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Making internal audits business-relevant

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Internal management system audits are sometimes seen as policing activities focusing on compliance and documentation rather than something that contributes to improvements. Previous research has focused on what to change in order to make auditing more business-relevant; fewer studies provide focus on how these changes can be operationalised. The purpose of this paper is to understand how internal audits can be carried out in a way that is perceived to add value beyond verifying compliance towards a standard. This study is based on action research in a global company in the consumer electronics sector. The study confirms that internal audits can add value beyond verifying compliance, acting as a generative mechanism for business-relevant improvements. However, this requires both short- and long-term changes in the auditing process; examples of changes are decreased time from audit to report, closer dialogue with management by the establishment of a sponsor role linking management and auditors, and giving up the cyclic audit programme in favour of a programme aligned with business objectives, strategies, and risks.

Keywords: internal audits; management system; ISO; quality management

1. Introduction

Studies of Quality Management (QM) and its application in various organisations point to Management System Standard (MSS) as having a predominant role for many quality professionals (Elg, Gremyr, Hellström, & Witell, 2011). Furthermore, increasing numbers of companies look to MSS as a way to operationalise sustainability considerations by the integration of MS, such as QM systems (QMS) and environmental management systems (Karapetrovic & Casadesús, 2009). Therefore, aligning to the view that integration of sustainability in established practices is critical (Maxwell & van der Vorst, 2003; Luttrupp & Lagerstedt, 2006), the role of MSS is unlikely to decrease.

Work related to a MSS and Management Systems (MS) is ubiquitous (ISO Survey, 2015), and implemented in many areas within organisations. Hence, it is an established practice, and is argued to have potential to contribute to quality improvements (Sousa & Voss, 2002). Following this diffusion of QM, management has started to ask for return on investment from the MS, quality programmes, and other quality-related initiatives (Coelho & Vilares, 2010).

Typical questions raised concern the value of internal and external MS audits and whether audits related to MS are negative processes (Dennis Beecroft, 1996) focusing on compliance and documentation (Pun, Chin, & Lau, 1999; Beckmerhagen, Berg, Karapetrovic, & Willborn, 2004; Elliot, Dawson, & Edwards, 2007; Heras-Saizarbitoria, Dogui, & Boiral, 2013). This paper aims to contribute to the area of MS by focusing on

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how to perform audits in a business-relevant manner, enabling its contribution to quality improvements (Rajendran & Devadasan, 2005).

One reason for the sometimes negative perceptions of audits is linked to the background of the MS, whether the MS is implemented based upon external requirements, and tends to focus more on compliance control, and less on organisational efficiency (Alic & Rusjan, 2010), or if it is implemented based on an internal need, which seems to gain more benefits from the MS (Poksinska, Dahlgaard, & Antoni, 2002; Boiral & Amara, 2009; Sampaio, Saraiva, & Guimarães Rodrigues, 2009; Alic & Rusjan, 2010). One approach to improve the perception of audits is to give up the prevailing cyclic audit programmes and instead plan audit programmes so that they align with other established processes in organisations, such as risk and strategy work (Roth, 2003; Alic & Rusjan, 2011) or practical needs (Askey & Dale, 1994; Roth, 2003). In addition, the levels of executive managers' interest in audits appear to impact their business relevance and contributions beyond compliance to a standard (Alic & Rusjan, 2011). Furthermore, following the audit process (ISO 19011:2011), the last step is writing up the audit report and handing it over to the audited organisation. From this point in the process, the audit team often moves on to the next audit. By contrast, following up on audit results and verifying corrective actions is argued to be the most important phase of auditing (Russell & Regel, 1996), also leading to a prolonged relationship between the auditee and the audit team that can have a positive effect on the perception of auditing (Power & Terziovski, 2007).

Synthesising research on the internal audit process finds that earlier research has shown *why* certain perceptions persist and *what* is needed to transform internal audits to becoming more business-relevant. However, there are few examples describing *how* suggested practices can be operationalised. In order to address this gap in the existing literature, the purpose of this paper is to understand how internal audits can be carried out in a way that is perceived to add value beyond verifying compliance towards a standard. This purpose will be addressed by studying changed practices of internal auditing of MSs at Sony Mobile Communications.

2. Theoretical framework

This theoretical framework will be divided into four parts, starting with a descriptive section on the audit process, followed by an account of previous research on perceptions of internal auditing, as well as the prerequisites for value-adding internal audits. Finally, a synthesis of previous research regarding perceptions of internal auditing and prerequisites for value-adding internal audits is provided.

