

# **Auditing Fundamentals**

## **Trainee Reference Manual**

**Trainee Name:**

<b><u>Contents</u></b>	<b>Page</b>
<b>Purpose</b>	1
Learning outcomes	1
<b>Auditing terms and definitions</b>	2
<b>Purpose of auditing</b>	4
What is an audit?	4
Why do we audit?	5
<b>The different types of audit</b>	5
First party audits	5
Second party audits	5
Third party audits	6
Certification/Registration audits	6
Surveillance audits	6
Unscheduled Surveillance Audits	6
Follow-up audits	6
Gap analysis audits	6
<b>Principle of auditing</b>	7
<b>Planning of the audit</b>	9
Objective of the audit	9
Audit scope	9
Audit criteria	9
Audit plan	9
Audit team	11

<b>Auditor competence</b>	12
<b>Auditor attributes</b>	12
<b>Knowledge and s kills</b>	15
Audit principles, procedures and techniques	15
Reference documents and audit criteria	15
Organization situation	16
Industry practices and situations	16
<b>Roles and responsibilities</b>	17
<b>Lead auditor</b>	17
<b>Auditor</b>	18
<b>Auditee</b>	18
<b>Technical specialist</b>	18
<b>Observer</b>	18
<b>Communication</b>	19
<b>Effective communications</b>	19
<b>Questioning</b>	20
<b>Listening</b>	21
<b>Non-verbal communication</b>	22
<b>Cultural awareness</b>	22
<b>Conflict resolution</b>	23
<b>Conducting the audit</b>	25
<b>Initiating the audit</b>	25
<b>Opening meeting</b>	25
<b>Audit work documents</b>	26

Checklists	27
<b>Obtaining objective documents</b>	27
Questioning	28
Observation	29
Documentation	29
Records	29
Sampling	30
Recording evidence	30
<b>Audit findings</b>	31
Evaluation of evidence	31
Reporting non-conformance	31
Categories of non-conformance	32
<b>Closing meeting</b>	32
<b>Audit reports</b>	33
<b>Follow-up</b>	35
<b>Managing the audit process</b>	36
<b>Authority for the audit program</b>	37
<b>Establishing the audit program</b>	37
Objectives and extent	37
Responsibilities	38
Resources	38
Procedures	39
<b>Implementing the audit program</b>	39
Schedules	39

Auditor evaluation	39
Selecting audit teams	40
Directing audit activities	40
Maintaining records	40
<b>Monitoring and reviewing the audit program</b>	<b>41</b>
Monitoring and reviewing	41
Identifying needs for corrective and preventative action	41
Identifying opportunities for improvement	41

## **Purpose**

Audit Training Module 1- Auditing Fundamentals is intend to provide participants the basic skills and knowledge to successfully conduct third party audits against the specified criteria.

## **Learning Outcomes**

By the end of this module, Participants should be able to:

- Demonstrate an understanding of the principle of auditing
- Initiate and plan an audit
- Perform on-site audit activities
- Gather and evaluate objective evidence
- Write and present non-conformance reports
- Present audit findings
- Write an audit report
- Conduct follow-up audit activities
- outline the personal and interpersonal skills required to conduct an audit; and
- Demonstrate the oral, written and non-verbal techniques that are appropriate for auditors.

## **Auditing terms and definitions**

**Audit client:** The organization or person requesting the audit. The audit client may be the auditee or any other organization that has the regulatory or contractual right to request an audit.

**Audit conclusion:** The outcome of the audit, after the consideration by the audit team of the audit objectives and all audit findings.

**Audit criteria:** A set of policies, procedures, requirements or standards used as a reference against which audit evidence is compared for compliance.

**Audit evidence:** The records, statements of fact or other information which are relevant to the audit criteria and verifiable.

**Audit findings:** The results from evaluating the level of compliance of the audit evidence against the audit criteria.

**Audit plan:** A description of activities and arrangements for an audit.

**Audit program:** A set of one or more audits planned for a specific time frame and directed towards a specific purpose include all activities necessary for planning, organizing and conducting the audits.

**Audit scope:** The extent and boundaries of an audit. The audit scope generally includes a description of the physical locations, organizational units, activities and process, as well as the time period covered.

**Audit team:** One or more auditors conducting an audit. If there is more than one person in the team one member is appointed as the lead auditor.

