

Compliance auditing, where a check is made to ensure people respect the documented procedures of a system, has been a key tool in Quality; arguably starting with the church canons, certainly improving industry in the post war years, but now coming under criticism for its inability to further improve modern business systems. The manufacturing analogy is how the Go / Nogo gauge enabled engineers to know if product was in, or out of specification, but was dropped in favour of variable measures to allow a better understanding of a process output. To improve the effectiveness of auditing, there is now a move to include audit behavioural aspects of those working in the system, to allow a better understanding of the system performance and assess future outcomes of the process.

① Management systems

A management system is a living entity which changes and develops. It's the way we do things. It is not a set of documents, nor is it a set of maps and diagrams; these are merely pictures of the real world. It is a complex interaction of hard and soft issues all working together to deliver results. It changes daily, often subtly and will be undetected by audits until there is a problem.

Outputs and outcomes

A system pulls in information (the inputs) processes that information and delivers both intended and unintended *outputs*; for example good product and scrap, a correct invoice and an un-requested duplicate invoice.

Of increasing importance are the *outcomes* of these *outputs*. For example, the *outcome* of good product is a happy customer, whilst the *outcome* of delivering scrap product to a customer may be a health hazard and all the associated legal problems and costs.

For a business system to improve, it is important to understand the risk of unintended *outcomes*.

Drivers for change

There have been many high profile commercial incidents that have shown compliance auditing to be no longer effective for today's complex management systems. For example:

- * The Financial Meltdown - the biggest known example of audit failure
- * EU Food Directive – we can't audit everything so audit by level of risk
- * BP Deepwater Horizon – just too complex for conventional compliance auditing
- * Law Society – has to focus on outcomes as slavishly adhering to rules is not adequate
- * Staffordshire Hospitals – they were complying with targets and cost-cutting, so outcomes of people dying were ignored.
- * Corporate manslaughter legislation – outcomes become important for the board of directors
- * Many companies are questioning the value of 9001 – auditing the detail does not improve the macro system.

② Three key principles of today's auditing

Principle 1 – Auditing is a risk management activity

- * Looking for the risks of not achieving the intended outcomes, or of providing unintended outcomes.

Principle 2 - Auditing needs to look both Backwards & Forwards

- * Traditionally auditing has concentrated on past actions,
- * Today we also need to predict from the audit results, where we will be if there is no change to the system.

Principle 3 - Auditing in the Future needs a Mix of Techniques

- * We need to understand the continuing changes to our system brought about by subtle changes in people's behaviour; this is needed to help prevent a disaster or poor performance from happening.
- * The likely techniques will be 1 – document review 2- behavioural audit 3-compliance audit.

③ Changes we need in future auditing

Maturity Continuum

- * Compliance auditing provides an output of either *Compliant* or *Non-compliant*; the Go-Nogo gauge analogy. There is no report which suggests *things work but in terms of the best practice around you are only 40% there.*
- * It is believed that compliance from an audit can mean as low as 40% towards best in class.
- * There is a need for a modern audit report to help people understand how good they are, not just whether they are compliant.

Other changes that business is demanding from audits

Today's expectations from an audit

Looks at the things people say they do or the things they write down.

Focus on what has happened

Compliance based

Focus on the outputs

Provide compliance data

Focus on detail and tactical evidence

Tactical findings

Text based report

Future additional expectations

Looks at what actually happens in the real world, rather than.

Focus on what is likely to happen

Risk and effectiveness based

Focus on behaviours that drive outcomes

Provide increased confidence and certainty

Focus on understanding complexity

Strategically focused information

Benchmarks, scores, values

Audits which Managers will buy into; because they help achieve business objectives

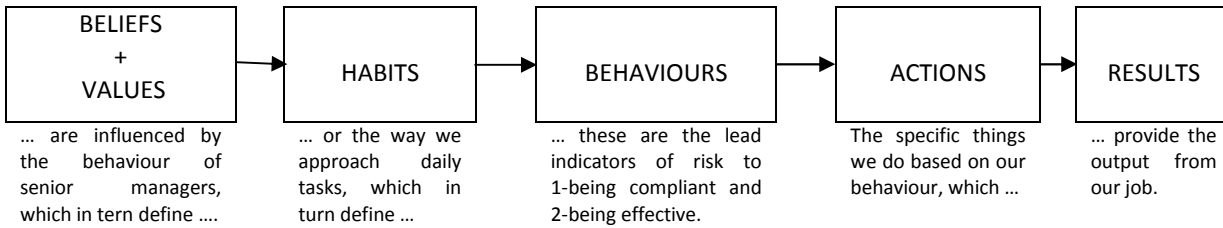
To meet the needs of business, auditors must learn how to:

- * *Understand* how cultures in different parts of the System can interact to create behavioural patterns that define and deliver the final business results, or outcomes.
- * *Plan* and carry out the audit using a range of audit techniques that are appropriate to the organisation scope based upon its maturity and risk. For example the inclusion of behavioural audits
- * *Analyse* the findings from audits and their potential impact on outcomes; both the intended and the unintended.
- * *Report potential risk* to
 - the delivery of both efficiency and effectiveness of outcomes,
 - the conformity to governance requirements
 - the business objectives.

