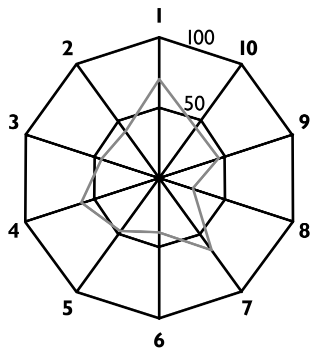
Date set up:	07/05/2004
Date completed:	05/06/2004
Set up by:	NAME
Administrator:	NAME

Overall result: 45.9 per cent – Bronze level

Based on the evidence provided by the people taking part in the assessment, the results show that your organization has met the minimum level required to be classified as meeting the requirements of the framework from which this assessment was created.

Congratulations, **you have achieved our Bronze Award**.

Overview of result against performance drivers



Performance driver	Description	%
1	The purpose of the process is understood	70
2	Process activities take place	42
3	The process is managed and controlled against targets	44
4	The process is understood	60
5	Stakeholder needs and their impact on the business are understood	48
6	Resources are managed to support process performance	39
7	The business knows what its stakeholders think of it	66
8	The business understands the regulatory, legal and sector frameworks it needs to apply	24
9	The position of the business within the market is understood	46
10	Competitively advantageous opportunities are identified	44

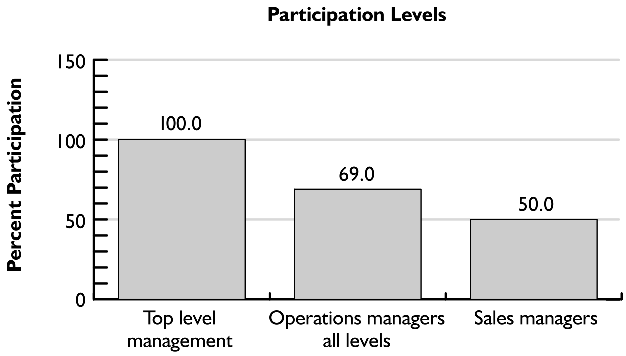
Performance over time

If this assessment covers the same scope as one carried out before, the overall results are shown below, so that you can see how your performance has changed over time.

As this is your first assessment against the scope no previous results are available.

PARTICIPATION

Participation by the main groups of people involved in the assessment is shown below:



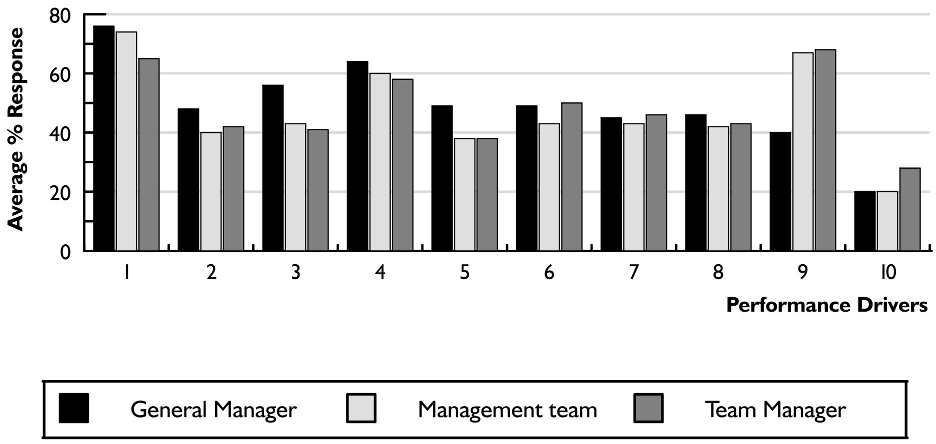
PERFORMANCE BY GROUP

The responses for each performance driver are shown below.

This shows the difference in perception between the main groups.

You can:

- consider these differences and where they may affect performance, this may identify risk areas;
- review any specific elements where individual groups have a low result;
- understand any real gaps between the perception of different groups.



