

Internal audit part 2:

Recap

This is part 2 of Internal Audit - gourmet, healthy option, or junk food?

"Few functions are spoken about more and understood less than auditing. It is often the last refuge for those who really don't know how to run a prevention-oriented life." (Phil Crosby, Quality is Free, see note 1)



In Part one I used a three-outlet food court to illustrate the streams in our quality profession. There was Café Guru with Dr Deming & Co as the chefs and TQM/SPC on the menu; ISO's Diner with standards bodies doing the cooking and certification on the menu; and Criteria Pizzas run by the Baldrige Boys serving up Business Excellence and benchmarking.

Now let's have a look at the proof in the pudding: have diners' eyes rolled with delight, or is internal audit cold on the plate?

Which menu is best?

This all depends on your standpoint.

Café Guru

There's no doubt that SPC and its derivatives such as Total Quality Management (TQM), Six Sigma and Lean have been fabulously successful in many production environments, particularly Japan, and (of late) Korea.

When it comes to hard evidence, nothing beats the SPC/TQM approach, with the Toyota Production System as an established benchmark (see note 2). And whilst it's all too easy to say, yeah, but it's been going for 60 years or more, the fact is that the benefits of adopting it become apparent very early on. Improved cycle time, less scrap, better efficiency, improved morale and better business results all appear almost from nowhere.

ISO's Diner

The 'ISO 9001' approach claims to have been successful too, with about a million certificates having been issued (according to the most recent ISO survey). However, its success is not easily demonstrable in terms of business performance improvement.

Let's go back to the start, namely 'The UK National Quality Campaign' launched in April 1983 that even these days sets the benchmark for how to get a government imitative underway.

The objective of the campaign was "...the enhancement of the quality of British goods and services through encouraging a total approach to quality in design, production, marketing, delivery and the way a business is run".

This ambitious goal was addressed by setting up and subsidising the implementation of BS 5750 (ISO 900x) with accredited certification as the proof check at the end. By the end of the campaign in 1989, there were 15,000 companies on DTI's register for a government spend of about £19 million (about \$60 million in those days, that's about \$4000 per company).

According to Lascelles & Dale (see note 3), whilst the numerical targets placed on DTI by the government of the day had been achieved, their research survey of senior managers indicated that little had changed in terms of attitude to quality. The majority felt not only that quality was an end in itself for middle-management, but also that the government should take the lead in improving quality nationally. Lascelles & Dale did not agree of course, and their paper goes on to promote the EFQM (Baldrige-based) approach, but government intervention stopped at the end of the campaign.

If we fast-forward to today and the British reputation for quality products, I don't think much has changed. The fact is that the British do not make much, their economy is predominantly service-based, but the British approach to service is not world renowned either.

Criteria Pizzas

Compared with ISO's Diner that serves the masses, Criteria Pizzas is but a small and select operation. NIST, the US Baldrige facilitator seems to count only 1099 assessments between 1999 and 2006 (see note 4). And in Europe, the EFQM website lists only about 460 members, with annual prizes in the teens. Here in New Zealand the NZBEF website lists only about 60 winners between 1993 and 2011.

On the other hand, they claim great things that include business performance better than the Standard & Poor's 500. Malcolm Macpherson's BaldrigePlus site (see note 5) quotes a long-standing assertion: "*The Baldrige approach to excellence is one of US business's secret weapons: a key driver of economic strength deeply entrenched in the business community. Firms that account for three fifths of the dollar value of the US economy have some connection to Baldrige: as past winners, contributors to the award process, or use the criteria for internal improvement*".

Certainly many of the winners have been successful but here in New Zealand, for example, despite their current troubles, the New Zealand Aluminium Smelters at Mōa Point won Bronze in 2003 and Gold in 2007.

By the way

My search for evidence of where the internal requirement came from in the 1987 edition of BS 5750 (the first issue of ISO 900x) led me to the five excellent handbooks of quality-based standards that BSI published at the time of the UK National Quality Campaign.

In total these books consisted of 2003 A4-sized pages (6-10). Many of the standards collected in these books were 'how to' guides.