**Auditee:** The organization being audited.

**Auditor:** The person with the competence to conduct an audit.

**Competence:** Demonstrated personal attributes and abilities to apply knowledge and skills.

**Compliance:** The degree to which something meets a specific criteria.

**Conformity:** Fulfillment of a requirement.

**Corrective action:** Action to remove the cause of a detected nonconformity or other undesirable situation.

**Document:** Information and its supporting medium.

**Information:** Meaningful data.

**Inspection:** Conformity evaluation by observation and judgment accompanied by appropriate measurement testing or gauging.

**Nonconformity:** Non-fulfillment of a requirement.

**Objective evidence:** Information which can be verified, is based on facts and obtained through observation, measurement, test or other means.

**Observation:** A statement of fact made during an audit process and substantiated by objective evidence.

**Preventive action:** Action to remove the cause of a potential nonconformity or other undesirable potential situation.

**Procedure:** A specified way to carry out activity or process.

**Process:** A set of interrelated or interacting activities which transforms inputs into outputs.

**Product:** The result of a process.

**Record:** A document stating the results achieved or providing evidence of activities performed.

**Requirement:** Need or expectation that is stated, generally implied or obligatory.

**System:** A set of interrelated or interacting elements.

**Technical expert:** A person who provides specific knowledge or expertise to the audit team.

**Verification:** Confirmation, through of objective evidence, that specified requirements have been fulfilled.



## Purpose of Auditing

### *What is an audit?*

The international standard ISO 19011 - Guideline for quality and/or environmental management system auditing defines an audit as the:

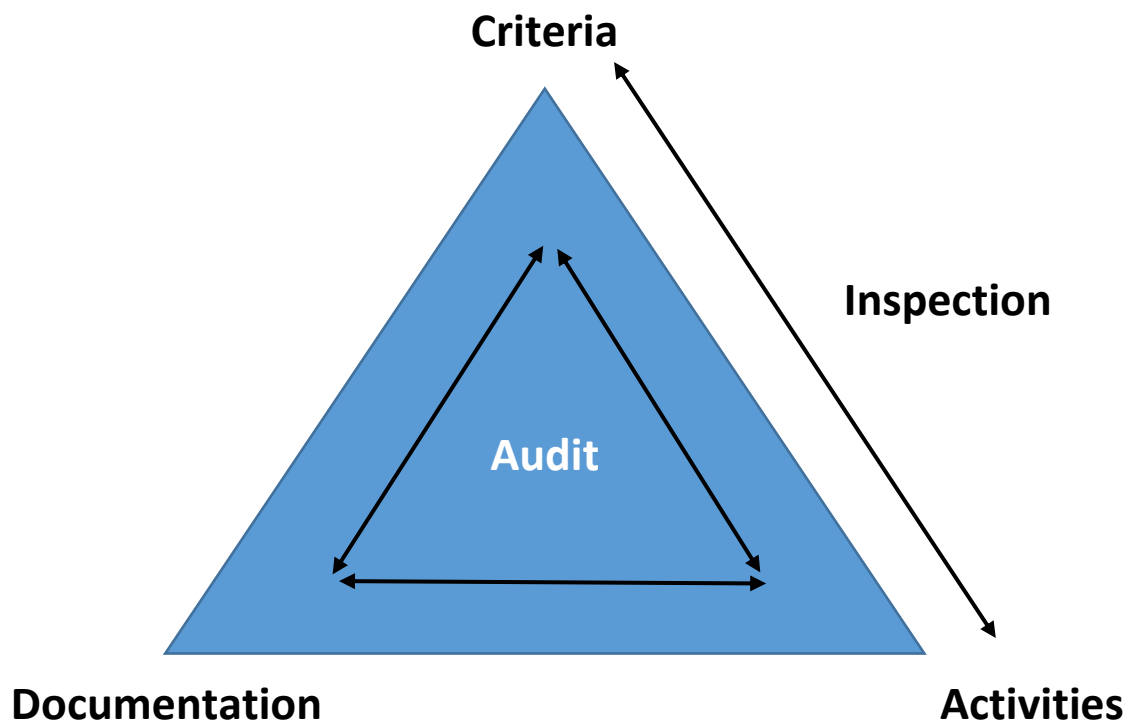
*“...systematic, independent and documented process for obtaining **Audit evidence** (3.3) and evaluating it objectively to determine the extent to which the **audit criteria** (3.2) are fulfill.”*

The audit evidence must have supporting documentation to enable the auditor to verify the level of compliance to the audit criteria.

