

Total Quality Auditing in Achieving Internal Audit Excellence

Where employees continuously improve their ability to provide products and services

By Abdallah Mambo Dallu

TQA is a simple concept, which starts with one idea: Internal Audit functions should complement their traditional, required activities with an active role in the organization culture itself. It is all about being a proactive audit function, not a reactive one. The strategy is Total Quality Management (TQM) and applying it to internal audit to achieve what I call “Total Quality Auditing” can have dramatic results. The Total Quality Auditing approach can produce a more forward-thinking, customer-centric, improvement-oriented internal audit team. Sounds great, right? So how do we get there?

Proponents of TQM define the management framework as an organization-wide effort to establish a climate where employees continuously improve their ability to provide products and services that

are valuable to customers. The key concepts of TQM are:

- Customers define quality,
- Increased quality comes from the control of processes, and
- Quality improvement is a continuous, never-ending effort on the part of everyone throughout the organization.

All of these concepts can be applied to internal audit, but not without some significant shifts in perspective. Internal audit often is defined as an assurance and consulting activity designed to add value to its customers by reducing risks and improving processes, controls, and operations. In reality, though, internal audit is often stuck focusing on the past—collecting data and process information and preparing analysis and reports mostly on past failures. We’ve all heard the joke: Why did the internal auditor cross the road? Because that’s what they

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did last year. In contrast, TQM focuses almost entirely on the future—anticipating and meeting the future needs of customers, improving products and services, and continuously enhancing processes to consistently meet those needs competitively.

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What Internal Audit Customers Want

When internal audit asks its customers what they want from internal audit (and hopefully they ask those questions regularly), audit customers generally say they want

help identifying and reducing the future risks of the organization. Second, and equally important, they often say they would like internal audit to help them improve the organization's ability to provide quality products or services to its customers in the future. Internal audit's customers are most likely already aware of their past failures. What they lack is a clear way to solve problems and continuously improve what they do in the future.

One of the cornerstone concepts of TQM is you cannot “inspect in” quality to a product or service. In audit words, you are not likely going to audit away risk or “audit in” improved controls or processes. A more quality-oriented methodology is required to make permanent and ongoing changes to the organizational culture.

Internal audit can be the organization's knowledge leader, facilitating

change in the culture to one where everyone is tasked to do the right thing, in the right way. Internal audit can also create “constancy of purpose” (to borrow a TQM phrase) toward continuous product, service, and process improvement. Internal audit can develop a training culture where managers and supervisors constantly focus on improvement activities. And finally, internal audit can help design a culture where all employees are truly contributing to the quality and success of the organization.

Six Points of Focus

My Total Quality Auditing Model has six points of focus for organization excellence that begins with ensuring meaningful ethics and standards of conduct; continues with listening to customer feedback, utilizing lean audit techniques, and balancing risk, audit, and consulting activities; and ends with doing it all with unprecedented leadership and grit.

i) TQA – Ethics: Focus on process changes necessary for an organization to establish and sustain an exceptional ethical culture. Ethical conduct as a stated value is important, but not as important as ongoing leadership and management practices that are aligned with ethical behavior.

ii) TQA – Standards of Conduct: Establish a framework for employee behavior and decision making that is consistent with the organization's values and goals. A no-nonsense approach to the establishment and administration of standards of conduct goes a long way to instilling and reinforcing the actions necessary for success.

iii) TQA – Customer Feedback: Provide the tools to ensure that internal audit efforts are directed at quickly identifying and time is spent listening to customers. Both TQM and TQA teach that the customer is the most important step in the process of delivering quality products and services.

iv) TQA – Lean Auditing: Ensure that techniques are applied that focus on customer needs, minimize waste, and produce timely solutions to real problems. It guarantees internal audit works efficiently and adds tangible value to the organization. The constant internal audit focus should be on doing more with less for customers and clients.

v) TQA – Balance of Risk, Audit, and Consulting: Offer a new perspective on the allocation of resources to ensure the most successful internal audit function.

Effective balance includes the careful planning of risks to be assessed, the proper time budgeting to efficiently audit processes, while always providing valuable insight and solutions to customers.

vi) TQA – Leadership and Grit: Address the audit leadership characteristics necessary to implement the Total Quality Auditing Model. It describes how determination and passion can assist auditors in delivering real value and earning trust and respect within the organization, all while maintaining professional standards.

Conclusion

TQM and TQA focus on the future. Don't manage internal audit by fixing yesterday's problems. Anticipate tomorrow's problems, emphasize future customer needs, provide new ideas, and satisfy customer needs. Make a commitment to improvement and hold everyone to it. Don't be a reactive internal audit function, be a proactive one.

Total Quality Auditing provides a roadmap for organization leaders, CFOs, chief audit executives, and auditors to drive past the audit practices of today, to arrive at a place where we can consider how it can be transformed in the future.

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