Apart from the 1987 version of Handbook 22 which included the requirements of BS 5750 Pts 1 & 2 (ISO 9001 and 9002), internal audit simply does not appear. In stark contrast to all the rest, there was no background, no guidance, and no help.

Results of the tasting

As for the Café Guru and TQM/SPC, Lean Six Sigma menu, auditing does not seem to feature very much. There are heaps of tools on the menu here, but internal audit certainly is not one of them. They recommend reviews called '5S audits', for example, but these are done by the implementation teams themselves so they fall outside the conventional scope for internal auditing. This outlet is probably the most successful in the global sense. Many have tried it and many of those live by it subsequently.

At ISO's Diner, the internal audit option on the menu gets wheeled out every time, it's chewed and swallowed but few really like it, most would not bother with it. For example, I don't have one single client who thinks the conventional approach to internal auditing adds any value at all.

Criteria Pizzas are ambivalent; they have no requirement for internal audit but they will take it into account if it helps within the processes by which management reviews what's going on.

Summary and Part Three

So, in a nutshell, internal auditing as we know it is not required by the gourmet outlets in our Food Court, and health foodies can take it or leave it. The junk food outlet has it on the menu and serves it up every time, even though

where it came from is a mystery. The likelihood is that most diners tolerate it but wish they did not have to!

In part three, I will offer an alternative to the conventional approach that hopefully makes the good news accessible to all.

References for Part 2

1. Crosby, P. B. *Quality is Free*, McGraw-Hill, ISBN 0-07-014512-1
2. *Toyota Production System Basic Handbook*
http://www.artoflean.com/files/Basic_TPS_Handbook_v1.pdf
3. Lascelles D. M. & Dale, B. G. *The UK Department of Trade and Industry National Quality Campaign: 1983 to January 1989*, MCB University Press, ISBN 0 86176 451X
4. NIST, *Baldrige Performance Excellence Program* at http://www.nist.gov/baldrige/data_analysis/index.cfm
5. Malcolm Macpherson's BaldrigePlus website, <http://www.baldrigeplus.info/>
6. BSI Handbook 22, *Quality Assurance, Second Revision 1983*, British Standards Institution, ISBN 0 580 12449 5 (17 standards, 265 pages)
7. BSI Handbook 22, *Quality Assurance, Third Revision 1987*, British Standards Institution, ISBN 0 580 16191 9 (19 standards, 363 pages)
8. BSI Handbook 23, *Quality Management Systems, General Management*, British Standards Institution, ISBN 0 580 14584 (17 standards and PDs, 463 pages)
9. BSI Handbook 24, *Quality Management Systems, Quality Control*, British Standards Institution (14 standards, 595 pages)
10. BSI Handbook 25, *Quality Management Systems, Statistical Interpretation of Data*, British Standards Institution (15 standards, 317 pages)

References for Pt 1(not detailed in the text)

- Mil-Q-9858A, *Military Specification, Quality Program Requirements*, US Dept of Defense, 14 Dec 1963
- J. M. Juran, *Quality Control Handbook 3rd Edition*, McGraw Hill, ISBN 0-07 033175 8

Internal Auditor Training

11 to 12 September, Wellington

17 to 18 September, Christchurch



This course provides a gateway to a multitude of professional development opportunities, writes course tutor, Lynley Coburn.

Here are some great reasons why you should complete this course:

1. **NZOQ Recognition of Competency for Internal Auditor registration.** Graduates can apply for this registration by paying an additional fee and completing the course's workbook requirements. This is a great asset for your CV.
2. **Diploma of Quality Assurance.** This course meets one of the requirements towards the Diploma of Quality Assurance.
3. **IMAT RABQSA-approved AU Certificate.** Graduates can apply for this coveted certification by providing evidence of additional competencies.
4. **Quality Systems Auditing course (5-day Lead Auditor).** Graduates can credit the IA course towards this qualification.
5. **Audit: the gift that keeps giving.** Every time you conduct an audit you will learn something too. Your involvement in the audit process will provide great learning and professional development growth for you.

**To find out more please visit our website: www.nzoq.org.nz or contact
Tess Stewart, NZOQ National Office, Tel +64 6 351 4407 or quality@nzoq.org.nz**