

## **Internal Audit and Good Ship Management**

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*“An effective internal audit function is a fundamental component of good ship management”.*

Internal audit is an important part of the effectiveness of a Company's Safety Management System, but even today it has been misunderstood both by Ship and Office Personnel. Internal audits provide a number of important services to Company management. These include detecting and preventing deficiencies which can result to an incident or an accident, testing internal control, and monitoring compliance with Company's policy and safety procedures. Establishing an internal audit function provides a vital step in the growth of the Company and its Fleet.

Although the Shipping Industry has identified monitoring mechanisms to ensure correct implementation of Company's Safety management system on-board ships, still accidents happen, major ones and we are still observers, just watching it happen, 44 dead in 39 days – amazing statistic – *Jian fu star* sank in October 27<sup>th</sup> 2010, *Nasco Diamond* sank in November 10<sup>th</sup> 2010 and finally *Hong Wei* which went down in December 10<sup>th</sup> 2010. Neither “Ericka” (n) or “Prestige” showed us the way to correct things and prevent accidents, when new buildings hit the rocks of an island in the middle of no –where – see *MV Oliva* and unfortunately *MV Rena* few days ago in New Zealand.

As I explained on top, recognizing the “discomfort” the word audit usually elicits and after having conducted hundreds of audits I have to admit that Masters and Senior Officers are not feeling well with the idea of being audited, they think that this is a kind of examination, but it isn't – who can say today the difference of an Internal audit and an attendance of a Superintendent on board ships, two procedures which are so close but so far away, why attendance reports have not the format of an Internal Audit Checklist?

Because during the attendance the Master or the Chief Engineer can disclose – unofficially - to the Company's representative a serious defect but during the Audit is totally unacceptable, you can go through the accidents and you will see that most of the Vessels involved had a blank “criminal record” and what does it mean; Zero Non – Conformities during Internal / External audits and good reports uploaded by third party inspections (PSC, Flag, etc) which means blank reports or three to four minor observation recorded, so it is surprising how these “sample for other owners” vessels are involved in a major accident?

Given the scope, objectives and functions of Internal Audit on-board ships today is of critical value for several reasons all of which are well known to us:

⇒ It is potentially of major importance as an effective internal audit system leads to improved accountability, ethical and professional practices.

⇒ It can improve the quality of output, support decision making and performance tracking.

⇒ It has the potential to act as an independent and objective appraisal mechanism and its findings and recommendations can act as a tool enabling the Company or department within which it functions, to take suitable corrective and preventive actions.

It is also necessary to highlight the difference that exist between auditing on-board or in the office by an in-house or by a private auditor, the in-house auditor's opinion serves the interest of the Company and is not confined to only providing a full and fair view to the management as is the case of an-unannounced internal audit by a private auditor.

So for what reason the preparation for the execution of an audit, the well ahead notice from the office to the ship and its senior officers once all integrated management systems and procedures “shouting” that the Ship must be always prepared for any kind of inspection any time

In real life things are much different, perhaps we are pointing the wrong way; we cultivate people on-board to fill checklists and people in the office filling them in the correct folder which corresponds to the specific Company's procedure, ignoring that this way is castrating them and removing any trace of initiative which could change their mindset and safety culture.

With the expanded and extended role of internal audit now stretching beyond its traditional focus on compliance on the ISM code, to encompass an assessment of the Company's SMS efficiency and effectiveness in achievement of its objectives, internal audit has become a management tool. Overall best practices in internal control and internal audit will generate key benefits. The overall design of the internal audit system, including best practices, should be geared towards the specific priorities of the Company taking into account own circumstances and requirements to sole purpose of preventing incidents / accidents.

But an overall Best Practices Framework is necessary to evaluate the adequacy of internal controls and the performance of the Company and its Fleet Vessels as well as of the internal audit.

Best practices could include those relating to roles, responsibilities and authorities and oversight of internal audit, resourcing the internal audit function, planning internal audit's activities, audit processes, and evaluating internal audit's performance. How many Masters do you know who are raising Non – conformities and send to their DPA, how many DPAs' do you know who applaud this process?

The audit function is not an examination, is not something personal between departments, Masters or Superintendents, should be ALWAYS seen as being part of the management function both on-board and ashore, and increasingly as a way for improving the performance both the Office and the Ship. These words should be told to all personnel involved in shipping to prevent incidents / accidents and save human life and the environment.