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Auditing for Value

In the search for added value in a business, the traditional view of auditing (and its auditors) should be challenged to see if, in fact, this activity is actually value creating or value destroying.

Introduction

"Trust me - I'm an environmental auditor" read the headline of the February 1996 Environmental Accounting and Auditing Reporter magazine. "Why?" I reasoned. 'Would you buy a used car from this man?' sprang to mind.

First impressions are lasting impressions they say, and what we perceive makes a lasting impression on us. Life is all about perception and therefore in this sense perception is reality. So if someone thinks there is a problem, then there is a problem, period. Facts don't change feelings. Whether the perceived problem is based on a real tangible problem is only material when evaluating whether there is a one problem to deal with (the perceived problem) or two (the perceived problem and a real one). Solution of the latter usually requires two totally different and unrelated strategies.

Perceptions of auditing

But what has all this to do with auditing for value? Auditing and auditors are not well received in many areas of business. Images and impressions of bureaucracy, heavyweight documentation, negative messages associated with non-conformances and consultant's bills are often found in the forefront of the client's mind. Is this a result of perception, or reality, or both?

The ISO 9000 approach has been portrayed as management by documentation. If the 'avoidupois school of management' (the management system being valued by the weight of its documentation) brought disrepute to the quality camp, what has been said about the environmental camp? The Environment Business magazine gave one view when they described environmental auditors as people who, '...spawned their exclusive brand of mutually incomprehensible acronym-laden enviro-speak'. Not to disappoint then, we should be referring to 'auditing for value' as 'AFV'. The ISO 14000 approach is based on management for results, and as environmental management systems are underpinned by continuous improvement, AFV should be a forward-looking inspirational tool using the environment to lever improved business performance.

So let us take a closer look at the perceptions of reality and the reality of perceptions. Let us challenge a few 'holy cows', and explore some avenues where auditing can add real value.

Sat in rush hour traffic one day, I mused on the confidently and proudly displayed lettering on the vehicle in front of me... 'Quality Assured to BS7550'. I wrote to the company asking "Have I missed something... or had they?". The perception of quality had been marred somewhat by the reality of the delivery.

ISO 14010 defines environmental audit as, 'A systematic, documented verification process of objectively obtaining and evaluating audit evidence to determine whether specified environmental activities, events, conditions, management systems, or information about these matters conform with audit criteria, and communicating the results of this process to the client'. That's fine, but does it lead us down a road of creating value? I would venture to suggest not. The inherent rigidity of the pre-defined framework for this process focuses thinking 'within the box'. This restrictive approach generally only allows nominal

tweaking at the edges. AFV has no pre-defined restrictions and promotes thinking 'outside the box' where the big value-creating opportunities can be found.

Roger Webster, in an article published in Retail Week recently, stated: 'In retail a fact or statement can be true and false at the same time'. Now there is a challenge for any auditor! Getting down to the real issues that create value for a business is where AFV comes into its own.

Some Examples

One example from my experience with Boots stems from the production of the company's environmental report. The report, prepared both as a paper report and also mounted on the company's web site where the information is further expanded, presents a wealth of environmental data at a level of detail not normally voluntarily disclosed in environmental reports. The presentation of such detailed data places a responsibility on the company to ensure the accuracy of this data. To be credible and to meet the expectations of the target audience, the data has to be robust. An internal verification process was put in place to check the substance behind the data presented and any claims made to check whether the perception of confidence in the data was borne out in reality. The result of this work is summed up in the verification statement made in the report '...we believe that the data presented and the claims made are robust, present a true and fair picture of the company's activities, and are capable of withstanding external scrutiny.'

So how good is the data really, and how does the auditing of this data deliver value? It is rightly quoted that 'If you can't measure it, you can't manage it'. It would surely follow that the opposite would also be true 'If you mis-measure it, you will mis-manage it'. The verification programme would provide a reliable base point from which sound business decisions could be made.

Examples of this include two business distribution operations who were using the volume of stock transported as a measure of distribution efficiency whilst a third business had not previously seen the need for such a measurement. They too are now measuring this parameter. Another example was where the management system provided for data to be collected but data from some newer business areas had been overlooked. The verification process exposed this weakness and prompted a review of procedures and a change of management responsibility to align the ownership of the data directly with the business decision-making management.

The reality is, and this is acknowledged, that not all of the data is completely accurate nor is it all likely to be for the foreseeable future. However, in those instances where this is the case, the deficiencies are visible, the gaps are filled when possible and, more importantly, business decisions can be made on this informed basis.

Published data of this type is qualified with a statement to indicate the basis of the data provided. An example of such a shortfall in the quality of data is the tonnage of waste produced. The majority of waste produced arises from retail outlets that are serviced by 'milk-round' waste collection vehicles. As these collections are not generally weighed, the amount of waste can only be estimated. The possibility of generating a value-case justification for individual management assessments of the quantity of waste in each container is remote. There is then, little scope for improvement in the quality of this type of data until it becomes commonplace for load-cells to be fitted onto this type of collection vehicle.

One collaborative example of AFV is the Waste Facilities Audit Association (WFAA). WFAA is a 'club' of waste producers who have joined together to pool resources to discharge their Duty of Care responsibilities under waste management legislation. Instead of each company separately auditing the waste management facilities they use, where there is a common usage by a number of members, they agree to a consultant appointed by the WFAA to audit the facility on their behalves. A top quality professional audit of the facility is secured in a single operation, with the cost shared by participating members, and with minimised resource input of both waste producers and the waste facility company management. Truly a win-win situation.

Correct data enables a focused targeting on reductions in environmental impact and costs to business - therefore delivering value. The audit process is not an end in itself, merely the means to an end of value creation.

Article



Business in the Community's Chief Executive, Julia Cleverdon, provided this quote for the last Boots Community review, "Managing the impact of business on our living and working environments is much more than a responsibility - it is now a recognised part of business excellence.." - she was referring to Auditing For Value.

These thoughts are my personal thoughts and do not necessarily reflect those of my employer or anyone else with whom I might have an association. Disagree with them if you will, but don't disregard them as you strive to add more value from the auditing process.

Notes

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