

Making sense of performance reporting and internal audits

Written by QNewZ columnist, Ian Hendra

Dr Deming

Dr Deming was a professional statistician. His world was the world of numbers, even though he believed that not everything was measurable.

He taught us a great deal about the importance of controlling variation in processes so numbers always played a significant role. Having said that, Dr Deming's 14 points for the transformation of management were all about engaging staff in the need to satisfy customers' expectations. Just hold that thought (and pertinent to some recent LinkedIn discussions): just where does internal audit fit?



A picture paints a thousand words

Last time I showed you a tree diagram of a monthly performance report from my favourite company Buckett Enterprises Ltd. This style of reporting came my way via a couple of clients who used it every month for their periodic management review.

These clients had learned that lengthy reports were rarely read, often misunderstood and time consuming to prepare, so the diagram method solved three problems in one go; a picture painted a thousand words, almost literally!

Non-financial performance measurement

Whilst the tree diagram from my previous column (QNewZ, March 2013) seemed largely self-explanatory, I'm going to expand it here because I want to make a few points that relate to the intimate relationship between what we call quality management and what some call risk management.

The company's business plan had made it very clear that profitability was the goal for the whole management system, as indeed is the case for most business plans. That said, my observation over the years has been that financial performance has been the only method applied to monitoring the successful implementation of business plans.

The aspect that caught my eye all those years ago about this diagram was that its use not only excluded financial performance but also gave a clear line of sight across the whole operation. It struck a chord with me because non-financial performance measurement is very much the area in which we, quality professionals, do our work.

Five critical success factors

The business plan had thrown up five critical success factors for profitability that amounted to meeting the expectations of the three principal stakeholders, namely: owners, customers and staff. Each critical success factor was broken down into performance indicators aligned with the business plan's targets, with the month's results reported against each.

1. **Market leadership: as a focus on the risk of losing customers:**

- Market share as a measure of competitor activity.
- Delivery performance measured as 'delivery in full, on

time and in specification' percentage of overall supply.

- Customer rating as per the results of a customer survey.

2. **Production efficiency: as a focus on the risk to profitability of not optimising production cost:**

- Unplanned downtime for production equipment.
- Cycle time has learned mean time for producing a bucket.
- Stock turnover as a measure of inventory efficiency.

3. **Technology: as a focus on using technology to improve operational efficiency:**

- Self-diagnostic audit (a new method for automated itself checking).
- Packaging robot (a project to install robots on each line to automate packaging).
- CAD link to CNC machines (a project to make production work directly from design drawings).

4. **SHEQ: a focus on optimising those costs related to meeting Safety, Health, Environmental and Quality requirements:**

- Safety and health procedure compliance (because non-compliance costs money).
- Energy usage (of her most significant environmental impact in this company).
- Production NCs (nonconformity is arising during production; in other words failures to manufacture "right first time").

5. **Organisational climate: a focus on the risks associated with an unhappy workplace:**

- Sick leave (looking for staff taking 'sickies').
- Spontaneous OFIs (looking for staff engagement when it comes to making improvements in the workplace).
- Training plan implemented (looking for an assurance that management are complying with training plans).

Point 1 - Quality systems relate to more than product conformity: In this diagram the word quality is used only with respect to product conformity. I believe professional quality systems take account of the full range of activities in this entire tree diagram.

Point 2 - making more sense out of internal audit: It is clear that this tree diagram approach to non-financial management reporting directly addresses the concept of risk; that is to say that the effects of uncertainty in delivering the expectations of the principal stakeholders.

Over the years many of us quality professionals have struggled with internal audit in one way or another, either as auditor or auditee.

continued on page 12



Site visits were made to the YMCA International Kindergarten of Hong Kong by the International Academy for Quality (IAQ QiETT).

the IAQ/ANQ Symposium 2012 together with ANQ, the Hong Kong Society for Quality and the City University of Hong Kong under the motto "New challenges: Quality and Sustainability in Education of Asia Pacific".