2.1. The audit process

Today, more than 1.5 million organisations worldwide have implemented and certified their MS towards any of the MSS (ISO Survey, 2015a). Organisations holding a certified MS to any of the MSS such as ISO 9001, ISO 14001 are required to plan an audit programme and conduct internal audits (ISO 9001:2015b). An audit programme, consisting of several audits, should take into consideration the importance of the processes that are to be audited, any changes that are currently affecting the organisation, and the results of previous audits (ISO 9001:2015b).

According to the guidelines for auditing an MS (ISO 19011:2011), an audit has a twofold purpose – to indicate conformity or non-conformity to legal or other

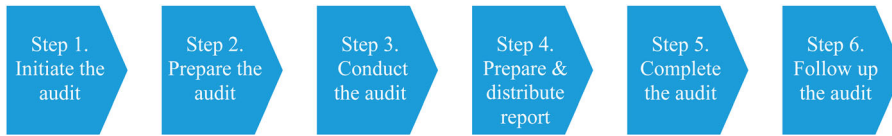


Figure 1. Basic audit process (ISO 19011:2011).

requirements, and to identify opportunities for improvements or best practices. For internal audits, a six-step process is described in ISO 19011:2011 (Figure 1).

2.2. Perceptions of internal audits

Perceptions of internal audits have been discussed in the existing literature. Table 1 provides a summary of described perceptions, clustered into two themes of associations related to internal audits.

Theme A1 can be summarised as audits reported to have negative connotations within many organisations. This is a result of the audit being perceived as an inspection activity, overly focused on compliance and documentation, sometimes coming across as a police activity or even as personal criticism (Sörqvist, 2010). It is concluded that the audit, focusing on compliance, is only relevant before the organisation has received the certificate; thereafter, it is more of a routine job (Pivka, 2004). Therefore, it is argued that mere examination of compliance to MSS is not the route forward, as business requires continuous improvements due to an external environment in a state of constant change (Hawkes & Adams, 1994; Beckmerhagen et al., 2004). Instead, leaving the pure compliance focus behind, the argument goes, is a must, and Hawkes and Adams (1994) posited that if the internal auditor community does not abandon the compliance focus, there is probably no place for the internal auditor in the future.

Theme A2 relates to the perception that audits are focused on fulfilling the audit programme instead of the resulting value of the audit (Elliot et al., 2007). The reasons why internal audits are perceived as not adding value have been studied, and Elliot et al. (2007) confirmed the need to abandon a sole focus on compliance, although it remains necessary to indicate conformity or non-conformity to legal or other requirements.

2.3. Prerequisites for value-adding internal audits

Prerequisites for value-adding internal audits have been discussed in prior studies by several authors, as summarised in Table 2. The prerequisites are clustered into eight categories.

Table 1. Review of empirical literature on perception of audits.

Category	Themes	References
A – Associations	A1 – a negative process where focus is on inspection, documentation, and compliance, for example, police activity and personal criticism	Dennis Beecroft (1996) Pun et al. (1999) Beckmerhagen et al. (2004) Pivka (2004) Elliot et al. (2007) Sörqvist (2010) Hawkes and Adams (1994) Wealleans (2005)
	A2 – too much focus on fulfilling the audit programme instead of the resulting value	Meegan and Simpson (1997) Beckmerhagen et al. (2004) Elliot et al. (2007) Sörqvist (2010)

Table 2. Review of empirical literature on prerequisites for value-adding audits.

