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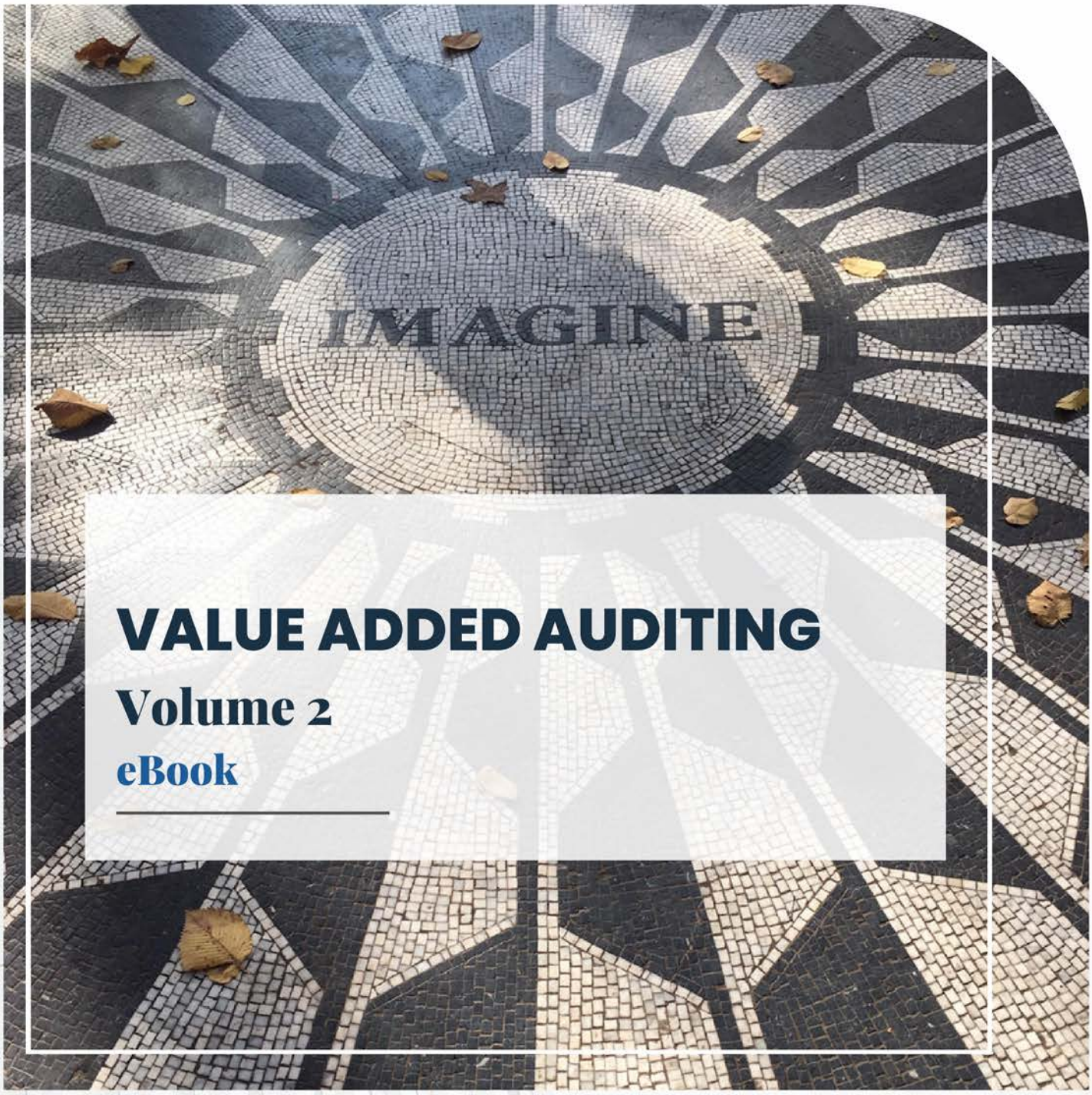

VALUE ADDED AUDITING

Volume 2

eBook

WORLD OF AUDITING
helps you increase the value to the business.

VALUE ADDED AUDITING

Volume 2

CONTENTS

World of Auditing®

Creating a Risk-Based Audit Framework – Internship Project

Earlier this year, we had the pleasure of sponsoring an internship in collaboration with Wageningen University and Research (WUR). This is a project summary that describes the context, project objectives, methodology, and outcomes. The primary goal of the project was to develop a risk-based audit framework for categorizing food products, identifying high-risk areas in the supply chain, and prioritizing auditing.