From QiETT's perspective, the 'ANQ Way' provides the ideal conditions to support the Asian region in quality education improvement because IAQ, ANQ and UNESCO have the same vision.

The IAQ/ANQ Symposium took place as a post-congress meeting after the ANQ Congress 2012. At this event, the regional quality organisation was actively involved in working with national quality organisations to support the work of QiETT. In addition to a keynote speech given by Prof. Shoji Shiba, Japan, a panel discussion with representatives of the national quality organisations from all regions of the Asia Pacific Region contributed to the success of the symposium (see http://www.hksq.org/anq2012/post_anq.html) and the key takeaways were reported in the January issue of QNewZ¹.

One key takeaway was that QiETT continue with on-site exchanges among all educational institutions (kindergartens, schools, universities and institutions of lifelong learning). For example, in August 2012 site visits were made to the YMCA International Kindergarten (see page 10) and the City University of Hong Kong.

QiETT Workshop in New Delhi and QiETT Study Tour India

In India, there are enormous opportunities for quality improvements in the education sector. The IAQ QiETT workshop in New Delhi was organized as a pre-congress meeting before the 3rd Global Quality Summit (see <http://isqconference.com/event.html>). In addition to listening to an interesting presentation given by the CEO of Bharti Foundation Schools, Vijay Chadda, we also discussed several quality issues in India's education sector. For this purpose, representatives of schools from New Delhi were

also present. Furthermore, cooperation of IAQ QiETT with ANQ was discussed. In addition, I gave a keynote address about Global Quality Education at the summit in New Delhi.

In order to gain a hands-on understanding of the state of schools, an *IAQ QiETT Study Tour India* was made. This tour happened prior to the workshop. During this tour visits were not only paid to municipal schools in New Delhi but also to rural schools. After the workshop, the study tour continued in a slum in Mumbai. A report about the initiative there, with an innovative on-site approach, will be given in the next QiETT column in QNewZ (July).

This year QiETT's activities in India will be expanded with visits to schools in Chennai, and the *1st IAQ/ISQ Quality Education Conference India* in association with the Indian Society for Quality (ISQ) and the government of India (Ministry of Human Resources).

1st International Conference of quality in higher education

As a result of the IAQ/ANQ regional quality education initiative in Asia Pacific, the *1st International Conference of quality in higher education*, will be held in the capital city of Kazakhstan, from June 06 to 07, 2013. The conference will be hosted by Astana Medical University in cooperation with the government of Kazakhstan (Ministry of Education and Ministry of Healthcare), the Kazakh Organization for Quality and Innovation Management (KOQIM) and the International Academy for Quality (IAQ QiETT). A report on this international conference in Central Asia will be given in my next column.

For further information please contact

RolandJahnke@t-online.de

¹ Roland K. Jahnke, A new quality education initiative in Asia Pacific, in: *QNewZ, Official Magazine of the New Zealand Organisation for Quality*, January/February 2013, pp.11-13.

continued from page 10

And, maybe as a result of a misguided notion about the need to meet internal auditing requirements in standards such as ISO 9001, we have resorted to peculiarities such as: running training courses based on the clauses of ISO 9001 itself; engaging "auditors" from other departments who cannot possibly have the foggiest idea about the intricacies of the processes in the department they're auditing; empowering auditors with draconian powers to implement solutions to problems that they can't identify.

Perhaps this tree diagram approach brings more meaning to the need for internal audit if indeed there is any need at all. Maybe internal audit is best used on behalf of each

stakeholder to validate the information is presented, in this case, on a monthly basis.

After all, isn't that really what financial auditing has always been about?

LinkedIn threads about internal auditing

At the moment they are a couple of useful discussion threads running on LinkedIn. Have a look at the CQI discussion points and those about ISO 9001:2015.

Keep up the good work!

For further information contact

ian.hendra@clearlineservices.co.nz