

Overview

Organizations spend substantial amounts of money and resources on outside auditors to review their financial statements and make recommendations regarding the stewardship of the organization's assets and management of debt. These people have *specialized education and professional designations* which qualify them to carry out these specific responsibilities. Those designations typically require both education and experience specific to the world of finance and accounting.

Those organizations that are ISO certified also spend considerable amounts of resources on the preparation and auditing of their standards. Again, the people that are capable of doing so have *specific education and experience* in order to get a designation that allows them to do so.

There are also various types of industries that are under regulatory mandate to maintain records that are subject to audit (e.g. food and drug, defense contractors, electrical components, etc.) and they must have *qualified personnel* that can perform quality checks (another form of auditing) on products prior to shipment to customers.

However, none of the above auditors are likely to have the education or experience to perform audits on two of the most critical aspects of a manufacturing, distribution or 3rd party logistics organizations which can quickly become the difference between the organization's success or failure: operations metrics; and, enterprise solutions utilization.



Auditing Your Operations

The reason that your organization would bring in an experienced third party to audit your operational metrics and procedures is the same as you would for having an experienced financial organization audit your ledgers and internal financial procedures. The third party provides an independent viewpoint to how the organization's management team is managing and improving various areas of performance and verifies that the metrics being provided to senior management are accurate.

Let's consider the importance of having this activity done.



If the operational metrics are not done properly there is a high probability of customer service, inventory, product / service cost and employee issues arising. So, the first job of the auditor is to ensure that the metrics calculations are true and that all metrics that should be reported are being reported.

The second reason is that, like the financial audit, having an experienced third party review your operational metrics is also the opportunity to provide assurance to the shareholders, bank and other interested stakeholders that the information being provided is accurate.

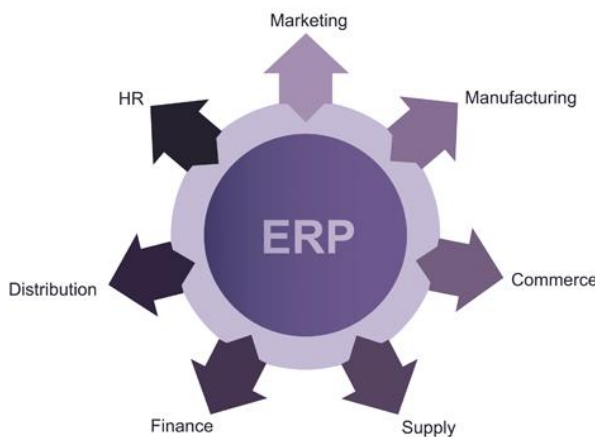
The third reason is that, like the accountants and ISO audits, the operations auditor will provide direction in the resolution of root causes of issues found which will lead to better performances in satisfying customers and financial results.

The skill set that this auditor has will include education such as those provided by APICS or other supply chain organization and years of direct experience in inventory and operations management. Lean Management / Continuous Improvement should be part of their resume.

Auditing Your ERP Situation

There are several times that the organization's ERP or other business support application situation should be audited by an experienced, third party:

- ✓ When the organization is preparing to source a new solution to ensure that the controls that need to be in place during the project are sufficient.
- ✓ Prior to signing the contract to acquire the application to ensure that proper control and validations have been exercised. Remember the term: Caveat Emptor.
 - ✓ During the User Acceptance Testing to ensure that all controls are in place prior to deployment of the solution.
 - ✓ Three to six months after the new solution is deployed to perform master file audits, security audits and any change procedures approved by senior management. At this point, the auditor may also perform a vendor performance analysis to ensure that any vendors involved in the project are performing to their Service Level Agreement standards.
- ✓ At one year after deployment to validate actual project metrics such as ROI, capital budgets, etc.



If your organization has completed any or all of the five phases, the auditor can provide the organization with a current status report. These are typically used to generate a continuous improvement plan for the use of the solution and may also provide senior management with a strategic view of the life cycle expectancy of the current information topology. This information then goes into part of the organization's strategic planning efforts.

There is one more reason to have an auditor beyond any consultant you may have engaged to assist with the selection process. If there is the potential to get into a litigations situation with the chosen vendor, then the organization has an independent third party that can provide expert analysis and testimony should that need arise.

The *skill set* that your organization should look for in this individual is going to be primarily based on experience. Preferably, the person will have experience with multiple enterprise solutions in a business vertical similar to yours. For instance, hiring a person that has worked exclusively in the automotive parts vertical may not be a good fit for a food and beverage, make-to-order or 3rd party logistics organization.

The more varied the experiences this person brings to your ERP auditing, the better. Look for the person to have worked with multiple ERP solutions and to have worked at all levels of an organization (shop floor to senior management).

Summary

As I've stated earlier, having a third party audit of your operational metrics and ERP situation is a worthwhile investment for organizations.

- ✓ An audit provides independent information for senior management to utilize in planning resources and potential capital projects.
- ✓ It's tough to see the forest when you're running through the trees. Results of the audits, when shared with the people doing their jobs, can assist with empowering the people to improve the efficiency and results of executing their processes which then enhances the organization's competitive position.

About the Author

Ken Cowman's career has spanned more than 45 years with 11 of those in operations management followed by more than 30 years as an enterprise solutions and continuous improvement project manager, educator, seminar leader and management coach. The clients that he's worked with range from a small organization with five permanent staff to multi-nationals with divisions in several countries and thousands of employees.

A founding executive of the APICS Peel Chapter, Ken was part of the OMERIC team that wrote the Fundamentals of Operations Management courses for APICS in the mid-1990's. He is also the past Chair of the Business Operations Management Program Advisory Committee at the School of Business at Centennial College.

Ken is the author of Emercomm's Lean Enterprise Management methodology and leads the team that develops the LeanControl RTO[©] applications.

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