AUDITS REIMAGINED

Measures to enhance effectiveness
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INTRODUCTION

Time for a change

Audit programs are integral components of management systems and inform the senior leadership’s ability to manage the risks and opportunities that are material to the organization and stakeholders. Often, companies and organizations have some variation on a number of audit programs to address environmental, health, safety, social, sustainability (EHSSS) risks, as well as other material risks across their operations and throughout their supply chains.

However, legitimate questions remain on whether the quality of existing audit programs sufficiently address material risks and opportunities, and whether they provide even adequate results relative to the devoted resources.

A report issued by the Sheffield Political Economy Research Institute (SPERI) in 2016 claims that the present audit regime “is ‘working’ for corporations, but failing workers and the planet.”¹ In an interview quoted in this report, a former director of corporate social responsibility (CSR) at a U.S. retailer said, “Within the social compliance world, it is now standard operating understanding that audits don’t work to achieve change within organizations.” The authors of the report go on to say that audits are “ineffective tools for detecting, reporting, or correcting environmental and labor problems in supply chains.” For example, in 2013, just months before the collapse of Bangladesh’s Rana Plaza factory, in which hundreds of workers lost their lives, the facility passed a compliance audit.

The SPERI report further points out that while audits can give the impression of active monitoring and “continuous improvement,” they also often reinforce endemic problems by repeating predictable, and sometimes deceiving, patterns.

While the SPERI report paints a bleak picture of the effectiveness of audit programs, it is important to note that the programs and examples cited fail to even minimally meet universally accepted internal audit standards established and promoted by The IIA.

What follows are a few of the more prevalent questions and/or concerns we hear and experience regarding the usefulness of audit programs to meet business and stakeholder objectives for risk mitigation and EHSSS performance enhancement. We also consider some of the possible causes for these concerns, as well as offer actionable ideas to enhance effectiveness of audits and the value that audit programs can deliver.

WHAT AILS AUDIT PROGRAMS
Establishing the scale of the problem

Four key concerns
These are some of the key concerns relating to audit programs as they are run today.

Concern #1: Auditor competence

Too many nongovernance-related objectives are tied into audit programs with inadequate focus on risk/opportunity management. Frequently audit programs include internal staff from other regions and business units who are simply not qualified to perform audits, which puts such programs in direct conflict with IIA standards on proficiency, independence, and objectivity. For example, many of these auditors:

- Are not competent in the technical scope of the audit (e.g., local legal obligations, industry practices, operations), which is required to conform to IIA Standard 1210 — Proficiency.
- Do not speak the local language.
- Lack the time to appropriately prepare for the audit.
- Have other work and objectives to complete unrelated to the audit while on site.
- Do not understand the need to be fully objective (e.g., to set personal relationships and friendships aside), which is required to conform to IIA Standard 1110 — Independence and Objectivity.
- Lack even a basic training in auditing skills.

Audit Focus

IIA Standard 1210 — Proficiency
Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

IIA Standard 1100 – Independence and Objectivity
The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Management may perceive some benefits to including what are essentially unqualified auditors on audits. It allows the global competency leads, other plant managers, and other applicable parties to visit other operating locations or geographies that they would otherwise not be able to visit. While at these sites, they could accomplish other important business, network with their peers, and obtain and share best practices to improve business performance. While all of these may very well be noble endeavors that promote business success, they have practically nothing to do with delivering an effective audit. Instead, almost always, these issues significantly hamper the ability of programs to deliver even an adequate audit.
Concern #2: Resources not aligned with scope of audit

Organizations often create expansive audit scopes that are not aligned with the resources committed. Standard 2220 — Engagement Scope states the established scope must be “sufficient” to achieve the objectives of the engagement. However, many audit programs struggle by trying to include all aspects of, say, environmental compliance within the scope of a single audit. For example, in the United States, there are about 30,000 pages in Title 40 of the Code of Federal Regulations, not to mention thousands of additional pages of state and local requirements, and thousands more still associated with site-specific permits and plans for air, waste water, storm water, spill prevention, solid waste, and more. Similar rapid expansion of the regulatory universe is also witnessed in many other important jurisdictions such as India and China.

Audit program managers, corporate attorneys, and other corporate/organizational leadership may insist that all compliance requirements are equally important, and therefore, all must be included in the scope with equal weighting. The reality, however, is that not every legal obligation carries with it the same legal enforcement risk or potential threat to the environment. The trap of assigning equal weight to all compliance is the tendency to try to ensure basic coverage of each scope topic with the limited person and time resources allocated to an audit. This inevitably leads to the same high-level topics, questions, and documents being reviewed every audit, which can lead to some key, and possibly material, aspects of compliance never being reviewed deeply enough by the audit program.