Category	Themes	References
B: Relationships and management commitment	B1 – Clarify purpose, roles, and responsibilities in auditing and establish good relationships between auditor and auditees	Power and Terziovski (2007)
	B2 – Involve all functions	Rippin et al. (1994)
	B3 – Auditor contact with top and middle management	Roth (2003)
	B4 – Management support in MS and audit activities	Askey and Dale (1994) Poksinska et al. (2002) Pivka (2004) Alic and Rusjan (2011)
	B5 – Managers directly involved in the audit process – response to audit results and involvement with audit follow-up	Alic and Rusjan (2011) Rogala (2015)
C: Management system context	C1 – Internal motivation (for certification)	Poksinska et al. (2002) Boiral and Amara (2009) Sampaio et al. (2009) Alic and Rusjan (2010)
	C2 – MS in compliance with standard requirements and process management implemented	Pivka (2004)
	C3 – Mature MS, quality culture and quality objectives linked to company objectives	Alic and Rusjan (2010, 2011)
D: Competence	D1 – Use of experts as auditors	Pivka (2004)
	D2 – Selection and training of auditors such that they have enough knowledge, experience, authority and professionalism	Askey and Dale (1994) Piskar (2006) Mahzan and Hassan (2015) Rogala (2015)
	D3 – Developing organisation-specific knowledge and adaptability	Pivka (2004) Power and Terziovski (2005) Ramly et al. (2007)
	D4 – Expressing positive opinions and proposals for improvement measures, having communication skill, empathy, and flexibility	Piskar (2006) Power and Terziovski (2007)
E: Audit programme	E1 – Give up cyclical auditing, and instead determine frequency by practical needs, staff development activities, and criticality	Askey and Dale (1994) Rippin et al. (1994) Roth (2003)
	E2 – Integrate audits with risk and strategic management systems	Roth (2003) Alic and Rusjan (2011)
	E3 – Audits need to have a clear purpose, focus, and objectives	Askey and Dale (1994) Piskar (2006)
	E4 – Structure audits around QM Principles and Process Management. Perform audits against the management system, improvement projects, award criteria and best practice, rather than the ISO standard	Dennis Beecroft (1996) Abarca (1999) Liebesman (2002) Piskar (2006)
	E5 – Harmonisation of discipline-specific audits	Karapetrovic and Willborn (2000)

(Continued)

Table 2. Continued.

Category	Themes	References
F: Prepare the audit	F1 – Use different information sources	Piskar (2006)
	F2 – Share audit focus and checklist in advance	Kondo (1998)
	F3 – Compliance auditing in the beginning, which diminishes as the MS matures	Terziovski et al. (2002)
G: Conduct the audit	G1 – Identify and highlight best practices	Kaye and Anderson (1999)
	G2 – Focus on fact-finding and continuous improvements. Make recommendations and act consultative.	Askey and Dale (1994) Dennis Beecroft (1996) Roth (2003) Mahzan and Hassan (2015)
	G3 – Results should lead to visible improvements	Rippin et al. (1994)
H: Prepare and distribute the audit report	H1 – Ensure that there is enough time to prepare the audit report	Rogala (2015)
	H2 – Format reports according to the type of organisation and the expectations of those who receive reports	Piskar (2006) Mahzan and Hassan (2015)
	H3 – Align quality audit reports with Financial Internal audit reports	Hutchins (2002)
I: Measure the audit process	I1 – Measure and evaluate audit effectiveness and track audit outcomes	Karapetrovic and Willborn (2000) Beckmerhagen et al. (2004) Piskar (2006) Rajendran and Devadasan (2005) Elliot et al. (2007)

Firstly, category B, relationship and management commitment, has been identified by several authors as a key differentiator for value-adding audits, and includes relationships to top management as well as middle management (Roth, 2003). In this category, direct involvement by management in the audit process and in follow-up activities was seen as critical for value-adding auditing (Askey & Dale, 1994; Poksinska et al., 2002; Pivka, 2004; Alic & Rusjan, 2011; Rogala, 2015). By establishing good relationships with management, auditors can also build a deeper understanding of challenges, risks, and plans within the organisation (Roth, 2003).

Category C, management system context, includes research on the positive effects of having an internal motivation for a MS certification (Poksinska et al., 2002; Boiral & Amara, 2009; Sampaio et al., 2009; Alic & Rusjan, 2010). The type of motivation for implementing a MS and the effects this has on internal auditing has shown that in the case of a MS implementation based upon external motivation (such as customer requirements), audits tend to be more compliance-focused (Alic & Rusjan, 2011). On the other hand, if the implementation is grounded in internal motivation and the organisation has a mature quality culture and MS (theme C3), it is more likely that the audit is viewed as a valuable management tool. However, to bring this about, management must be supportive (theme B4) and see MS and audits as strategic tools (Alic & Rusjan, 2011).

The third differentiator is category D, competence. Besides basic auditing skills, context-related skills are necessary for adding value to auditing; organisation-specific

knowledge and adaptability (theme D3) are skills supporting value-adding audits (Pivka, 2004; Power & Terziovski, 2005; Ramly, Ramly, & Yusof, 2007).

In addition, behavioural skills like being able to express positive opinions and proposals for improvement measures (Piskar, 2006) and communication skills, empathy, flexibility, and a positive approach all seem to influence the perception of audits (Power & Terziovski, 2007).