Inspecting and auditing is not the same thing.

An inspection is a physical check of the attributes/state of a particular item or activity at a point in time. It either passes or fail according to the specified criteria.

An audit is a retrospective check on the activities and processes undertaken to achieve the desired outcome. It requires the collection of objective evidence for evaluation of the degree of compliance against the criteria.



## ***Why do we audit?***

Audits by definition are an independent and objective evaluation of factual information against the particular criteria. For the reason they are frequently used to:

- Determine an entity's level of compliance with certain requirements;
- Provide a degree of confidence in the entity's ability to meet certain criteria;
- Evaluate the performance of the entity;
- Establish that the auditee has the equipment, facilities, personnel, systems
- Knowledge and expertise necessary to meet the specified requirements;
- To identify and assess risks that may adversely impact the organization allowing them to put in place appropriate measures to address them; and
- To provide information to the auditee management on potential improvements to the organization's systems and procedures.

## ***The different types of audits***

### **First party audits**

Are internal audits by an organization on its own systems and conducted procedures to inform management of extent of compliance and identify opportunities for improvement.

### **Second party audits**

Are conducted by external parties with an interest in the organization. For example, a customer might audit a supplier to verify that it complies with, or has the capacity to meet, their requirements.

## **Third party audits**

Are conducted by external independent organisations and are usually for certification or regulatory purposes

## **Certification/Registration audit**

Initial evaluation of an organisation to determine its compliance with a particular standard, scheme, regulation or legislation.

## **Surveillance audit**

A regular audit to determine a certified or registered organisation's continuing compliance with, and ongoing capacity to meet, their obligations as specified by the criteria.

Surveillance audits are usually done at regular intervals or a specified minimum number within a set period.

## **Unscheduled Surveillance Audit**

An audit to determine a certified or registered organisation's continuing compliance with, and ongoing capacity to meet, their obligations where the auditee has no, or very short, prior notification of the audit. These usually occur due to concerns arising from a scheduled surveillance audit or additional information received from the public/community.

## **Follow-up audit**

Usually performed to verify and assess effectiveness of corrective action taken as a result of a previous audit.

## **Gap analysis audit**

A preliminary audit requested by an organization intending to apply for a certification or registration to identify any deficiencies that need to be addressed prior to the certification/registration audit

## Principle of auditing

Auditing relies on the number of principles to make the audit an effective and reliable tool in support of management policies and controls, providing information on which an organization can act to improve its performance. These principles are the basis for providing audit conclusions that are relevant a sufficient and enable auditors working independently to reach similar conclusion in similar circumstance.

The following principles relate to auditors.

a. **Ethical conduct:** *the foundation of professionalism*

Trust, integrity, confidentiality and discretion are essential to auditing. The auditee must feel that they can trust the auditor and the confidentiality of the client should be maintained at all time. The auditor must keep information made available to them during the audit to themselves or, at least, disguise the source where appropriate. This concludes information obtained from auditee employees.

b. **Fair presentation:** *the obligation to report truthfully and accurately*

The audit result must be fair and accurately represent the findings of the audit. The audit conclusion must be defensible based on the evidence obtained and the same conclusions should be reasonably expected to be reached by **another auditor or audit team.**

c. **Due professional care:** *the application of diligence and judgement in auditing*

Auditor exercise care in accordance with the importance of the task they perform and the confident placed in them by audit clients other interested parties.

**Remember, it is likely that you will have to come back to this company for future audit.**

The following principles relate to the conduct of the audit, which by definition is independent and systematic.

a. **Independence:** *the basis for the impartiality of the audit and objectivity of the audit conclusions*

Auditors are independent of the activity being audited and are free from bias and conflict of interest. They remain objective throughout the audit process to ensure that the audit finding and conclusions are based only on the evidence.

b. **Evidenced-based approach:** *the rational method for reaching reliable and reproducible audit conclusions in a systematic audit process*

Audit evidence must be verifiable and based on samples of information available of the time. The audit evidence should be within the audit scope and only be evaluated against the audit criteria.

The objective of auditing is to provide feedback to the organisation's management on the level of their systems, procedures and activities, **NOT** individual employees, with the audit criteria.