Why risk-based auditing?

Food safety and quality have been significant areas for actors in the agri-food supply chain in recent years, prompting the adoption of audit cultures at all supply chain steps.

Risk-based auditing has largely replaced traditional auditing in the last decade. Audits require a significant amount of time and resources. Traditional auditing is time-consuming and resource-intensive, requiring the same amount of time, resources, and audit frequency regardless of the company's risk potential, and significant risks may go undetected.

As a result, audit managers and auditors must increase their effort in priority areas while decreasing it in non-priority areas. Risk-based auditing increases the likelihood of revealing risks, provides management with a more up-to-date picture of where the most significant organizational risk lies, and uses a company's risk model to determine when and where auditors should investigate.

The project aimed to create a risk-based audit framework to assist food and beverage business in (1) categorizing food products based on their risks, (2) identifying higher risk areas in the supply chain, and (3) prioritizing auditing to efficiently allocate audit resources.

The five research questions.

The goal of this project was to answer the five research questions using two data collection methods, a semi-structured literature review and expert interviews. The research questions (RQs) listed below were developed:

- RQ1. How could food and beverage businesses categorize products according to their risk?
- RQ2. Where are the higher risks in the supply chain?
- RQ3. What are the criteria to prioritize auditing based on RQ2?
- RQ4. How should a risk-based framework look like using the findings of RQ1-3?
- RQ5. To what extent do leaders of the audit organizations validate the developed risk-based framework (in RQ4)?

The semi-structured literature review addressed RQ1, RQ2, and RQ3, and RQ4 was addressed using the findings of RQ1-3. RQ5 was addressed in the expert interview.

The results.

The results of the literature review revealed that (1) the intrinsic and extrinsic properties of foods, (2) consumer use and end-users, (3) the ability to

produce toxins, the likelihood of containing hazardous chemicals, undeclared or unintentional allergens, and physical hazards are criteria that could be used to categorize food products based on risks.

It also revealed that manufacturing, distribution/transportation, and retailing are high-risk areas of the supply chain for microbial hazards. Farming, suppliers, and manufacturing are all high-risk areas in the supply chain for allergens, chemicals, and physical hazards. Furthermore, it demonstrated (1) the size and number of employees in the facility, (2) the audit scope, (3) the plant's compliance history, (4) the complexity of manufacturing processes, (5) the type of product or ingredients, (6) previous audit results, and (7) the volume of product processed or distributed as criteria for prioritizing auditing of manufacturing plants.
It was found that (1) geographical location, (2) supplier importance and size, (3) new suppliers, (4) position in the value chain, (5) supplier with pending corrective actions and poor audit results, (5) supplier who contravenes regulations, and (6) supplier with more non-conformities are criteria to prioritize suppliers' auditing.

The risk-based audit framework.
All of the findings from the semi-structured literature were used to create a risk-based framework representing the elements mentioned to assist audit organizations in better identifying where high risk exists in their businesses. Knowing where to audit more and better allocating resources for risk-based auditing is the result.
Audit leaders interviewed validated all elements of the risk-based audit framework except the facility size, employee count, and audit scope as criteria for prioritizing auditing. They also provided additional criteria for categorizing food products, high-risk areas in the supply chain, and criteria for prioritizing auditing. The project's final product was a refined risk-based audit framework.

By Marc Cwikowski
November 4, 2022

What Food Assurance Schemes and the Combustion Engine May Have in Common

History

The world's private food assurance schemes have been in existence for more or less 25 years. Initiated by UK retailers during the 90's with Red Tractor, Nature's Choice for farms, and BRC for processing. Early in 2000, the gauntlet was taken up by the German retailers with the launch of IFS and GlobalG.A.P. and then assurance schemes disembarked some 12 years ago in N. America with SQF and others under the guise of GFSI Schemes.

Purpose & Setup

Retailers needed to respond in UK the implications of 1990 UK Food Act and in Europe to food safety concerns by governments concerning pesticide management and residue levels in product. Nominated supply chain actors came together sponsored by the retailers and their anointed scheme secretariate to agree the membership structure and define the prescriptive technical content. The outcomes were the formulation of codes of Operating Practices for these retailer's global food supply chains with compliance delivered via annual 3rd party auditing of registered farms and processing sites with the issue of relevant certificate by the approved CB's.

