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 it. Conversely firms for sale may inherently limit their profitability because their management system is neglected and does not add value efficiently or continually reduce the cost of meeting customer needs. Also mergers may fail due to systemic incompatibilities.

System audits apply to all organizations. System audits objectively and impartially determine how well an organization's management system enables users to fulfill customer and regulatory requirements. Predetermined criteria for the system, processes, products and by-products come from customers, managers, and from system standards such as ISO 9001.

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?
- How quickly can the system deficiencies be solved?

The System Audit: The audit client (Acquirer) provides the objectives for the audit. The lead auditor prepares and sends an audit plan to the audit client and the auditee (the Acquiree). The plan explains the audit's objectives, scope and timing for the interviews in workplace. During the audit, the lead auditor may change the plan with the auditee as necessary to meet the audit's 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. Both agree the evidence on discovery of any failure to meet system, process, product or customer requirements. Well-led auditees later take the corrective action by removing the root causes from the system to stop recurrence.

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

Add the results of professional management system audits to your due diligence. 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 John Broomfield for Acquisition Diligence Audits of Management Systems by certified lead management systems auditors.