④ Adding in a Behaviour Audit with the Compliance Audit

Compliance auditing tends to look at the results or outputs *from* or *within* a system; by *within* we mean the output from one sub system which becomes the input to another sub system. Commenting on the complexity of the system is not seen as the auditor's job.

The process of people working



Traditionally it was the results which were audited. By auditing the BEHAVIOURS it is possible to look at the risks of unintended outcomes and the confidence in intended outcomes.

Behaviours predict the future. KPIs measure the past.

Showing where the risk is.

By doing a behaviour audit on a set of business performance drivers, we will see where the risk is. Each driver can be assessed on a scale 0% to 100% for the confidence which the auditor has, to indicate where risk lies.

Performance Driver	Description	%
1	Activities enhance market share	35.3
2	Sales teams build effective relationships	36.1
3	Net Sales margins are optimised	39.9
4	Gross profit is maximised	33.1
5	Sales forecasting is accurate and managed	33.3
6	The process is managed	31
7	Process activities take place	35
8	Stock turnover is managed	19.3
9	Performance is managed against individual sales targets	37.9
10	Customers understand what we can and will deliver	32.9

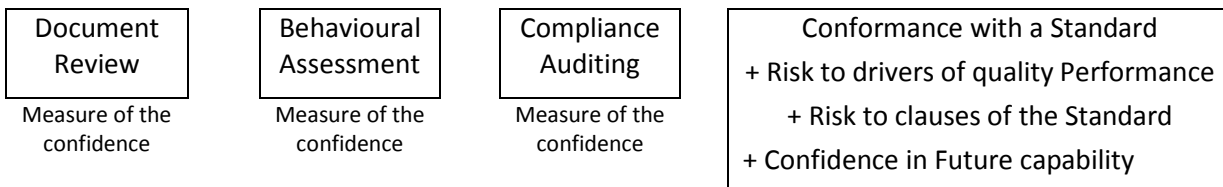
A compliance audit on procedures will only indicate compliance YES / NO. As it is generally thought that compliance is given at 40%, this is not helpful.

It is likely managers would show interest in estimated risks to the drivers the drivers of their business performance.

The mixed auditing technique

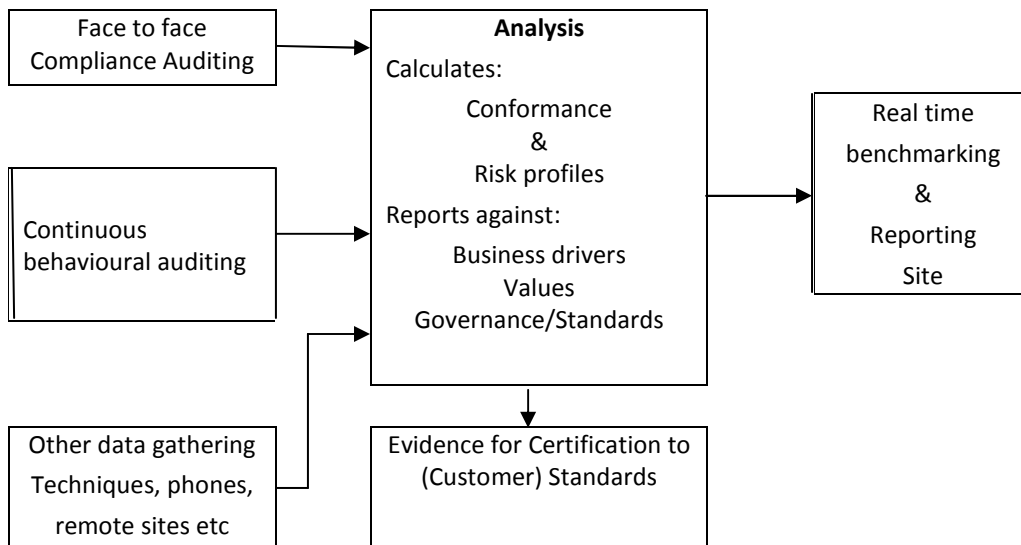
The audit time is split between the three elements

... and provides an output of



For example there would be a %age compliance with each clause of a standard, rather than ✓ or ✗

The continuous audit (rather than snap-shot)



Summary of use of behavioural assessments to address emerging requirements

- * Translates tactical behavioural activity into strategic risk based information.
- * Focuses on what actually happens, what people really do.
- * Provides a picture of what is likely to happen rather than what has, creating a rich source of risk management data.
- * Using IT allows large amounts of data to be collected, analysed and reported automatically and consistently.
- * The future is a combination of auditing techniques for compliance and effectiveness.
- * Increases productivity and value of assessment activity.
- * Provides knowledge and understanding of risk against goals and objectives.
- * Provides confidence, allowing Managers to manage what is important.

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