## **Planning the audit**

### ***Objective of the audit***

The objective of the audit describes why the audit is being conducted and the outcomes expected. Some examples of audit objectives are:

- Assessment of eligibility for participation in a particular scheme;
- Determining the degree of compliance with regulatory or legislative requirements;
- Evaluating supplier capability;
- Identifying risk; and
- Process improvement opportunities.

### ***Audit scope***

The audit scope defines the extent of what will be audited. It should specify the physical location, organization units, activities and processes to be audited and, where relevant, the time period covered by the audit.

The audit findings and conclusion should not take into consideration anything that is outside the scope of the audit.

### ***Audit criteria***

The audit criteria consists of the policies, procedures, standards, laws and regulations, management system requirements, contractual obligations or industry codes of conduct against which conformity will be determined.

### ***Audit plan***

Audit team leader should prepare an audit plan to facilitate the scheduling and coordination of the audit activities. The audit plan will provide the basis for agreement between the auditor, auditee and, where appropriate, the audit client on the conduct of the audit.

The level of detail provided in the audit plan should reflect the scope, size and complexity of the audit. The detail may differ between initial and subsequent audits and internal and external audits.

The audit plan should cover the following:

- Audit objective
- Audit scope, including identifying the organizational and functional units and processes to be audited;
- Audit criteria and any reference documents;
- The date and time the on-site audit activities are to take place;
- The expected time duration of on-site audit activities, including meetings with the auditee's management and audit team meetings;
- The roles and responsibilities of audit team members and accompanying persons; and
- The allocation of appropriate resources to critical areas of the audit.

The audit plan should also include, where appropriate;

- The identity of the auditee's representative of the audit;
- Audit report topics;
- Any logistical arrangements such as, travel, on-site facilities, etc;
- Matters relating to confidentiality; and
- Any follow-up actions arising from previous audits.

The audit plan should be presented to the auditee before any on-site audit activity begins.

The audit plan should be sufficiently flexible to permit changes, such as any changes in scope and/or emphasis that may become necessary as the on-site audit activities progress. Any revised audit plan should be agreed to between the parties concerned before continuing the audit.

## ***Audit team***

The audit team leader, in consultation with the audit team members, should assign to each team member responsibility for auditing specific processes, functions, sites, area or activities. The allocation of responsibility for tasks should consider the independence and competence of the auditor and ensure the effective use of audit resources.

As the audit progresses it may be necessary to re-assign and/or re-prioritise work assignments to achieve the audit objectives

Factors that should also be considered when selecting the audit team include:

- The scale, complexity and time frame;
- Auditor experience;
- Expertise;
- Training of auditors;
- Conflict of interest;
- Interpersonal relationships within the team/team balance;
- Rotation of auditors; and
- Auditor availability.



## Auditor Competence

The competence of the auditor is very important in ensuring that the interested parties have confidence in the effectiveness of the audits and achieving the desired objectives of the audit program.

### *Auditor attributes*

Typical attributes of effective auditors include:

- **Integrity** – ethical, fair, honest, impartial and sincere;

Require to gain the respect of auditee. If the auditee knows that you will maintain your integrity and professionalism at all times. They are unlikely to try to improperly influence the outcome of the audit.

- **Discretion** – maintains confidentiality not only of the organization being audited but also of individuals within the organization;

In the course of the audit an auditor will have access to information that is confidential. This may include things that are commercially sensitive or relate to the performance or inter-personal relationship of individual employees within the organization. The auditor also needs to be careful not to transfer knowledge from one company to another.

- **Diplomacy** – relates to others and displays tact in difficult situations;

The auditor should be able to read situations where there may be the potential for interpersonal issues to arise, either between themselves and someone else or between employees of the auditee. A common situation is for the supervisor of a staff member involved in the audit to try and control the response and action of an employee being observed or asked questions by the auditor.

- **Flexibility** – adapts to, and works with, different types of people in a range of situations and copes with change;

The auditor needs to be able to adapt to changing circumstances. Often issues arise during an audit that can change the timetable or the availability of certain people. The auditor should be able to rearrange their approach accordingly without compromising the overall objectives of the audit.

- **Tenacity** – persistent, focused on achieving objectives;

A common tactic for auditees who are not confident that they will achieve a favorable audit result is to distract the auditor from the key issues. The auditor should be aware if this is happening. It may be necessary to come at an issue from a different approach. For example, you may be looking at staff training and the manager filing cabinet, another approach to assess the effectiveness of the training given to staff may be to ask individuals what training they have received.