The largest differences are likely to indicate that there may be business risks. The most significant differences are:

Performance driver		Highest	Lowest	% difference
9	The business knows what its stakeholders think of it	Team Manager	General Manager	30
3	The process is managed and controlled against targets	General Manager	Team Manager	14
1	The purpose of the process is understood	General Manager	Team Manager	11
6	Resources are managed to support process performance	General Manager	Team Manager	11

AREAS OF STRENGTH

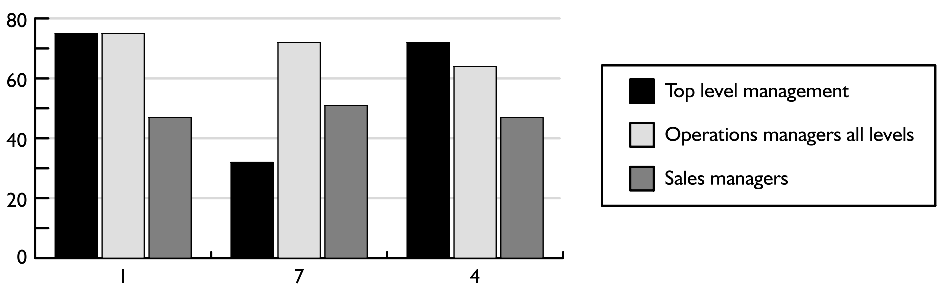
Listed below are the strongest areas. Where they are above 60 per cent they may be considered a strength.

Performance driver		%
1	The purpose of the process is understood	70
7	The business knows what its stakeholders think of it	66
4	The process is understood	60

Analysis:

For each of these strengths, reviewing the differences between each department, team or function may indicate where further improvement could be made.

Where a group is not shown in this diagram, it was not asked about this performance driver.



AREAS OF IMPROVEMENT

Listed below are the weakest areas, which indicate an opportunity for improvement.

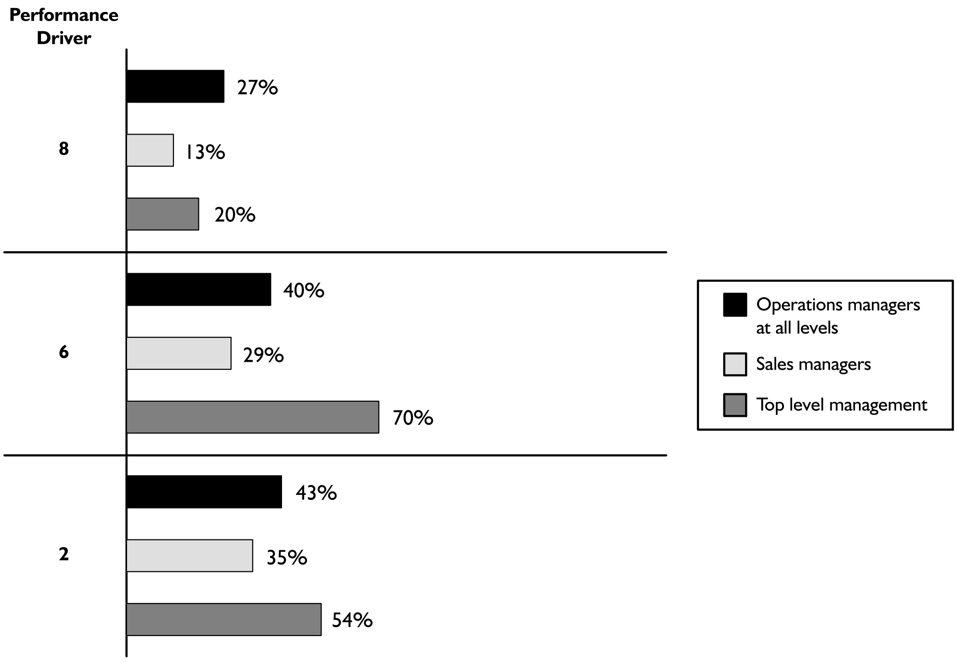
Performance driver		%
8	The business understands the regulatory, legal and sector frameworks it needs to apply	24
6	Resources are managed to support process performance	39
2	Process activities take place	42

Analysis:

For each of these improvement areas, further investigation of the differences will identify possible improvement actions.

