

## The Value of Internal Audits A Crowley Perspective

### **Introduction:**

The critical importance and relevance of internal auditing to business can be tracked as far back as 4000 BC. Migrating forward to the 19th century through necessity internal auditing became an integral part of modern business.

A shift came for the maritime industry with ratification of the ISM Code. The establishment of safety standards and uniform guidelines for ship management set basic principles for verification of the Safety Management System (SMS). The operating Company was held responsible to establish a periodical verification process. The requirements of the ISM code evolved as did the need for value added internal and external verification.

### **Crowley's Management System:**

Crowley's diverse fleet of vessels and evolving business gave way to a structured Management System in early 2003 with the development of our Operational Excellent Management System (OEMS). The OEMS set high level expectations for management of the company. Although the majority of our fleet was under tonnage and did not fall under the ISM requirements, to ensure safety, quality, and later environmental (SQE) standardization we initiated an in-house internal audit program with external oversight by class society for all of our vessels.

The program evolved as customer demands and competition increased. To set Crowley apart from competition we became certified to international quality and environmental standards and implemented the standards for our marine business. The fleet grew, however the internal audit program staff remained small and the program suffered.

In 2008 Crowley's effort toward internal auditing were strapped by inadequate resources and required audit deadlines were missed. The purpose of a Management System needed a better understanding, as to, did the value of a robust auditing program.

In a push to shift the quality of our internal audit program we began to evaluate our safety management system audits and our quality program in general. This exploration came at a time that our fleet was increasing its footprint in the oil and gas industry through acquisition and fleet expansion. Our internal resources were stretched and meeting the regulatory requirements for internal audits was challenging. It became apparent that to grow a successful safety management system audit program we needed to engage outside, experienced auditors to augment our current program. Once the expansion began we did not look back.

We designed our revitalized safety management system audit program with a mindful eye toward influencing the company's safety initiatives. Additionally, keeping our customers stringent requirements in mind we created a competitive edge through scope expansion of all internal audits to include the ISM requirements as well as the international standardization for Quality and Environmental. To augment the audit process we sought and were fortunate to attract well qualified auditors that met our certification requirements. This allowed the creation of a program that, to this day, is flexible, scalable and draws in highly experienced auditors that adjust to meet our ever changing business requirements.

The internal audit program is a keystone of Crowley's drive for operational excellence and is a vital element that supports and strengthens the Crowley safety culture.

### **Audit Structure:**

As our audit program matured it evolved from a traditional checklist style to one that weaves the standards and safety management system elements into an opportunity for learning and coaching at the deck plate. The auditors happily share their experiences and offer suggestions and guidance to the crew. As all sailors know, a story can set an everlasting image and can send an important safety message. The auditors brought

increased value to the program through sharing their expertise and coaching to the crew to help them better understand the audit process.

All internal audits look at the key management system elements of safety, quality and environmental stewardship regardless of the businesses certifications.

The outcome of the audit process began to play a role in Crowley's drive for operational excellence and our push toward the goal of zero harm to people, assets and the environment.

**Independent evaluation:** An expanded vision of safety beyond the routine requirements can be realized through an internal audit. One area where utilizing the expertise and independence of an internal auditor can show improvement in onboard safety is through communication. The opening meeting is an opportunity to hear from the crew. By encouraging discussion through examples of a near miss or asking about the outcome of a safe assessment, the crew is given permission to speak up and share ideas or concerns without consequences. This venue is also a place for crew to ask for clarification on regulatory requirements, and for the auditor to begin to understand the depth of the crew's comprehension of the vessel's management system. A prepared auditor will guide the meeting toward this outcome.

**Promoting a learning environment:** An internal audit provides an opportunity to promote a learning culture onboard vessels. A trait we look for when hiring a contractor is their ability and willingness to share their knowledge and expertise by coaching our crew members. This not only expands the crew's knowledge of the requirements of a safety management system, but serves as a catalyst for learning the ISM code and understanding how safety, quality processes and environmental requirements fit into their onboard duties. Onboard safety improves along with implementation of regulatory requirements and company standards.

A strong internal audit program supported through shipboard participation yields improved operational performance, which will cut errors, and errors affect safety. Through the eyes of an outsider you have a mechanism to evaluate internal controls

and operating systems. Where deficiencies exist, process improvement can be pushed up from the deck plate versus, or in conjunction with, being pushed down from shoreside management, with the right motivation and through crew engagement.

Efficiency of internal processes improve through an internal audit program by aligning how the work is done versus how we think the work is done. Recognizing and acting upon this revelation can save time, money and resource frustration. Also, and more importantly, by involving crew in process improvement, shore management is able to evaluate their implementation of the process to ensure the consequences are as intended.

Coaching during the internal audit is one mechanism we have in place to inform and educate crew on the importance of their participation in the vessel's management system

**Preventing Safety Incidents:** At Crowley, we emphasize that implementation of the management system is the responsibility of all employees. The vessel crews have a direct interest in ensuring that their safety management system is effective. When you value something, such as safety of your vessel and crew, it is worth the time and energy it takes for you to understand it. The thoroughness of the internal audit and its results represents these interests. To derive greater value, management's consideration for the inclusion of risk management into the vessels safety management system provides an additional layer of defense. Through a well-developed risk management system, the opportunity exists to recognize risk and take action to mitigate prior to an occurrence. The internal audit also provides an avenue toward identifying and assessing the likelihood of the risk materializing and identifying its possible consequences. Thereby giving a perspective of what risks are "key" and may require more urgent attention.

The internal audit can help companies be better prepared to prevent certain adverse events from occurring and also encourage businesses to provide an adequate response in addressing risk, or deficiencies which may lead to risky situations.

**Outcome of the internal audit:** Deficiencies, nonconformities, repeat injuries, or repeat damages and environmental infractions are some key areas that are influenced by identification during an internal audit. Management of corrective and preventive actions following identification is key to preventing reoccurrence and is a requirement of the ISM code. Additionally, by taking a closer look at deficiencies identified during the internal audit you are less likely to incur nonconformities during an external or customer audit.

**Implementation around actions:** A decrease in nonconformities occurs when corrective and preventive action implementation is pushed out from the source to the fleet. Converse to implementing on the ship where the finding was identified without giving the fleet an opportunity to learn, this lack of communication is contradictory to preventing reoccurring nonconformities.

Current and potential customers and charters expect high performance. Improving your marketing capabilities through prevention where possible, and management of corrective and preventive action after the fact, is one way to demonstrate your business' continual improvement process.

**Conclusion:** Internal audits are potentially more important than external audits for controlling the effectiveness of a management system. Implementing a continual improvement process is paramount to a successful management system and to an internal audit program. Management system failure can have significant financial impacts, and negative overall effect on your customer relations and business. Prevention and inclusion are your allies to maintain a strong safety management system in your organization.