- **Perceptiveness** – instinctively aware of and able to understand situations;

As auditors gain experience they develop an intuition on whether things feel right. **Auditors learn to trust their instincts.**

An auditor should also be:

- **Observant** – actively aware of their surrounds and able to identify both patterns and exceptions in complex situations;

Keep your eyes open and be aware of what is happening around you. Follow-up on activities that make you suspicious. Often it is best not to react immediately but to make a note of it and target that area as the audit proceeds so your interest appears to be a normal part of the audit. Immediately reacting to something may put the auditee on the defensive and not result in the best outcome for this audit and sometimes subsequent audits.

- **Systematic** – approaches the task in a methodical and consistent manner. Work through the activities and areas to be covered in an orderly way. Good preparation is essential. Be flexible enough to pursue an interesting or fruitful line inquiry as it arises but ensure that this does not cause you to neglect key aspects of the audit or get from the overall objective.

- **Decisive** – timely conclusions are based on sound logic, reasoning and analysis;

Use your judgement when making decisions. If the decision could be taken either way, discuss it with the team leader to get their views. If it is still not clear maybe the auditee should get the benefit of the doubt. If it is a marginal decision on nonconformance you should consider raising it as an observation. In all cases ensure that your decisions are defensible.

- **Self-reliant** – acts and functions independently while interacting effectively with others.

As an auditor you are often required to work alone. You need to be confident in your ability and able to work independently of other of other. You will not instill confidence if you need to refer everything to someone else. It is important for new auditors to be allowed to build their confidence by working with more experienced auditors. Don't put experienced auditors into situations you know will be difficult to handle such as an auditee known to be uncooperative, evasive or confrontational.

## ***Knowledge and skills***

### **Audit principle, procedures and techniques**

Auditors should be able to apply the principles, procedures and techniques of auditing appropriately to the different type of audits and ensure that audits conducted in a consistent and systematic manner. An auditor should be able to:

- Plan and organize the work effectively;
- Conduct the audit within the agreed time frame;
- Prioritise and focus on matter of significance;
- Collect and verify objective evidence through interviews, listening, observation, document reviews and inspecting records and data;
- Understand the appropriateness and limitations of using sampling techniques when sampling;
- Evaluate evidence to arrive at the audit findings and conclusions;
- Record audit evidence;
- Report audit findings accurately and concisely;
- Prepare audit reports;
- Maintain confidentiality; and
- Communicate effectively.

### **Reference documents and audit criteria**

The auditor should have a good knowledge and understanding of any reference material such as standard, regulations, laws and any other document that form the basis of the audit criteria. They should:

- Understand the application of the audit criteria in different organisational contexts;

Things like the size, management structure or other organisational variations may affect how the organization undertakes some aspects of the operations. Does the criteria allow for this

- Recognise the difference between, and relative importance of, different aspects of the criteria;

Certain aspects of the criteria may be more important for achieving the desired outcome than others. Some things may be mandatory while others are only recommended. Relative importance is usually addressed by assigning non-conformance grades to each audit criteria based on the impact that non-compliance of the specific criteria would have on the overall objective.

- Be able to use sound judgement in applying an interpreting the intent of the criteria in different audit situations.

Should a rigid criteria be applied and anything outside the specified boundaries be fail or discretion available to the auditor. Does the criteria specify how something should be done rather than the intended outcome, leaving the method of compliance up to the auditee.

## **Organisational situation**

The auditors should have an understanding of the context in which organization operates. They should be aware of:

- Organisational size, structure, function and relationships;
- General business processes and related terminology; and
- Cultural and social customs of the auditee

## **Industry practices and regulations**

The auditors should be aware of any laws, regulation, codes and practices applicable to the industry that should be taken into account when conducting the audit. This may include:

- Local regional and national codes, and regulation;
- Contracts and agreements;
- International treaties and conventions; and
- Other requirement to which the organization subscribes.

Some requirement such as OH&S( Occupational Health and Safty ) rules in particular country may need to take precedence over something specified in the criteria. At no time should a company be required to not comply with any law in order to meet an audit requirement.

