



QUALITY MANAGEMENT INTERNATIONAL, INC.
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AUDIT THE MANAGEMENT SYSTEM BEFORE ACQUIRING THE COMPANY

Systems determine success. A company with an excellent system for converting customer needs into cash in the bank may be too successful for the owners to consider selling. Conversely firms for sale may inherently have systems that limit profitability because they do not continually reduce the cost of meeting customer needs.

System audits apply to all organizations. These audits assess how well an organization's management system enables users to understand and meet the needs of its stakeholders (e.g. customers, employees, shareholders) against predetermined criteria. These criteria for the system, processes, products and by-products may come from customers, managers, standards (such as ISO 9001) and regulations.

System audits complement asset and financial audits. While asset and financial audits focus on asset values and the money earned, paid and owed, system audits determine the effectiveness of the management system in reducing the cost of converting the needs of customers into cash.

The audit objectives often include the less obvious but most important questions:

- Are there any major gaps in the management system?
- Is there any chronic system weakness?
- What are the systemic causes of waste?
- Does the company's management system meet the predetermined criteria?

The System Audit: The audit client (Acquirer) provides the objectives for the audit. The lead auditor obtains the organization chart and prepares and sends an audit plan to the audit client and the auditee (the Acquiree). The plan explains the objectives, scope and timing for the interviews in workplace. During the audit the lead auditor changes the plan with the auditee as necessary to meet the objectives.

After a meeting to review the plan, the auditor samples the management system. The auditor and the auditee examine objective evidence of how well their system is helping managers and process teams to meet the requirements of customers, products and processes. Both agree the evidence on discovery of any failure to meet system, process or product requirements. Well-led auditees later take corrective action.

The lead auditor reports her/his conclusions, to answer the audit's objectives, with the objective evidence. If an audit objective, separate recommendations are added to the audit report of the actions and costs to make the management system effective.

Recommendations: Add the results of professional management system audits to your due diligence information as part of your acquisition planning. Use the objective evidence of any system weaknesses to justify lower offers and to enable early planning for quickly turning the identified system weaknesses into profitable opportunities.

Email jbroomfield@aworldofquality.com for Acquisition Diligence Audits of Management Systems (ADAMS) by certified lead management systems auditors.