

Strategy for Effective Supplier Audits

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Merrimack Valley
Section
The Global Voice of Quality™



Quality Support Group, Inc.
Never Stop Improving!

**“FREE THE GENIE”
Creating a Culture of Innovation**

**THE VITALILTY “DRAG•ONS” Conditions that are
a Drag on the Vitality and Innovation of an
Organization**

THE DRAG•ONS

*The Blah -Blah-Blob
The Unspeakably Ugly
The Political Chicken
The Idea Eater
The Chattering Monkey
The Well-Meaning Weasel*

Auditing Characters



The “Policeman”

Auditing Characters



The “Authoritarian”

Auditing Characters



www.toonsup.com/monsterdesign

The “Volunteer”

Auditing Characters



The “Bottom Line”

Auditing Characters



The “Runner”

Auditing Characters



The “Fearful”

Auditing Characters



The “ I Mind My Own Business”

Auditing Characters



The “Do NOT Write a NC or
Else”

Evolution of Supplier Quality



“ Now

“ ***Risk management*** } Supplier Reliability
“ Sustainability }

Some Drivers for Increased Focus on Supplier Risk Management

- Enron...
- 9/11/2001...
- AIG,...
- Peanut butter,...
- Toyota acceleration,...
- Celebrex, ò ..
- Titanium implants,...



ISO 9001:2015 CD

8 Operation

8.1 Operational planning and control

8.2 Determination of market needs and interactions with customers

8.3 Operational planning process

8.4 Control of external provision of goods and services

8.5 Development of goods and services

8.6 Production of goods and provision of services

8.7 Release of goods and services

8.8 Nonconforming goods and services

ISO 2015: Risk Management

4.4.2 Process approach

The organization shall:

d) determine the risks to conformity of goods and services and customer satisfaction if unintended outputs are delivered or process interaction is ineffective;

6.1 Actions to address risks and opportunities

When planning for the quality management system, the organization shall consider the issues referred to in 4.1 and the requirements referred to in 4.2 (4.2 Understanding the needs and expectations of interested parties) and determine the risks and opportunities that need to be addressed to

- a) assure the quality management system can achieve its intended outcome(s),***
- b) assure that the organization can consistently achieve conformity of goods and services and customer satisfaction,***
- c) prevent, or reduce, undesired effects, and***
- d) achieve continual improvement.***

The organization shall plan:

a) actions to address these risks and opportunities, and

b) how to

- 1) integrate and implement the actions into its quality management system processes (see 4.4), and***
- 2) evaluate the effectiveness of these actions.***

Any actions taken to address risks and opportunities shall be proportionate to the potential effects on conformity of goods and services and customer satisfaction.

ISO 2015: Risk Management

8.3 Operational planning process

In preparing for the realization of goods and services, the organization shall implement a process to determine the following, as appropriate,

b) actions to identify and address risks related to achieving conformity of goods and services to requirements;

8.5.1 Development processes

In determining the stages and controls for the development processes, the organization shall take account of:

e) the determined risks and opportunities associated with the development activities

9.2 Internal Audit

The organization shall:

a) plan, establish, implement and maintain an audit program(s), including the frequency, methods, responsibilities, planning requirements and reporting. The audit program(s) shall take into consideration the quality objectives, the importance of the processes concerned, the related risks, and the results of previous audits;

Types of Business Risks

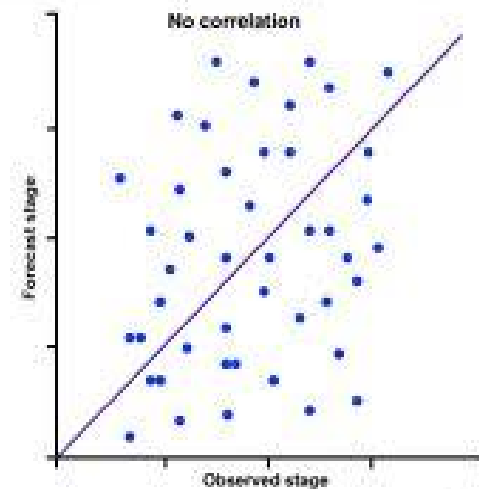
- Product risks
- Process risks
- **Supply chain risks**
- Financial risks
- Regulatory risks



Problems with Supplier Audits

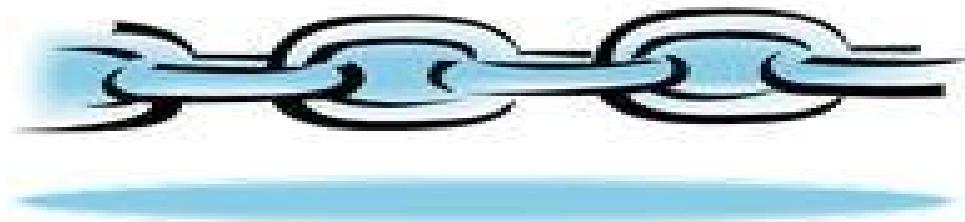
- Quality is only one measure of business reliability
- Wrong suppliers are being audited
- Audits don't generate meaningful information
- Many quality auditors cannot assess business reliability

Scatter Plots Showing Different Types of Correlations



Current Supply Chain Thinking

- Performance is a function of the entire supply chain



Basic Questions

1. Which suppliers to audit
2. What to assess during the audit
3. Who should perform the audit
4. What should occur after the audit



Which Suppliers to Audit?



