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**National Association of
Chemical Distributors**

SESSION 1

OVERVIEW OF INTERNAL AUDITING

Responsible Distribution Workshop

Michael Loolara & Clyde Pearch

Compliance Solutions Group & Eagle Group USA

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WHY AUDIT?

- Required by:
 - NACD Responsible Distribution
 - ISO 9001:2008
 - ISO 14001:2004
 - OHSAS 18001:2007
 - Responsible Care Management System (RCMS)
 - RC14001



WHAT IS AN AUDIT?

- Mechanism through which the operation of a management system is measured.



TYPES OF AUDITS

- **First Party**
 - Internal audit performed by the member company
 - Provides objective evidence to highlight the potential for improvement and a basis on which to plan improvements
- **Second Party**
 - Usually performed by a customer for the purpose of contributing to a service or product for sourcing
- **Third Party**
 - Conducted by regulatory agencies, certifying bodies, and/or verifying organizations (CSG & EGUSA)



NACD CODE REQUIREMENT

- Code X: Internal Audits
 - Member companies shall establish documented procedures for regularly scheduled internal audits to verify the implementation of policies and procedures supporting the Responsible Distribution Code of Management Practice.



WHAT IS AN INTERNAL AUDIT?

- Internal Audits test the effectiveness of the system and the function is to verify conformance of the system.
- “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

--The Institute of Internal Auditors



PURPOSE OF AN INTERNAL AUDIT

- Internal Audits provide the mechanism for:
 - Ensuring that appropriate corrective actions are planned
 - Ensuring that appropriate corrective actions are implemented
 - Monitoring the effectiveness of the corrective actions



WHAT ARE INTERNAL AUDITS ABOUT?

- Internal Audits are about processes and systems
 - Are they effective?
 - Are they meeting requirements?
 - Could they improve?



INTERNAL AUDIT PROGRAM



COMPONENTS OF AN INTERNAL AUDIT PROGRAM

- Management Representation and Sponsorship
 - Requires backing from the organization's Senior Management
 - Management commitment
 - Responsible for ensuring the requirements of the policies, procedures, processes, and systems are implemented and maintained
 - Typically selects, trains, and oversees internal auditors



COMPONENTS OF AN INTERNAL AUDIT PROGRAM

- Internal Auditors
 - Independent of the function or department being audited
 - “...selection of auditors and conduct of audits shall ensure objectivity and impartiality of the audit process. Auditors shall not audit their own work.”
 - Element 8.2.2, ISO 9001
 - Code X does not set forth this rigid prohibition on Internal Auditors; however, avoid self-policing if at all possible



SELECTION OF INTERNAL AUDITORS

- Selecting/assigning internal auditors is one of the key steps to a successful Internal Audit Program
- Some are born but all can and should be trained



CHARACTERISTICS OF GOOD INTERNAL AUDITORS

- Observant: Constantly and actively aware of surroundings and activities
- Perceptive: Instinctively aware and able to understand and adapt to situations
- Diplomatic: Tactful in dealing with all kinds of people
- Decisive: Reaches timely conclusion based on logical reasoning and facts
- Ethical: Fair, truthful, sincere, honest, and discrete



AUDITOR RESPONSIBILITIES

- Obtain and assess objective evidence fairly
- Evaluate constantly the effects of audit observations and personal interactions
- Treat concerned personnel in a way that will best achieve the audit purpose
- Perform the audit process without deviating due to distraction
- Commit full attention and support to the audit process
- React effectively in stressful situations
- Arrive at generally acceptable conclusions based on fact
- Remain true to a conclusion despite pressure to change it



PREPARING FOR THE INTERNAL AUDIT

- Before the audit begins, each internal auditor should have:
 - Mutual understanding of the purpose/scope
 - Know their specific audit responsibilities
 - Allocation of time for proper planning and preparation for the audit
 - Conduct of the audit interview
 - Consolidation of the audit findings



INTERNAL AUDITING TECHNIQUES

- Visual inspections
- Document Review
- Interviews



VISUAL INSPECTIONS

- Site tours are invaluable and necessary
- Listen to your “gut”, but trust your eyes
- Announced and unannounced



DOCUMENT REVIEW

- Electronic and hard copy
- Provide document request as soon as possible in the process
 - If your request is not provided in a reasonable amount of time, there already is an issue
- Query what the employees are using



INTERVIEWS

- Conduct them at all appropriate levels
- Coordinate/schedule them accordingly



IT'S ALL ABOUT QUESTIONS

- If you don't ask, they typically won't tell
- Questions, questions, questions
 - What?
 - Why?
 - How?
 - Who?
 - When?
 - Where?



TYPES OF QUESTIONS

- Open Questions
 - Lead to discussion and further probing
 - Allows the opportunity for the auditee to guide you through the process/system
- Examples of Open Questions
 - How do you apply the results from Internal Audit Reports?
 - What is your process to qualify carriers?
 - What is your process in dealing with non-conforming material?