Concerning the audit process per se, another prerequisite for value-adding audits is the audit programme (category E). This category includes practices such as giving up cyclical audit programmes and instead connecting the audit programme to practical needs and other established organisational activities (Askey & Dale, 1994; Rippin, White, & Marsh, 1994; Roth, 2003). In particular, it has been recommended to align the audit programme with organisational risk and strategy management (theme E2), which yields positive effects such as auditors being better able to assist the executive management team in achieving organisational objectives (Roth, 2003; Alic & Rusjan, 2011). In this category, a third theme about the structure of an audit programme is found; for example, structure based on ISO 9001 QM principles, process management requirements, or improvement projects instead of the basic standard requirements (Dennis Beecroft, 1996; Abarca, 1999; Liebesman, 2002; Piskar, 2006).

Categories F, G, and H are directly related to the latter steps (2, 3 and 4) in the audit process described in Figure 1. Regarding category F, it is argued that when preparing the audit, several different information resources should be used (Piskar, 2006), and the audit team should adapt to less compliance-focused audits when a more mature MS is present (Terziovski, Power, & Sohal, 2002). During the preparation of the audit, the intended audit focus and checklist should be shared with the auditee (Kondo, 1998). Later, when the execution of the audit takes place (category G), a prerequisite for adding value has been found to be a focus on fact-finding, continuous improvements, providing recommendations, and acting consultative (Askey & Dale, 1994; Dennis Beecroft, 1996; Roth, 2003; Mahzan & Hassan, 2015). In addition, an explicit focus on results in terms of visible improvements is beneficial (Rippin et al., 1994).

Category H, prepare and distribute the audit report, includes theme H1, which is planning-related and can be seen as a foundation for themes H2 and H3. Concerning the audit report, several suggestions are proposed for adding value by adjusting the reporting format according to the type of organisation and the audience for the report (Piskar, 2006; Mahzan & Hassan, 2015). However, beyond formatting, it is also beneficial to link the reports to reports from other types of audits (Hutchins, 2002). Finally, the last category, I, concerns measuring the audit process. It is argued that the focus should be on measuring the effectiveness of the audit rather than the efficiency, the quality of the audit rather than quantity; meanwhile, also track benefits and savings, and the number of findings per audit (Karapetrovic & Willborn, 2000; Beckmerhagen et al., 2004; Rajendran & Devadasan, 2005; Piskar, 2006; Elliot et al., 2007).

2.4. *Synthesis of perceptions and prerequisites for value-adding internal audits*

Overall, both perceptions and prerequisites are frequently touched upon in the literature on audits and their transformation from compliance checks to business-relevant improvement opportunities. Pettigrew (1987) argued that a study of a transformation should involve questions about the context, content, and the process of change. In this framework, context can be divided into outer context – meaning the social, economic, political, and competitive environment – and inner context, which refers to structure, corporate

culture, and political context. The content relates to the areas that are being transformed; that is, a certain technology or process. Finally, Pettigrew (1987) emphasised the process dimension, including actions by various stakeholders that drive the transformation forward. The necessity of having a processual view is well in line with other research on implementation of best practices.

Done, Voss, and Rytter (2011) is one such example, emphasising the necessity of balancing, and including, factors that lead to both short-term and long-term impact.

Using the transformation framework of Pettigrew (1987), categories A, B, and C can be viewed as the context through which ideas have to advance. Content, representing what needs to change, primarily relates to prerequisites for value-adding internal audits, categories D through I, given that the unit of analysis is the internal audit process. The process part, or how the transformation is carried out, is not addressed in the extant research on perceptions and prerequisites for value-adding internal auditing. Hence, an in-depth case study of how a company has carried out this transformation makes a significant contribution to the research on value-adding internal audits.

3. Method

The evolution of an audit process is a dynamic and complex phenomenon to study, and one that lends itself to qualitative methodological approaches. Moreover, this phenomenon requires an understanding of interactions between the context and the phenomenon, a type of research suited to a case-study methodology (Meredith, 1998; Dubois & Gadde, 2002; Voss, Tsikriktsis, & Frölich, 2002).

3.1. Case selection

Access to a company and its internal processes, documents, and so on is crucial to provide a detailed understanding of a specific context; a case selection criterion became an accessible company that had changed its auditing process with the intent of becoming more business relevant. In this study, the first author is employed in such a company, with global responsibility for MS-related external auditing. Hence, this company is involved not only in the research but also in the implementation of the results. The approach is based on action research, viewing the meaning of research not only as describing, understanding, and explaining an empirical phenomenon, but also as changing practices (Reason & Torbert, 2001). The company studied in this paper, Sony Mobile Communications (Sony Mobile), is a global company in the consumer electronics sector with approximately 5,000 employees. The company is certified for ISO 9001, ISO 14001 and other industry-specific standards. However, this study focused on the ISO MSS.