## **Roles and responsibilities**

### ***Lead auditor***

The lead auditor is responsible for the efficient and effective conduct and completion of the audit by:

- Consulting with the client auditee on the criteria and scope of the audit as appropriate;
- Selecting the audit team;
- Preparing the audit plan;
- Communicating the audit plan to the audit team and auditee;
- Coordinating preparation for the audit;
- Organising and directing audit team members;
- Directing and guiding auditors in training;
- Representing the audit team in discussions with the management of the organization being audited;
- Conducting the opening meeting;
- Leading the audit team to reach the audit conclusion based on objective evaluation of the team's audit findings;
- Conducting the closing meeting and presenting the audit conclusions;
- Conveying any observations made on area for potential improvement, if agreed in the scope of the audit;
- Completing and distributing the audit report in accordance with the agreed audit plan; and
- Seeking to resolve any problems or issues arising during the course of the audit.

## ***Auditor***

The auditor's role and responsibilities include:

- Following the direction of and supporting the lead auditor;
- Planning and carrying out the assigned tasks objectively, and efficiently within the scope of audit;
- Obtaining and assessing sufficient evidence to determine the audit findings in order to reach the audit conclusions;
- Documenting individual audit findings; and
- Assisting in writing the audit report.

## ***Auditee***

The auditee should:

- Ensure that their employees are informed of, and cooperate with, the audit and are aware of the objectives and scope
- Provide the facilities needed for the team to undertake their duties effectively and efficiently;
- Assign responsible staff to accompany members of the audit team, acting as a guide, to provide access to facilities, personnel relevant information and records; and
- Cooperate with the audit team to allow the audit objectives to be achieved.

## ***Technical specialist***

Provides advice and expertise to the audit team on a specific area where there are gaps in the knowledge of the team.

## ***Observer***

Watches the audit activities and does not participate in any way.

## Communication

The most important part of the auditor is to obtain accurate and objective evidence relevant to the activities within the audit scope. In collecting objective evidence the auditor will need to display a high level of communication skills. The attributes needed by an auditor are appropriate questioning techniques, listening skills and the ability to analyse non-verbal responses such as body language and general attitude.

### *Effective communications*

Good communication skills can be learnt.

Remember that we all see things differently. We also find that sometimes things are not as WE perceive them to be.

Effective communication is not about reaching agreement. It is more related to gaining mutual understanding. This mean we should try to understand the other person's point of view.

Expressing your idea and thoughts clearly and accurately rather than trying to impress others is a powerful means to achieving more effective communication. Avoid using big words to impress the other person with your knowledge. Be yourself, reflect a sincere attitude and concentrate on getting your message across.

Communication is more than just what is spoken. Feeling, facial expressions, tone, body language and many other factors combine to make of the total message. Take into account all the factors then tailor your sending and receiving effort or yes/no

Picking the right time is important. If the person is busy, distracted or continually checking their watch because they are late for an appointment it may better to arrange another time, but remember that you have a time limit as well. Use your judgement to determine whether you have to act now or can wait for another time.



## ***Questioning***

Asking questions, listening, observing body language and behavior is one of the most effective and efficient ways to obtain relevant information.

The questions asked by the auditor should be structured, in a logical sequence that can be followed by the auditee, and be the type of question that obtain the information required.

The main questions type are opened, closed specific, hypothetical, reflective and leading Questions. They all have their place in the audit interview process.

Open question are useful to get the interviewee talking and encourage them to provide information in their own words. Open questions require more than a one word or yes/no response. For examples:

“Can you explain to me how you.....?”

“Why do you.....?”

“How does this relate to.....?”

Closed questions are useful for checking facts. They can typically be answered with a yes/no response. For example:

“Is there a form of recording.....?”

“Is it usual for....to occur?”

“Are you responsible for...?”

Specific questions are similar to closed questions and are used to determine facts. For example:

“What was the total dose applied?”

“Who is responsible for...?”

Hypothetical questions pose a theoretical situation. These can be useful to get people to think of new situations or demonstrate a broader understanding and application of knowledge rather than just the situation at hand. For example:

“What is the procedure if...happened?”

Reflective questions can be used to clarify and ensure understanding. For example:

“Are you saying that...?”

“So, in this situation you would...?”

Leading questions are not useful for obtaining honest views and opinions and should be avoided when auditing. A better question to the one above would be to ask “What do you think are the reasons the fumigation failed?”

The auditor should use appropriate combinations and variations on these basic question types to obtain the information they are seeking. No matter what the type of question or the reason for asking it, you should always:

1. Ask straightforward questions.
2. Wait for the answer and actively listen.

## ***Listening***

The auditor must be prepared to listen objectively to the information being offered without making assumptions of what is going to be said, interjecting or stopping the auditee before the question has been answered.