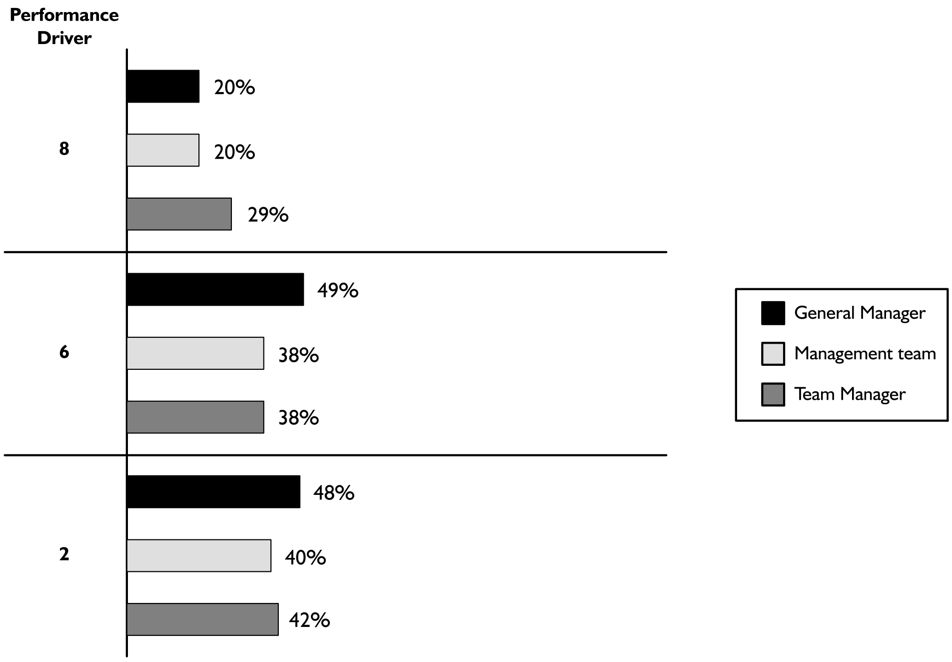
Results by department/function/team

Where a group is not shown in this diagram it was not asked about this performance driver.



Results by the Interested Parties

Where a department/team/function is not shown they were not asked about this performance driver.



NON-CONFORMANCE REPORT

There is non-conformance with the following:

	%
Information published externally to the company that could impact the organization is reviewed	24
Competitor activity is identified and reviewed	19
Legal policies set by the group are understood and applied	29
Market opportunities are addressed quickly enough to maximize their overall benefit	28

Conformance with the following is low:

	%
The longer term needs of potential new customers are understood	39
Environmental policies set by the group are understood and applied	31
Market opportunities are prioritized	35
Market opportunities that will result in products and services to address them are confirmed	36
Information relating to market opportunities that are not to be taken is available	35

CONFIRMATION FORM

Confirmation of acceptance of assessment findings

(To be completed by the manager responsible for the overall performance of the scope involved in this assessment.)

It is confirmed that:

- the responses provide suitable evidence on which to base this report;
- the analysis of the evidence has provided findings that are fair and reasonable with which I agree;
- the findings are a suitable base for improvement activity.

Signed:	______________________	**Name:**	______________________
Position:	______________________	**Date:**	______________________

Counter signatures:

Signed:	______________________	**Name:**	______________________
Position:	______________________	**Date:**	______________________
Signed:	______________________	**Name:**	______________________
Position:	______________________	**Date:**	______________________

Auditing for the 21st Century

Ian Rosam
Rob Peddle

Auditing for the 21st Century is dedicated to challenging the status quo in the auditing world, which is failing to deliver what organizations really need. The time for change has arrived.

Some of the auditing approaches mentioned in this book are not new, but adding them together is, as is exposing the inherent weaknesses built into the existing auditing process. This new synthesis is a fundamental shift in the ways audits are carried out.

Senior managers are concerned with the performance of the organization and require strategic management information that reflects their need to drive effectiveness and manage risk. What managers need is high level and strategic – yet often auditing is low-level and low-value. There is a mismatch, which the approaches in *Auditing for the 21st Century* address.

From an analysis of the limitations of current audtiing practice, this book takes the reader through a new approach, and demonstrates the principles through a series of examples and case studies.

About the authors

Ian Rosam and Rob Peddle have developed these auditing techniques based upon implementing process-based management systems in the 'real world' and the need to have robust and appropriate auditing techniques for today's organizations. Such techniques need to complete the continuous improvement loop, manage risk and effectiveness and through this drive improved performance. These needs also apply to the surge of compliance requirements that organizations now face, often outside the normally sphere of standards implementation, but perhaps even more likely to end in prosecution.

0 580 48146 8

BSI ref: BIP 2107

BSI
Group Headquarters
389 Chiswick High Road
London W4 4AL

www.bsi-global.com

The British Standrads Institution
is incorporated by Royal Charter