3.2. Data collection

To strengthen the reliability of our findings, triangulation of multiple data sources was used (Eisenhardt, 1989): participatory observations, internal documentation and surveys, and interviews. The data collection was divided into three phases: involvement as an internal action researcher in the change process, studies of internal documents and survey data to follow up on the auditing process, and key informant interviews.

In the first phase, the first author was leading the change of the internal audits practices at Sony Mobile and at the same time also acting as a so-called lead auditor. The role as lead auditor includes managing audit teams and planning, conducting, and reporting audits. The

change took place during a period of one and a half years, and the first author was part of developing changes in practices. These new practices were then implemented through ordinary change activities, and also by using new practices directly in internal audits. By using this kind of set-up, feedback was received from the auditees, directly and also through surveys.

The second phase focused on studies of internal documents and survey data. Data from two internal company surveys have been used in this paper. The first survey (referred to as S2012), was performed during spring of 2012. This survey targeted a total of 100 respondents, auditors, and auditees, and the response rate was 65% for auditors, and 41% for the auditees. Researchers asked both groups of respondents two questions: (1) 'Based upon your experience as auditor/auditee, how do you perceive the audits performed within Sony Mobile in general?' and (2) a rating question where the respondents had to rate the maturity of the quality culture and the QM system (QMS) within Sony Mobile. The second survey (referred to as S2014), was performed during 2014, and this survey was used to follow up on the new practices implemented in the internal audit process. The survey was sent out together with the audit report, and consisted of questions covering the entire auditing process. During 2014, nine surveys were performed with data from 45 respondents, corresponding to a response rate of 43%. In this paper, data from one question are utilised: 'Overall, how satisfied are you with the audit?'. The survey results were reviewed by the audit team and the internal audit process owner, and served as feedback on the audit team performance and as a tool for gathering input on the audit process.

Third, and finally, as Sony Mobile changed their auditing process, it was important to understand whether the change impacted the perceived business relevance. This has been addressed in five interviews with key informants involved in audits conducted both before and after implementation of the new audit routines, which made it possible to reflect on the change. The informants were the following: Senior Vice President Customer Service, Senior Manager Q&CS Office, Senior Analyst Quality Feedback, Programme Manager, and Senior Manager Customer Product Management (CPM). The interview questions included the following:

- 'How do you view the last year's development at Sony Mobile in terms of how we work with internal audits?'
- 'If you were to compare the "old way" of auditing with today's Business Audits do you see any differences? If so, what are the main differences?'

All interviews were conducted onsite by both authors and lasted anywhere from 27 to 51 minutes, and all were recorded and transcribed.

3.3. Data analysis

Data analysis was performed using the so-called Pattern Matching method (Mills, Durepos, & Wiebe, 2009). To strengthen reliability, multiple investigators were involved in both data collection and analysis. The analysis was carried out jointly by both authors.

As mentioned above, the first author was internal, with several years of organisational knowledge, insights, and experience from Sony Mobile. The second author was external to the company, acting as an external investigator, which should also improve reliability (Eisenhardt, 1989).

The work in the three phases of data collection spanned a considerable length of time, allowing us to study not only the change and implementation of new auditing practices, but

also the perceptions of these new practices after implementation. This longitudinal approach can arguably improve reliability as well as validity of the findings (Barratt, Choi, & Li, 2011).

4. Empirical findings

To enhance the value added from internal audits, Sony Mobile has introduced a new way of organising them, as well as new practices guiding auditing per se. In the sections that follow, the new way of working with audits at Sony Mobile, which was fully implemented from mid-2012 to fall 2013, will be elaborated on in four parts following the categories in Table 2.

4.1. Relationship and management commitment

In order to create a driving force for changing the current view of – and way of working with – internal audits, Sony Mobile outlined a vision for internal auditing: ‘From compliance check to increased business relevance’. There are many implications of the statement on the auditing, one example being the terminology used. Today, the term Internal Audit has been replaced by Business Audit (BA). The reasons for this are that the term Internal Audit is sometimes perceived negatively and that the term BA better distinguishes between different audit types, for example, internal quality audits, internal audits with financial focus.

A sponsor role was introduced and a sponsor from the Executive management team is appointed for each BA. This sponsor is involved in specification of the BA, and the lead auditor is required to plan and present a BA charter describing the audit. On behalf of the sponsor, an introduction e-mail is sent out to the auditees followed by individual interview bookings. The sponsor is kept up to date during the execution phase and the reporting. This includes a step at which the audit findings are presented to the sponsor before being distributed to a wider audience. Hence, when the results are presented to the executive management team in the management review, the sponsor is already familiar with the audit results.

