



## **Behavioural-based online auditing – revolutionary change**

### **The pressure for change – tactics or strategies?**



Auditing hasn't changed much in recent years – it's still delivered by a people-based approach. Audit reports typically provide tactical detail, are text based, cover compliance rather than effectiveness, do not compare current practice with best practice – and rarely link to the drivers of business performance. But Senior Managers don't want tactical detail – they want strategic information. And they're starting to ask why they're not getting it.

### **Audits – focusing on what drives business performance**

Auditing activities for compliance is straightforward. But compliance does not necessarily indicate operational effectiveness – and Senior Managers recognise this. Organisations function via their business processes – which collectively make up the business management system. When auditing such business processes, it is essential to understand and assess the things that happen in the 'real-world', which are often not documented – otherwise there is a risk that excessive detailed compliance auditing will hide the strategic overview that Senior Management Teams need to see and the risks that their organisation faces.

The result is that managers feel disengaged from the audit and its results – there is a significant mismatch.

If an organisation is to manage these key cross-functional business processes effectively, it needs to understand the results that the processes achieve – and how these processes are in reality managed to deliver business objectives – including those for Environmental, Health and Safety. To do this it is necessary to understand more about process management – and hence what needs to be audited. This involves understanding a wide range of other factors, enablers, constraints and behaviours (i.e. what people actually do in the 'real world', not just what documents they can produce or what they say) that, in combination, drive the effectiveness of a process.

Audits therefore need to assess behaviours, which provide evidence of how such factors affect the performance of a process – something that traditional audits often fail to consider and have difficulty in quantifying. This includes the so-called "soft" issues such as motivation, culture and teamwork.

### **Auditors – the reality**

To audit processes within a management system, auditors need to be experts in: organisational structures; business culture; asset management; risk management; health & safety and environment issues; management strategies and business management techniques. They also need excellent interpersonal skills to collect this



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information from people who work within as part of the organisation, its suppliers, partners, regulators, customers and neighbours – all of its stakeholders.

Having gathered information, the auditor must then consistently analyse this to determine the level of effectiveness – and, finally, the auditor must produce a business-focused, comprehensive and diplomatic final report that presents the audit results in a style and format that is appropriate to a wide range of target recipients. Although an auditor may provide a very high quality overall service, it is impossible that he or she will be an expert in every aspect needed to audit and report on how effective a process actually is – and it is even more unlikely in the context of a whole management system. It is not surprising, therefore, that auditors are sometimes perceived, as a “weak link” in the auditing process.

Increased training for auditors in areas of sophisticated business activity cannot change this reality. So what can?



### Change – why and how

What is needed is a complete reassessment about why – and how – auditing is done.

Firstly, the Why. Compliance auditing is carried out to check that what documents say should be happening is actually happening. However, Senior Managers are not only interested in individual activities, but much more in the combined effectiveness of the whole business process to deliver results. Effectiveness auditing addresses this – requiring auditors who can adopt the significant range of skills outlined. Is this a possibility in most organisations?

Secondly, the How. Whatever method is used, it must be able to gather in-depth information from a range of people and locations i.e. much wider than is possible with existing methods, relating to what behaviours are actually being displayed. Different people inside and outside the organisation see or experience the same activity in different ways and the auditor needs to understand this dynamic and gather information accordingly. It needs to be based on a statistically valid sample of those affected and expose risks, benchmarks and comparisons – as well as compliance issues. Use of technology enables this to be realised.