Evolution

During the initial 10-15 years, the operating level of these global supply chains gradually reached acceptable levels of Good Practice compliance and certificated status. This structure and approach were major contributions to the reduction of pesticide levels and promotion of food safety culture within supply chains across the globe. That said, from that time onwards, the impacts became less impressive.

- Scheme owners incorporate in version upgrades increasingly more technical content to answer retailer and consumer concerns on environment, social compliance etc., however these additions to already large prescriptive annual checklist review processes, have become very cumbersome and more expensive for suppliers. Notwithstanding these challenges, scheme owners have expanded their structures and focus of product portfolios and global reach to access and attract developing countries supply chains memberships with debatable levels of success.
- From the supplier perspective; the repeated annual audit has devolved in many cases into an expensive tickbox/cut and paste process which hasn't delivered progress nor differentiated between suppliers who all have the same or similar certificate compliance.
- From the retailer's perspective, these schemes are regarded as minimum operative levels or lowest common denominators for suppliers where the buyer dictates that either the supplier has a valid 3rd party certificate, or the truck doesn't unload at the DC. More discerning retailers and food service brands have established further 2nd party technical

requirements to satisfy their consumer/brand differentiators.
- From the consumer perspective, these schemes were setup as B2B and are largely unknown to the consumer with the exception of UK where some final product labeling is present.

Covid disruption

For the last 25 years, scheme owners have expanded in size and complexity relying on the same membership structure using 3rd party approved CB's for the stipulated annual site audit and certification process ……and then came Covid 19. The lukewarm response of GFSI scheme owners to implement quickly remote auditing led in many cases to food supply chains not being audited. This major hiccup highlighted the fundamental question of just how robust is the concept of retailers outsourcing food safety compliance to scheme owners who haven't introduced any fundamental structural innovation since the inception of the system nor in reality delivered tangible value since the plateau of Good Practice was reached 10 years ago.

Where to now

Digital innovation is disrupting many sectors today and with the movement to 5G and sensors streaming, the key question is whether these scheme owners are able adapt to recreate service value or will they become obsolete entities? Will remote surveillance be able to feed data, documents and images to independent auditing hubs using machine learning feeding alerts to technical auditors? Will compliance be defined and managed via data transparency within the food supply chain coupled with algorithm compliance alerts with predictive analytics and thus deliver the retailer's expectations and form the base for consumer stories?

Let's not forget – the car industry had a single-minded faith in the combustion engine until a Tesla arrives.

By Stephen Cox
May 10, 2022

7 Steps to Adopting an Effective Risk-Based Audit Strategy

Take 7 steps to help grow and secure your brand and reputation. As supply chains increase in complexity, these seven steps will ensure the design and implementation of an effective end-to-end risk-based audit strategy.

The industry is changing rapidly. The need for faster time-to-market for innovations and the demand for additional capability to meet evolving consumer expectations triggers increasing complexity. Deploying your audit activities wisely across the supply chain is of the upmost importance to protect your business in a sustainable way. Targeting your audit efforts and resources at the right place and the right time to uncover and then address the main risks, is key.

Why Does Your Audit Strategy Fail to Prevent Serious Issues?

The resources available for your audit program along the supply chain are finite, while your organisation deals with constant changes. There are new products, new lines, new ingredients and packaging materials, new suppliers, new co-manufacturers, new ways of working, new risks, and much more. Sound familiar?

You might also ask yourself questions—and you are not alone in this: Why are we still having issues and fighting fires, even with all our audits? How could our audit programme prevent these issues? Are we getting enough value from our audits? What synergies are we missing in our audit strategy, and is it risk-based? Does it really drive continuous improvement, and is it ready to meet future business needs?

In a context of constant change, how do you balance your audit efforts between suppliers, internal manufacturing plants, co-manufacturers, transportation service providers, storage operators, and other actors playing an important role in your supply chain? Which areas shall you consider with the highest priority and why? How often should you revise your audit strategy and plans?

Companies are increasingly facing this problem. Failing to adapt to the changing business landscape can bring lasting damage—especially when entering new markets, new product categories, and new business territories.