4.2. Competence

The Management System and Audit function within Sony Mobile is responsible for staffing the audit teams. One of the team members should be a trained auditor, while the second member of the team does not need to be a trained auditor but should have skills that are relevant for the audit criteria, for example in IT, software, or hardware development.

4.3. Audit programme

Within Sony Mobile, there is a so-called BA Programme showing all planned BAs. This programme is updated continuously throughout the year. More extensive updates are performed when the company strategy, activity plans, and budget are revised. These documents, and other factors, are all key inputs to the BA programme (see Figure 2).

4.4. Prepare, conduct, and report the audit

When introducing the BA concept, it was decided that the audit team should be prepared to give advice during the actual interviews, during the root cause analysis, and during the



Figure 2. Input to the BA programme.

corrective/preventive action phase. This consultative approach requires a high level of both general and specific business knowledge in the audit team and implies a changed way of working. The preparation phase and the time spent in this phase become even more important in building specific knowledge about strategic plans, risk analysis, performance indicators, and customer information. This is managed via pre-meetings with the sponsor and the auditees, as well as document reviews. This approach also meant introducing a new audit reports design, including, for example, non-conformities, observations, good practices, graphics, reflections, root cause analysis, improvement suggestions, and prioritisations (see [Figure 3](#)).

It was also decided to shorten the time from the closing meeting until the auditees receive the preliminary report as a means to retain momentum. A target was set to have the preliminary audit report ready within five working days after the closing meeting. Furthermore, as part of the consultative approach within Sony Mobile, the audit team has the responsibility to book two follow-up meetings during the corrective/preventive action phase, in addition to a final meeting when all findings from the audit are closed. Finally, to support the audit team and the consultative approach, during the entire audit process, a database with descriptions of good practices was developed.

4.5. Perceptions of audits

To evaluate the transformed auditing practices, perceptions from auditors and auditees, as well as the key informants, are elaborated on.

4.5.1. Perception of audits among auditors and auditees

In survey S2012, 40% of the responding auditors perceived the internal audits to have elements that were related both to a compliance view and to a focus on business relevance; 25% rated the audit focus as slanted slightly more towards business relevance than compliance focus. Corresponding figures for the auditees were slightly higher; 50% of

What should be the focus in the team meetings?