TYPES OF QUESTIONS

- Closed Questions
 - Lead to definitive “Yes” and “No” answers
 - Can be effective but use judiciously
- Examples of Closed Questions
 - Have you completed the new product hazard analysis for hydrochloric acid?
 - Did you perform an annual Internal Audit in 2010?
 - Is this the latest version of the Responsible Distribution Manual?



CONDUCTING INTERVIEWS

- Four keys to conducting good interviews:
 - Be a good listener
 - Don't dominate the conversation
 - You are there to collect information, not to answer for them
 - The auditor should not become the auditee
 - You have the authority to probe and see information
 - Don't let the interview turn into a “bash the audit process” session



INTERVIEWING STYLE

- Don't make assumptions about what you are being told
 - Don't record anything that the auditee has not told you
- Communication is the key
 - “Two-way process of reaching mutual understanding in which participants not only exchange information but also create and share meaning”
 - businessdictionary.com
 - Don't speak jargon and be careful with the use of too many acronyms



ADDITIONAL TIPS FOR EFFECTIVE INTERVIEWS

- Keep questions direct
- Don't lead the auditee
- Record evidence, not assumptions
 - Be from the state of Missouri, “Show Me”
- Be positive, verbalize positives, and record positives
- Be open/transparent
- No surprises



AUDIT RESULTS

- The data provided by Internal Audits needs to be documented and analyzed to:
 - Discover trends and implement improvements
 - Highlight difficulties in the application of procedures, policies, or particular activities/processes
 - Give an idea of the types of corrective action being carried out and how long corrective actions take to implement



MANAGEMENT REVIEW FUNCTION

- Responsible for reviewing the performance and continued relevance of the management system
 - Required by Code X with new expectations
- Management is expected to respond to problems that cannot be solved at any other level within the organization
 - Allocation of resources
 - Top-Down Commitment
 - Senior Management must sign-off on annual audits



RELATION TO CORRECTIVE ACTION SYSTEM

- The Internal Audit is a process to record the occurrence of a non-conformance and helps ensure the problem is identified and assigned to the person with the responsibility and authority to respond to it effectively
- The system should monitor the effectiveness of the corrective actions from Internal Audits
- The corrective action should support both the immediate problem and put in place requirements to prevent recurrence



RELATION TO CORRECTIVE ACTION SYSTEM

- Code XI – Corrective and Preventative Action
 - Member companies shall establish a corrective and preventative action system for Responsible Distribution-related issues. This system should permit the identification and communication of inadequacies or improvements in each member company's implementation of Responsible Distribution.



PRACTICES OF EXCELLENCE



PRACTICES OF EXCELLENCE

- Responsible Distribution Code Coordinator sets a schedule or action plan with planned dates and assigns responsibilities to audit team members
 - Monitors progress of completion
 - Ensures corrective/preventative actions are implemented in a timely manner
- Combining Responsible Distribution Internal Audit with other audits
 - ISO – RCMS – Risk Control, etc.
- Trend analysis of con-conformances is good practice (Responsible Distribution verification analysis)



PRACTICES OF EXCELLENCE

- Audit each site each year against the applicable Responsible Distribution Codes
- Train your auditors to the Responsible Distribution Code and your Policies/Procedures/Processes/Systems
 - Attend Responsible Distribution workshops and webinars
 - Consider sending auditors to a formal Internal Auditor course – This workshop!
 - Verify that your auditors are conducting audits per your requirements



COMMON DEFICIENCIES



COMMON DEFICIENCIES

- Common deficiencies from the audit process:
 - Not conducting an annual audit
 - Not covering all the Responsible Distribution Codes:
 - Community Awareness
 - Product Stewardship
 - Internal Audits
 - Failing to cover the appropriate codes at a public warehouse and/or not auditing all activities/procedures
 - Not addressing audit nonconformances through the Corrective/Preventive Action Process



TOP AREAS DEFICIENCIES – 4TH CYCLE

- Internal Auditing, Code 10A = 32
- Document & Record Control, Code 12A = 23
- Carrier Selection, Code 3A = 23
- Emergency Response and Public Preparedness, Code 7F = 17
- Handling and Storage, Code 4Hs1 = 11
- Handling and Storage, Code 4E = 10
- Document and Record Control, Code 12B = 10
- **Sample size 258 deficiencies across 86 locations**
- **Average of 3 deficiencies/member location**



STUDENT EXERCISES

- Exercise #1: Review and Understanding of Protocol requirements (75 minutes total time)
- Exercise #2: Developing audit checklist questions (75 minutes total time)



CLOSING COMMENTS & QUESTIONS

- Contact information:
 - Clyde Pearch, President, Eagle Group, USA, Inc.
 - 248-355-4421
 - clyde.pearch@eaglegroupusa.com
 - Michael Loolara, CPEA, Compliance Solutions Group, LLC
 - 225-754-0405
 - mloolara@compliance-sg.com