7 Steps to Design and Implement Your Risk-Based Audit Strategy

Considering the following steps is by experience key to a robust, effective, and sustainable risk-based audit strategy:

1. Map your entire end-to-end supply chain.
2. Leverage all available data, risk maturity levels (see step 6) and science to identify risks across the entire supply chain. Research and anticipate future potential risks.
3. Consider previous issues within your supply chain and the industry overall. Get an understanding of the root causes of these issues.
4. Design a supplier audit program that focuses on the priority / high risk ingredients and packaging materials. Design a manufacturing audit program that focuses on the priority / high risk products and processes. Apply a

similar risk-based approach to all the transportation and storage steps of your supply chain. Perform the assessments in consideration of all finished product types and consider the external certification status as one of the inputs amongst others.
5. Use the outputs of steps 1 to 4 to design and update your audit programmes and protocols on a regular basis: establish the areas of the supply chain to be audited, the scope of your audits, their frequency, the audit trails, and audit topics, on the audit agenda.
6. Ensure your auditors are and remain competent, independent, and that their product / process knowledge is kept up-to-date. Use the audit results to establish the risk maturity levels and to drive continuous improvement of the supply chain.
7. Go back to step 1 to revise your audit strategy and programs on a regular basis and when needed. Make the process dynamic and agile.

Designing and implementing a holistic, effective risk-based audit strategy requires focus, experience, expertise, and anticipation. Ensuring all 7 steps are properly designed and implemented is necessary to achieve the desired results.

By Marc Cwikowski
May 9, 2020

An Approach to Corporate Sustainability Auditing

Four Questions Internal Auditors should seek Answers to while Auditing Sustainability

When auditing sustainability efforts, internal auditors should first check whether their company has developed a sustainability strategy. If a sustainability strategy has been developed, an internal audit should focus on the following: whether sustainability has been integrated into business processes, whether measurable parameters have been set for the sustainability strategy, and whether there is a sustainability goal in the delivery of products or services produced by the business. Another point that internal audit should focus on is whether the company's sustainability strategy and its overall strategy are compatible. The two strategies need to be compatible with each other.[1]

The three pillars of Corporate Sustainability

In 1987, the United Nations Brundtland Commission defined sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs."[2] It is generally accepted that sustainability has three main pillars: environment, social and economic. These three pillars are also referred to as Planet, People, and Profit (3Ps) or Triple Bottom Line (TBL), as author and entrepreneur John Elkington first mentioned in 1994.[3] TBL aims to assess the business performance by measuring its economic (not only financial), social, and environmental performance over a period. A corporation's success or failure on sustainability goals cannot be measured only in terms of profit and loss. It must also be measured in terms of the well-being of billions of people and the health of our planet.[4] These three dimensions of sustainability are not independent. They are mutually binding and even interdependent. Neither can exist without the others in the long term.

1. The Environmental Pillar / Planet

The environmental pillar is often the most talked-about of the three pillars of corporate sustainability. Controlling the environmental pillar means managing, monitoring, and reporting your consumption, waste, and emissions. Examples include the amount of material that is recycled, amount of water withdrawn from local water sources, renewable energy use, energy consumption (direct and indirect), amount of GHG emissions, etc. [5][6]

2. The Social Pillar / People

The social pillar focuses on a company seeking the approval of its stakeholders, employees, and the local community. A big part of corporate sustainability is a company's dedication to taking good care of people inside and outside of the business. Examples include giving back to the community, being a job-growth driver in your region, supporting local initiatives, growing the overall sustainability of your community/region, eliminating child labor, implementing fair hiring standards, etc.[5][6]

3. The Economic Pillar / Profit

- The economic pillar involves implementing sustainable business practices to promote long-term profitability. For the purposes of this pillar, one should avoid the traditional interpretation of the word 'profit,' meaning the financial profit a company makes, but rather focus on the societal impact —and thus societal profit, which means making money and growing the company without negatively impacting the other two pillars. What organizations should do is adjust their profit targets and invest in programs that will promote sustainability. Examples include helping local suppliers stay in business, generating innovation, paying employees enough to stimulate economic growth and spending, choosing materials that are economically, socially, and environmentally a good investment, etc.[5][6][7]

Auditing Sustainability

- The questions that internal auditors should seek answers to in their measurement, monitoring, and evaluation activities, are based on the following issues:
- Whether activities are in line with the corporate sustainability strategy,
- Whether activities are performed in a way that enables the business to achieve its strategic objectives,
- Whether activities bring about added value in terms of risk awareness and understanding,
- Whether it is competent enough to respond to changes in the risk environment.[8]