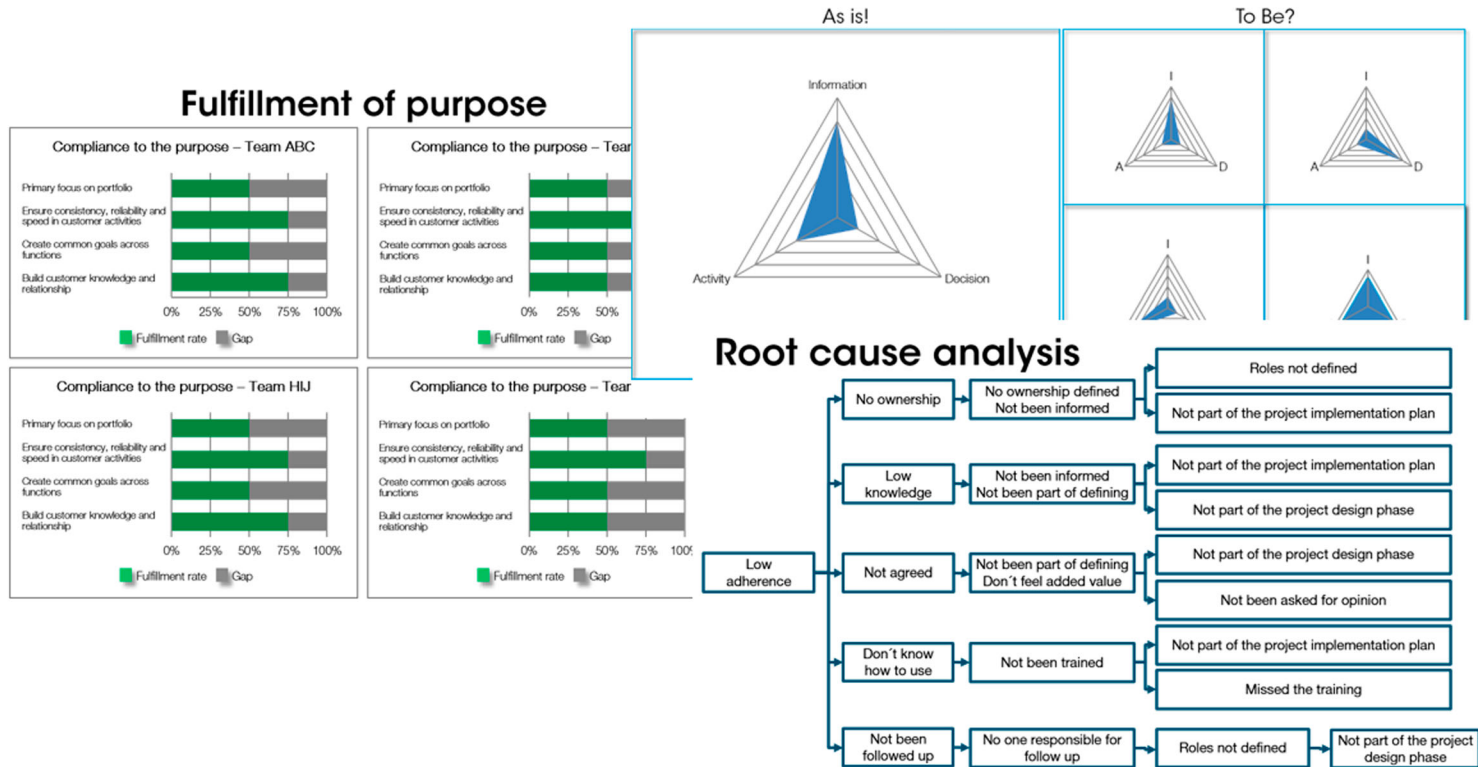


Figure 3. Illustrative of the consultative approach in reports.

respondents cited a mix of compliance and business relevance, and 29% rated their perception as more business-relevant. The survey described business-relevant as corrective actions from the audit that led to increased sales, increased product quality, increased customer satisfaction, lower operational expenses, and lower cost of sales. Additionally, the survey showed that the auditor group perceived the maturity of the quality culture as low and the maturity of the QMS as medium. The auditee group rated both the maturity of the quality culture and the maturity of the QM as medium. The second survey (S2014), after the changes in auditing practices, showed a rather high overall satisfaction of internal audits, 42% being very satisfied.

4.5.2. *Perceptions of audits among key informants*

Overall, the interviewees view the present internal audits as more business-relevant than previous internal audits. Some of the informants stated that, in addition, the internal audits remain a means of preparing for the external audits. All informants were positive in connecting the internal audit criteria to organisational challenges, risks, strategies, and plans, and to being part of discussing and defining those criteria. As expressed by the Senior Vice President, Customer Services, ‘What I experience as positive is that it (the audit) has been taken beyond the process checklist [...] and that one (the auditor) in cooperation with the organization identifies relevant areas to audit.’

This somewhat iterative process between the auditor and the representative from the audited organisation gave an opportunity to discuss more fully how the internal audit could be used as a tool in certain cases. As stated by the Programme Manager, who is also a lead auditor, ‘I coach the client, the coming sponsor [...] so it (the audit criteria) becomes something that is adapted to the audit tool.’

The process to coach the audit set-up is also brought up in relation to forming the list of auditees and the audit team. As mentioned by the Senior Manager Q&CS Office, ‘It is key to have the right persons involved, those that are responsible for the area, who know the area, work within the area which is audited.’ Regarding the competence of the audit team, the Senior Manager, Head of CPM claimed that an auditor has to have an

organizational understanding [...] and an understanding of the top management structure and then mid-management and how they are [...] how they are managing and how they are working, how they are collaborating to secure the processes [that] are being implemented for the site.

The execution of the audit was also discussed from a competence point of view, the Senior Vice President Customer Services concluding that the auditor should ‘have the trust to work together with management and identify those areas where one (the auditor) can help the organization to advance’.

Regarding reporting, it was pointed out in several of the interviews that receiving the audit report quickly is important. The reasons are, for example, that ‘the impression from the interview is fading out [...] within a week is definitely good, while you don’t lose the gut feeling’ (Senior Manager Q&CS Office). Besides the time for delivering the audit report, the informants were also asked about the new Power Point-based (PPT) report compared to the earlier Word-based report, and several different opinions emerged. The Senior Vice President, Customer Services expressed that ‘to be honest, if you see it from a senior management level role, there are very few on that level that read the full report’. When reviewing two report examples provided, the same informant expressed that ‘this one (PPT) is very complex to assimilate [...] it’s hard to get an overall picture [...] for sure it is a good description of the operation’. The Senior Analyst Quality Feedback concluded

that ‘this one (PPT) is good because it can be used on the screen directly [...] and this one (Word) is so boring so I can’t show it’. The same informant said that ‘one is a working tool (Word), the other one (PPT) is something that explains why’. The content as such was also discussed and the Programme Manager stated that it is important to formulate the consequence of not doing something or continue to do something that is not correct: ‘The consequence is not a wrong document revision, the consequence is a disappointed customer.’