Concern #3: Misaligned audit program boundaries

To pass muster with stakeholders, audit programs must be aligned with material business and stakeholder issues. For a variety of reasons — not least of which is the “this-is-how-we’ve-always-done-it” state of mind — audit program boundaries with regard to operations, supply chain, and scope topics are often not adequately focused on material risks and opportunities. Examples of areas to consider include:

- Suppliers beyond Tier 1.
- Waste recyclers and treatment, storage, and disposal facilities.
- Contract manufacturers.
- Broader contractor management processes.
- Capital projects.
- Newly acquired assets.
- Remediation projects.
- Joint ventures.
- Laboratories, warehouses, and office buildings.
- Marketing personnel and assets.
- Publicly stated goals or other aspects that, while not directly associated with legal compliance, present a material risk to the business and/or stakeholders.
Narrowly focused audit programs — for example, ones that look only at compliance with legal obligations, core manufacturing operations at company-owned and operated facilities, or Tier 1 suppliers in a supplier audit program — could exclude material business and stakeholder risks and opportunities. These unassessed, and unaddressed, risks and opportunities continue to lurk in blind spots for the organizations concerned.

**Concern #4: Low value and low quality findings**

The quality of findings in audit reports is often low for a variety of reasons. Low quality findings often hamper the process of identifying and implementing effective corrective and preventive actions, leading to a Band-Aid approach to correction. This, in turn, leads to repeat findings. Poor quality of reports is largely associated with lack of even minimum training in how to properly conduct audits, collect suitable evidence, ask follow-on questions and in particular, how to write good audit findings. Common shortcomings in audit reports often display these characteristics:

- Reports are heavily diluted with low risk, administrative, or one-off findings, which don’t represent systematic deficiency. This is partly a result of the scope and resource staffing challenges discussed earlier.

- Findings often lack the context to understand the severity of the issue. For example, total populations, sample sizes, and other details to illustrate the scale of the issue are often incomplete, or completely left out of finding description.

- Though a full root-cause analysis is rarely part of the auditing process, auditors often fail to ask at least one or two “why” questions that could add context to a finding. For example, mislabeled drums could be due to a contractor placing the drums in the wrong area or due to site staff not understanding the labeling requirement. Very different corrective and preventive actions would result from asking this single “why” question. The company’s understanding of risks and opportunities are greatly limited without proper context in findings.
SEVEN SOLUTIONS
Measures to enhance internal audit effectiveness

Maximizing audit program value

The changes suggested here make audit programs significantly more valuable to organizations:

Solution #1: Risk-based approach

To maximize the return on resources invested in audits, organizations must take a risk-based approach to designing audit programs; a principle also emphasized by the ISO 14001:2015 standard. This would comprise two key elements:

Using Risk-Focused Approach to Determine Audit Frequency: It is well understood that the frequency of audits must be proportionate to the risks associated with an operation. However, too frequent audits can result in auditee fatigue and be counterproductive. Organizations would do well to map the inherent and residual risks faced by various operations and then, use this understanding of relative risks to decide audit frequencies, audit durations, and number of auditors as suggested by Cahill. Some such programs already exist and can be used as guidance.

Using Material Risks to Determine Scope: Focusing audit efforts on the most material of EHS risks in an operation would yield higher value, as compared to a superficial review of multiple topics spanning thousands of regulatory requirements, including those that relate to low-risk/administrative issues. A facility’s risk profile is influenced by many factors including management turnover at the site, agency enforcement initiatives in the area, performance on previous audits or recent Notices of Violations or other violations received, relative hazards associated with the site processes, relative local environmental or social receptors, supply chain risks, etc. Tools (such as the Facility EHS Risk Profile Protocol compiled by Cahill and Costello) exist to rate these and then rank the relative risks of sites in a portfolio. For example, if a facility does not produce large quantities of hazardous wastes, this issue may be de-emphasized or even eliminated. This would also allow auditors to delve deeper and identify contributory factors, root causes, and systemic weaknesses that result in breakdowns, rather than reporting the compliance gaps, which are merely the symptoms, not the cause.

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Solution #2: Improved resource allocation and planning

Some of the concerns and causes listed earlier can be remedied by a disciplined effort to allocate suitable resources and time to audit programs. Design of audit programs must consider:

**Engaging Competent Auditors:** Every audit is, by definition, limited by the limitations of the auditor concerned, just as every concert can only be as good as the performing artists. Therefore, it is imperative that audit programs take into account use of competent (as distinct from merely "trained") auditors. Therefore, organizations must be diligent in defining criteria for auditor competence and in creating an auditor pre-qualification program that reviews not just educational qualifications and experience, but also other indicators of competence. Many organizations already have a pre-qualification program that includes an interview of proposed auditors.