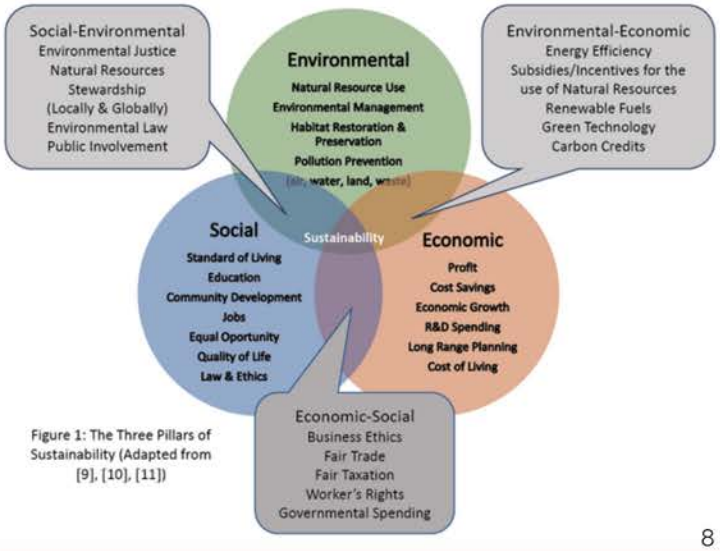

Figure 1: The Three Pillars of Sustainability (Adapted from [9], [10], [11])

A sustainability audit is a check to see where your company stands with regards to the three pillars of sustainability and their intersections, as shown in Figure 1. A sustainability audit benefits a company by putting into light what matters, as well as engaging employees, finding areas for improvement, and setting goals, thus helping the organization improve its sustainability performance everywhere. This process ensures the company has all the information to improve the planning, execution, and follow-up process.

A sustainability audit is a powerful tool

In today's business life, the practical elements that push businesses to work on sustainability are legal compliance, public trust, customer demands, and investor demands. A sustainability audit is a powerful tool to analyze the gap and maturity of these sustainability practices of an organization. Information provided by internal audits should support the company's risk and control activities. It is meant to document 'what you are doing and 'to what extent' across a wide range of sustainability categories. Upon completion, an organization will have a sustainability baseline it can use to track progress going into the future.[12]

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By Kerem Alikaşifoğlu
January 13, 2022

Auditing Food Safety Culture

Why is Food Safety Culture Important?
Food safety culture is an important predictor of the effectiveness of food safety management systems as it speaks to an organization's attitudes, practices, and beliefs surrounding food safety. For several reasons, having a robust food safety culture is critical for food and beverage companies. These include:

- Protecting consumers
- Complying with regulations
- Protecting brand reputation

What Factors Should Be Considered?
Understanding the concept of food safety culture in an organization would necessitate a close examination of the following factors:

- Leadership and commitment
- Employee engagement
- Communication
- Continuous improvement
- Compliance

Auditing Food Safety Culture
Auditing is seen as a valuable method for assisting firms in identifying areas where their food safety culture falls short. By identifying these areas, organizations can take steps to improve and reduce the risk of food safety incidents. Additionally, food safety culture auditing helps to increase transparency and accountability within organizations, which can help to build trust with stakeholders, including customers, regulators, and the public. Lastly, regulatory authorities and recognized food safety management system schemes are increasingly requiring food safety culture auditing, emphasizing the significance of food safety culture in their monitoring.
There are, however, several challenges associated with auditing food safety culture.

- **Subjectivity**: Unlike compliance with regulatory requirements or industry standards, auditing food safety culture involves assessing the attitudes, beliefs, and behaviors of individuals within an organization, which can be subjective and difficult to measure.
- **Limited data:** There are few established metrics or objective data sources for assessing food safety culture, making it difficult to evaluate progress or compare results across organizations.
- **Resistance to Change:** Auditing food safety culture may uncover issues or areas for improvement that may require changes to established practices or behaviors, which can be met with resistance or pushback from employees.
- **Confidentiality:** Employees may hesitate to provide honest feedback or speak candidly about food safety practices and issues, particularly if they fear negative consequences or retaliation.
- **Organizational complexity:** Food safety culture is influenced by factors such as organizational structure, management practices, and communication channels,

which can vary significantly across different types and sizes of organizations, making it challenging to assess and compare.
- **Time and Resource Constraints:** Auditing food safety culture requires significant time and resources, including the development of audit criteria, conducting interviews, reviewing documentation, and analyzing findings.