- New suppliers . Uncertain Performance
- Existing ones that aren't doing well, but only if you plan to help them
- Those critical to supply chain reliability

What to Audit?

What business system aspects are most important to your business and/or the supply?

Compliance where it is critical for business reliability

Performance

• but of what?

Why?

- ISO 9001, 13485, 16949, 22000...
- ISO 14001
- OHSAS 18000
- ISO 27000
- ISO 26000
- ISO 31000



Audit Strategy

Audit Situations



Situation 1

- When supplier operates near capacity, or unique equipment is on the critical path:
 - ***Equipment reliability (up time, down)***
 - ***Business expansion plans***
 - ***Scheduling system***
 - ***???***

Situation 2

When supplier is highly regulated and would be shut down by a failure:

- **Records of compliance to appropriate systems (e.g. safety, environment, quality)**
- **How well system handles change**
- **Competence of Regulatory personnel**
- **???**

Situation 3

When supplier is highly impacted by subcontractor performance:

- “ *% of resources allocated to subcontractor management*
- “ *Supply qualification, monitoring and*
 - *Systems/methods and skills*
 - *Results!*
 - *???*

Situation 4

When supplier is highly leveraged financially:

- ***Cash management practices***
- ***Relationships with backers***
- ***Likely future financial demands***
- ***???***

Situation 5

When supplier has high turnover or cyclical business in a skill intensive industry:

- ***Screening methods for new hires***
- ***Training system design***
- ***Effectiveness of Training!***
- ***???***

Situation 6

- When business is family owned:
- ***How many generations***
- ***Age of primary family member in the business***
- ***Competencies/interest of next generation***
- ***Level of standardization & structure***
- ***???***

Situation 7

- Product Quality Issues/Repeating:
- **What do you think?**

Situation 7

Product Quality Issues/Repeating:

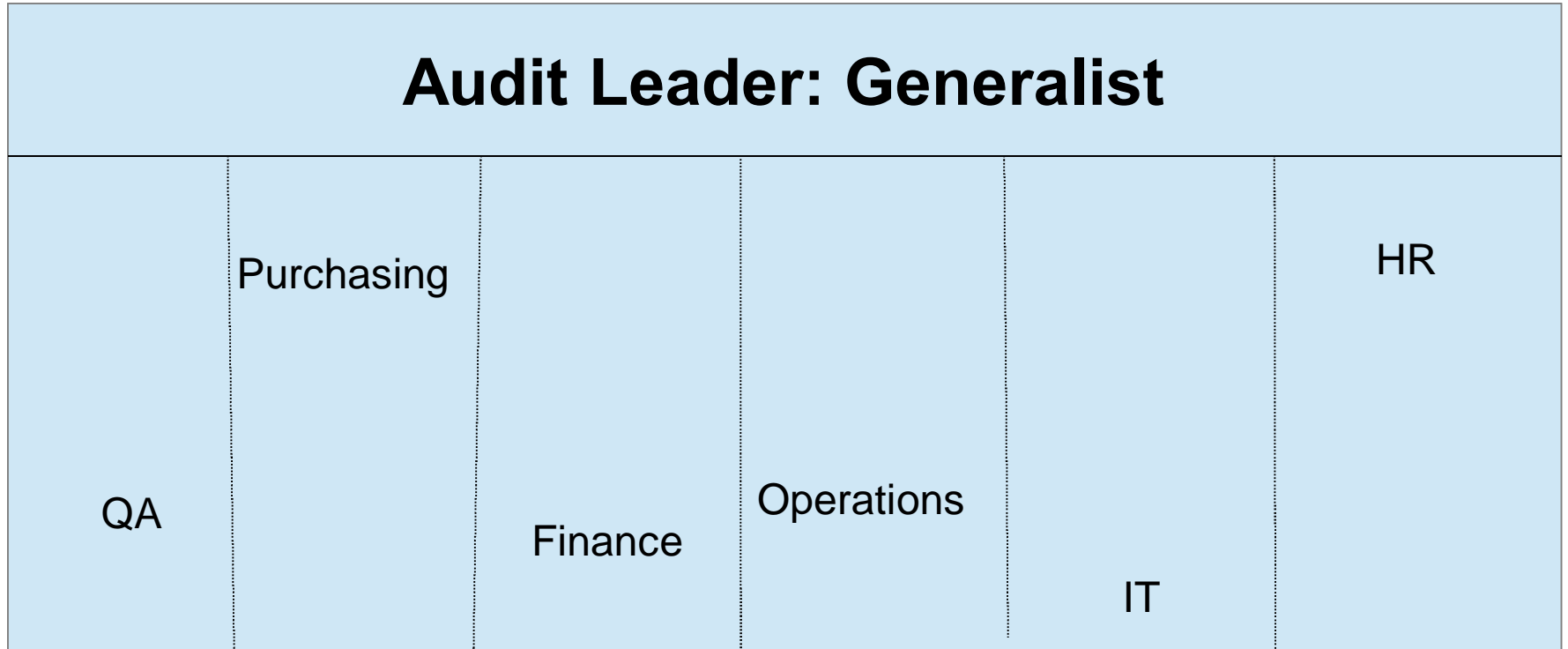
- ***Corrective Action System***
- ***Process Control***
- ***Internal Communication***
- ***Management Commitment***

Who Should Perform the Audit?

- Those with intricate knowledge of the types of business systems to be assessed
- Consider including other supply chain members/partners



Integrated Audits



Auditors Generalist & Specialists

Changing Boundaries..

Means continually asking why the audit is being done.



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