Any formal internal audit program should have a quality assurance and improvement program in place and undergo periodic quality assurance reviews, which is required to conform to Standard 1300 — Quality Assurance and Improvement Program.

**Allowing Adequate Time:** Even with a risk-based approach to determining the audit scope, the significance of allowing auditors adequate time before, during, and after the on-site assessment cannot be undermined. Valuable audits come from a continuum that spans robust pre-audit preparation (including review of key documents/information before the site visit), a thorough review of systems, processes, and practices at the facility and a well-crafted audit report. Organizations that allow enough time for each of these steps enable auditors to do their best work, within the inherent limitations of the audit program.

Solution #3: Unannounced audits

Scheduling pre-announced audits allows the auditee to create a veneer of compliance by, for example, creating false records, avoiding high-risk activities, using only legally contracted workers and instructing workers on answers to common auditor queries. This system, therefore, encourages a culture of deception and an attitude that all but explicitly says "catch me if you can" to the auditors. One way to overcome this is to have unannounced audits, where the facility has no prior information of an impending visit by the auditor. Unannounced audits also support an attitude of compliance.

Solution #4: Boots-on-the-ground approach

Given the nature of topics that EHSSS auditors must review and evaluate, it is essential that auditors spend enough time observing work practices of, and processes followed by, the frontline workers. Auditors should allocate between 50% and 70% of their time to reviewing and evaluating operations on the ground, with the workers and supervisors. The remainder should be allocated to management interviews and document reviews. This enhanced allocation of time to field observations allows for a much deeper understanding of actual conditions and practices, and can help the auditors identify systemic weaknesses or cases where documented records do not reflect reality.

Solution #5: A collaborative approach that builds capacity

The best outcome for an audit program is not a long list of violations, but improved performance on the shop floor. It is therefore important for corporate and internal auditors to adopt a collaborative (yet objective) stance where they also use the audit as an opportunity to sensitize workers and managers about the risks to
environment, health, safety, and sustainability. Interactions during the audit can also be used to develop capacity and enhance awareness.

Solution #6: Technology-enablement of audits

In this era of software applications, internet of things, artificial intelligence, and ever-shorter attention spans, it is crucial for audits to also take on a new avatar to remain relevant and useful. Two key areas of technology-enablement are:

Virtual Reality: Virtual reality (VR) sets can find application in audits, further augmenting the robustness of on-site observations and interviews. In cases where the auditor(s) find themselves unsure of something, they can use this tool to allow another colleague/senior to "see" the prevailing conditions using VR sets and can consult with them on further course of investigation, if required. This would allow the audit to transcend the limitations of the auditor’s knowledge and experience.

Reporting by Dashboards: A move away from paper-based reports and toward online dashboards that help senior leaders to visualize audit findings, risks, and corrective actions has already started. Customized dashboards are among the best ways of presenting audit findings and associated corrective actions. They allow users to readily visualize trends across various geographies, operation categories, time periods, and risk ratings. Dashboards also allow users to drill down or zoom out, to the required level of resolution. Another value-added feature is the ability to track in real time, progress of corrective and preventive actions and their validation, until the finding is formally addressed and closed. Thus dashboards can help users draw insights from information.

Solution #7: Closing workshop for leaders

For any audit program to lead to performance improvement, the senior leadership of the organization concerned must be engaged in, and committed to, resolving root causes and contributory factors for gaps observed. We contend that an audit program that ends with just a pile of reports undermines this objective.

Organizing a workshop at the close of the audit program is an effective way to get the attention of the senior leadership and to obtain their commitment toward the next steps. During this workshop, the strengths and weaknesses observed across various facilities, identifiable trends, systemic weaknesses, and design flaws can be presented to the leaders. Thus this workshop can help senior leadership draw insights from information generated by the audits. Identifying easy fixes and key takeaways for the short and medium term in this workshop helps close the audit program with a focus on actions and resources required for improvement.
CONCLUSION

Elevating audit quality key to adding value

The challenges facing audit programs and the organizations that commission them are many and varied. However, all need not be lost — audits and auditors can redeem themselves, if not wholly and in full measure, then very substantially by incorporating into the design and execution of audits, changes that would add real value to organizations, the environment, and workers.
ABOUT THE ENVIRONMENTAL, HEALTH & SAFETY AUDIT CENTER
The Environmental, Health & Safety Audit Center (EHSAC) is a specialty offering of The IIA for environmental, health and safety (EHS) auditing. EHSAC was established to provide auditors with targeted high-quality professional development; networking opportunities for knowledge sharing among EHS stakeholders; and ongoing, timely, and relevant reporting on trends, benchmarking, and thought leadership in the audit profession. This report is reserved for your exclusive use as a member of the Environmental, Health & Safety Audit Center. For more information, visit www.theiia.org/EHSAC.

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