

The Importance of Internal Auditing

BY SHEILA ALEGRIA

The role of internal auditors is perhaps even more important than that of your financial auditors, so devote the proper resources to it.

I RECENTLY WAS REVIEWING my checking account online and realized there was a miscellaneous charge that was not accurate. Somewhat confused, I called the bank to confirm and try to resolve the discrepancy. Through a series of conversations, “we” realized that “they” had indeed made a mistake, which they corrected. That sounds like a simple exercise, besides the lengthy phone conversations, but do you realize that I was acting as an internal auditor for the bank and, more importantly, for my own checking account?

This simple lesson was further reinforced when I noticed some strangers in our offices later that same week. When I asked about the individuals using our conference room, I was informed they were auditors from an accounting firm and were doing an annual audit of our financials. That reminded me of my own checking account issue and how important internal auditing actually is. Companies often forget the importance and associated benefits a successful internal audit can provide their organizations. Internal auditors do for a company’s quality management system (QMS) processes the same as financial auditors do for its accounting processes, but there is a significant difference in how the two roles can be perceived within the firm.

A company would expect its team of financial auditors to be educated, trained, and have the credentials required for their position. If they were not, would there be confidence in their findings and audit results?

But do we expect the same of our own internal auditors? What types of education, training, and/or credentials does your company offer to assist your internal auditors in their positions? Remember that the more streamlined your

overall processes are, the more efficient your company’s day-to-day operations will become and the better and more attractive your bottom line will be. It is a worthwhile exercise to reinforce strengths as well as highlight possible concerns and determine weaknesses in one’s own QMS.

Companies also tend to think that an internal audit is solely a compliance-based exercise, a checklist approach with the outcome either being “pass” or “fail.” But this perspective does not take into account if an audit is actually effective. Does it help the QMS, or whatever other specific process is being audited, continue to evolve and improve over time? In order to determine that, companies should look at the method they are using to conduct their internal audits. How are internal audits being planned? What auditing tools are being used? Who is conducting the internal audits? Companies should consider creating audit teams or divide the audited processes throughout the year in order to obtain more effective results. That very topic was explored in the article “Internal Auditing From an Inside Point of View,” which was published in the December 2010 issue of *MSC* and can be viewed at www.aisc.org/qualitycorner.

Two essential parts of an internal audit are how it’s being reported and what actions and follow-ups are needed. A company using a checklist to document the results of an internal audit may not have enough specific results or sufficient objective evidence upon which to follow through and address areas of concern and/or required corrective action. On the other hand, a company using an audit-style guideline with enough room to allow additional comments and notes documenting their audit results likely will come away with a better understanding of why a particular process works or doesn’t work and how it should evolve. Quality Management Company (QMC), the independent auditing company for AISC certification, offers both a sample audit-style guideline and internal audit planning and scheduling form on its website, www.qmconline.org.

An effective internal audit also means that there is follow-up. Were internal corrective action requests (CARs) written up? Were they followed-up in a timely manner to ensure that the preventive action to avoid recurrences was implemented and effective?

This is the stage of the process where I typically see a significant breakdown. An internal auditor may find issues and bring them up to the responsible parties or company management, but what happens after that? Is there a defined goal or



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action plan? Who is going to be responsible and champion it? What is the actual timeline for follow-up? It is important to communicate the CAR back to the management team and appropriate members of the organization and ensure that the follow-up takes place in order to determine if the action taken was effective and implemented. The specific timeframe depends on the nature of the CAR and the action taken to prevent it from recurring, but it is critical to follow up.

Another area that companies more than often forget to address is training for their specific internal auditors. What accreditations are available in the marketplace or continuing education opportunities? Remember that you want your quality processes continuing to improve, and you should want your auditors to improve as well.

Many quality-related resources and courses are available that can provide a range of assistance from basic to intermediate knowledge to assist in the improvement of your internal auditors. Consider these:

- ▶ QMC offers a sample audit-style guideline as well as a sample internal audit planning and scheduling format on its website (www.qmconline.org) under the “Resources” section—in addition to a wide range of other quality-related tools, links, and articles.
- ▶ The American Society for Quality (www.asq.org) offers the “Internal Auditing Executive Overview” training course. Some of the objectives to this course are defining the audit process; planning and preparing for the audit performance stage; and describing the importance of selecting an audit team.
- ▶ The QC Group (www.qcgroup.com) is a national organization with an excellent training program. They provide an “Internal Quality Auditor” course and offer a self-directed learning option.

Now Offering More Information Online

Have you recently visited www.qmconline.org? If not, then you should!

Quality Management Company recently updated its website to better serve its customers and AISC certified participants. Besides streamlining the overall aesthetics and functionality, several quality tools, links, articles, and frequently asked questions (FAQs) have been added.

Are you aware that QMC offers quality training initiatives for your company and pre-assessments for AISC certification? For more information on these and other resources, please visit www.qmconline.org. And if you have a suggestion or would like to see something added, please send an email to info@qmconline.org.

- ▶ JP Russell and Associates (www.jp-russell.com) offers the “Internal Auditing Basics” which can be viewed as a beginner’s course for newly assigned internal auditors, and this course is web-based.
- ▶ Columbia Audit Resources (www.auditguy.net) provides a two-day class designed for an initial internal auditor on how to perform and report quality audits.

Giving your auditors flexibility in their audit approach and investing in their development and training will quickly benefit you and your organization. Remember that they are the ones keeping an eye on your quality processes and management systems just like I was keeping an eye on my checking account. MSC