Due to the subjective nature of the assessment, making a judgment at the end can be difficult. However, some strategies can help to increase the quality of the assessment, to name a few:

- **Use Objective Metrics:** While food safety culture assessment is subjective to some extent, there are some objective metrics that can be used to measure the effectiveness of the organization's food safety practices. For example, an audit may measure the rate of foodborne illness incidents, training completion rates, the frequency of internal food safety audits, and the findings identified.
- **Balance Document Reviews with Interviews**: As the assessment is heavily based on observations of behavior, attitude, and shared values, it is critical to balance time spent on protocols and procedures with time spent on interactions with employees.
- **Examples and Sampling Size:** Including specific examples in the report can help to illustrate the findings and provide greater objectivity. Giving specific examples of employee behavior or practices inconsistent with food safety protocols can help identify improvement areas. The assessment, however, should ensure the right size of sampling to avoid errors in reporting.

By Tülay Kahraman
18 March, 2023

Polish Your Reports to Boost Their Value

Can you make an estimation on how much time is spent for writing an audit report? A more important question could be, "What is the percentage of good quality and effective ones to the overall number of reports generated?".
The most precious and maybe the only known product of an audit function is the audit report. Yet, the effort and time spent on writing is not always justified with the quality reached at the end. I am quite sure that most of the auditors will admit: Writing a report is a challenge. Even the exceptionally good and experienced auditors may find it difficult to write what they have successfully identified during an audit. There are many reasons for the poor-quality audit reports. Good news is there are some considerably basic and simple solutions for better results.
Set your audience
One of the critical aspects is to know the audience. Audit function should clearly determine and define who the readers are, and furthermore, which parts of the reports are prepared for which audience. Based on the definition made for the audience, the requirements of writing different parts of the report should be clearly set. Executive summary, for example, is solely prepared for the top management of the company. It should give the essence of the assessment with a focus on overall risks to the operations and the business, while giving high level information on investment needs. Suffocating executive readers with too much details, numbers, and data, would deteriorate the overall quality of the report. All details should be kept in the body of the report and help the operations to take actions for each finding accordingly.

Plan and Prepare
A high-quality report is never generated because of efforts spent only during the last day of the audit. Writing requires a good planning and preparation. A seasoned auditor would know that a discipline is required to write the findings every single day of the audit. There are two main reasons for this to happen. First of all, auditors need to write the findings daily with the fresh mind as they may forget what the notes they have taken meant the other day. Secondly, the audit is planned and built on the facts from the previous day. Postponing the writing could lead to more efforts to type the same amount of information and failures in making the right judgement. A good audit report template will give the structure of the executive summary as well as the body, while giving directions on what is required for each section of the report.

Focus on the right things
One of the most difficult parts of an audit is to establish a discipline to manage time and the pressure. Auditors, even the experienced ones may fall into the trap of unsatisfied curiosity. There is no limit to where an auditor can go with the questions he/she raises. Audit as well as the report should focus on the most important findings and risks. A well-written report is a

result of well-managed time and pressure. I, personally have seen auditors finding it difficult to write a report, when they have no real focus on the most important aspects of the audit. When you have an exceedingly long list of findings with no real value, it would never be possible to generate a good-quality report. Auditing is an absolute art of focusing on the right things.

Keep it simple

It is extremely important for the auditee to understand what actions to be taken to address the findings from the audit. This could only happen when the findings reflect the facts, include enough information and are actionable. This requires a good balance between providing enough evidence and details and overcomplicated writing. Auditors keeping their sentences short and simple, providing evidence with necessary details, and defining the risks to the operation with solid information are the authors of the high-quality reports. It is always clever to put yourself in the shoes of the auditee and read the report from their point of view. A good suggestion would be to ask one of your colleagues to read your draft findings to check whether they are clear, simple, risk-focused, and actionable.

If you were a salesman, what would you be doing to sell your product better? An audit report is the product of an entire audit function and it should talk to the customer. A high-quality report shines with its impact on the business. What is the impact you leave with your audit reports?

By Tülay Kahraman
June 30, 2020

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