5. Discussion

The purpose of this paper is to understand how internal audits can be carried out in a way that is perceived to add value beyond verifying compliance towards a standard. In an area where much focus has been on understanding why internal audits should be focused on business-relevant matters (see e.g. Meegan & Simpson, 1997 and Beckmerhagen et al., 2004) and what should be done in order to move from compliance to a business focus (see e.g. Piskar, 2006 and Askey and Dale, 1994), this paper contributes with a case study of a company showing how practices for business-relevant audits are operationalised.

Focusing on reasons and drivers for MS in general, and internal audits in particular, the inner and outer contexts (Pettigrew, 1987) are primarily represented by whether the rationale for having an MS is based upon internal or external motivation, as well as the maturity of the MS (Poksinska et al., 2002) and the maturity of the quality culture (Alic & Rusjan, 2010). A strong internal motivation to implement an MS and a mature quality culture have been shown to be prerequisites for realisation of the potential benefits of an MS (Poksinska et al., 2002; Alic & Rusjan, 2011). At Sony Mobile, the auditor group rated the quality culture as low, such as when an informant stating that internal audits are primarily a preparation for external audits. The latter indicates that the motivation to have the MS is partly grounded in an external motivation, despite a modified approach to the audits.

In the synthesis of the proposed prerequisites for value-adding internal audits, according to Pettigrew (1987), several of the proposals address the content area, the ‘what’. Many of these proposals have contributed to more value-adding audits at Sony Mobile, by aligning audits to strategic plans (Roth, 2003) and involving management in discussions on improvement areas and in follow-up on the audit results (Alic & Rusjan, 2011). Within Sony Mobile, the yearly audit programme is aligned with the strategy, activity plans, and budget, an approach that Roth (2003) claimed to be an important alternative to a stand-alone cyclical audit programme.

This further supports a long-term and organisation-wide approach to a transformation programme (Done et al., 2011).

The close dialogue with management within Sony Mobile plays a central role in the planning of the audit programme and individual audits. This dialogue helps to build management interest (Alic & Rusjan, 2011) and change the perceptions of audits (Power & Terziovski, 2007). Furthermore, it helps the audit teams to better understand challenges, risks, and plans within the organisation, an important prerequisite for value-adding internal audits (Roth, 2003). Moreover, this supports an understanding of the organisation, which is important as each transformation is unique and requires contextual adaptations (Done et al., 2011). Overall, the closer relationships between auditors and management is likely to put more focus on identification of improvement areas than on merely fulfilling the audit programmes (Elliot et al., 2007; Power & Terziovski, 2007). It further builds organisational readiness and lay foundations for short-term benefits, needed for sustainable and long-term change (Done et al., 2011). A practice supporting the audit process

overall is the establishment of a new sponsor role at Sony Mobile. This role gives management a direct possibility to affect the audit focus and thus create prerequisites for greater return of investment (Pivka, 2004).

Turning to reporting, Sony Mobile introduced a new type of design and tightened requirements on the time to delivery of the report. Both practices were intended to have an impact on how management responds to, and takes action on, the audit result (Alic & Rusjan, 2011). The importance of the practice to shorten the time from the closing meeting to delivery of the audit report was confirmed by all informants.

The present study is limited to one company and the auditing of ISO MSS. Future studies across more companies are suggested to understand whether similar results are achieved in other audit types using the same underlying audit process, as well as in other companies. The informants interviewed represent the European organisation of Sony Mobile. To increase the validity of the study, future researchers could perform the same interviews in the Asian counterpart of the Sony Mobile organisation.

6. Conclusions

This study confirms that internal audits can add value beyond verifying compliance. The conclusion is that both short- and long-term changes in audit practices are needed. In the long term, it is critical to create management engagement by involving managers in various ways throughout the audit process, for example, in aligning the audit criteria to strategy and risk. However, this changed role of management is not solely dependent on changes not only on the management side but also on the auditor side; the latter are exemplified by a need to ensure that auditors have relevant knowledge and understanding of the organisation's challenges in the area being audited. By establishing the sponsor role, prerequisites for a good relationship and mutual understanding between management and auditor are established. In addition, to enable short-term gains, other, more hands-on changes are needed, such as explicit requirements regarding the time from audit to report and improved, and customised reporting formats.

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