Technology also enables the required level and consistency of analysis, which is beyond what is possible with a human mind. Consistent analysis of data is critical if trends over time are to be identified. Reports setting out the results of the analysis need to be in terms that inform managers of key business risks, provide benchmarks



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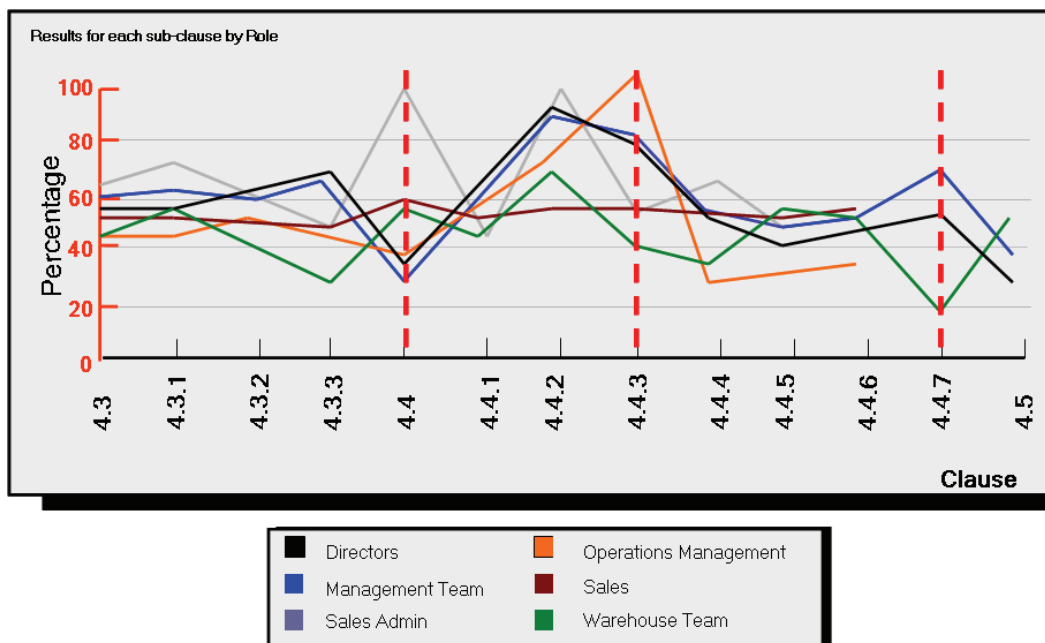
and identify issues and areas for improvement, related to their targets and objectives i.e. business and Environmental, Health and Safety focused – see the examples below.

### Areas of Strength

Performance Driver		%
2	Continual improvement of EHS performance is embedded	64.6
11	Resources needed to deliver EHS targets is managed	58.8
1	Close alignment exists between EHS management and the business needs	55.6

### Areas for improvement

Performance Driver		%
12	EHS requirements are managed within a single business System	40.8
6	Factual EHS information support decision-making	41.3
3	The Leadership Team visibly support EHS activities	42.1



However, **Pinnacle 360°**, a patented web-based application has been developed to address the current shortcomings. **Pinnacle 360°** facilitates effective planning, collection, analysis and reporting of auditing information – and the reports produced are of considerably more value to Senior Managers than those produced by traditional methods.



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### The future

Auditing will need to change from a tactical data gathering activity to a strategic management tool – and the role of the auditor will change, as new and far-reaching auditing methodologies are applied. The range of auditing applications, especially IT, will grow – and the deployment mix will change. But although IT will have an increasingly important role, there will always be a need for auditors – i.e. for those who can physically see *things* and question *people*.

Auditors who recognise that a revolution is happening will become a valuable resource in helping their organisations or clients deliver business objectives and drive improvement. Those who do not will continue to focus on compliance. They will therefore remain a tactical resource addressing tactical issues – and they will operate in business arenas significantly more limited than that of their strategy-focused colleagues.

Audits of the future will improve the limitations of current methods and focus on achieving greater effectiveness linked to business results



Pinnacle Associates (Assessment) Ltd are at the forefront of addressing these issues to satisfy market demands. Through links and agreements with partner organisations, results to date include:

- Developing **Pinnacle 360°** online assessments to assess the effectiveness of a wide range of issues such as enterprise risk management, corporate social responsibility and corporate governance, business planning, sales and marketing and improvement and change



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