It is important that the auditor is able to listen and prompt in such a manner that encourages the auditee to give the right information and talk freely and comfortably, with the confidence that what they are saying is considered important and valuable.

Active listening and feedback to the auditee promotes better communication, which means more objective information can be gained. The auditor should pay attention to non-verbal communication as the actions and mannerisms observed may allow the auditor to gain valuable insights.

There is no point in asking a question if you do not listen to and understand the response. Good auditors are good listeners and they let others do most of the talking.

Good listeners:

- Pay attention to the person who is talking and don't get distracted by other things. They maintain good eye contact (unless culturally inappropriate);
- Do not interrupt or interject unless the question is not being answered or the response is digressing from the topic;
- Encourage the person to continue by nodding their head occasionally or using verbal prompts;
- Show empathy and understanding of the person position to promote ease and encourage frank and honest responses;
- Restate or rephrase what has been said to them, demonstrating that they have been listening and are interested in what is being said;
- Ask questions to clarify what has been said where necessary; and
- Be aware of the non-verbal aspects of the message including their own.

### ***Non-verbal Communication***

The non-verbal cues of communication are vocals, body language and general attitude. These are important areas of communication because they can be indicators of the sincerity of a response from the interviewee.

Awareness by the auditor of their own body language and demeanour is important to create an atmosphere that promotes good communication. A relaxed, open and comfortable body posture while maintaining good eye contact, without being intimidating, helps to put people at ease and encourage cooperation.

### ***Cultural Awareness***

Auditors should be aware of cultural practices and social customs when auditing in an environment that is different from their own background.

Some cultures find direct eye contact for prolonged periods or certain gestures, such as pointing with the index finger, insulting and should be avoided.

You should:

- Be aware of your own cultural influences;
- Be aware of judging other people's behavior and beliefs according to the standards of your own culture;
- Be aware of making assumptions about cultural influences and applying generalisations to individuals;
- Understand that the behavior and beliefs of people within each culture can vary considerably; and
- Understand the importance of appropriate communication.

Many travel/culture guides exist to advise the auditor and should be included in any audit planning.

### ***Conflict resolution***

There is always potential for misunderstanding to occur during the audit process. This may be due to the auditor's approach, the nature of the audit, reporting of negative findings, the implications of an adverse audit conclusion or as a result of the auditee's previous experiences.

If a misunderstanding or difference of opinion occurs, the effect can be potentially detrimental to interpersonal relationships and, as a result, impact on the conduct of the audit.

In resolving disagreements or potential conflicts the auditor should:

- Keep calm and remain in control of the situation and their emotions
- Listen to and fully consider the other persons position. Do not assume that there is no validity in their point of view.
- Be factual and use a calm voice and measured tones in explaining the reason for the position.
- If interrupted in stating the case, simply wait until the other person has stopped talking and then resume the explanation. Do not let it escalate into an argument.

- “agree to disagree” if a satisfactory resolution cannot be reached and document the views of all parties involved.
- As a last report consider terminating the audit if the nature of the conflict is such that there is no longer a reasonable prospect that the audit can be completed satisfactorily.

## **Conducting the audit**

### ***Initiating the audit***

The audit program manager or audit team leader is responsible for making initial contact with the auditee. The purpose of the initial contact is:

- To establish communication channels with the auditee's representative;
- To confirm the authority to conduct the audit;
- To obtain agreement on the timing of the audit;
- To provide information on the composition of the audit team;
- To inform the auditee of the documents, records and activities relevant to the audit and the level of access that will be required;
- To make arrangements for the audit; and
- To agree on the attendance of observers and the need for guides for the audit team.

### ***Opening meeting***

An opening meeting should be held with the auditee's management, or, where appropriate, those responsible for the functions or processes to be audited.

The meeting should be chaired by the lead auditor and present an outline of the audit plan and how the audit will be conducted. The opening meeting should cover, as appropriate, the following:

- The introduction of the participations and their roles;
- Re-confirmation of the audit objectives, scope and criteria;
- Re-confirmation of the audit timetable and other relevant arrangements with the auditee;
- The methods and procedures that will be used for the audit. For example, explain what records should be provided, who may be talked to and what the auditors will want to see;

- Confirmation of formal communication channels between the audit team and the auditee;
- Confirmation that the resources and facilities needed by the audit team are available;
- Confirmation of matters relating to confidentiality;
- Confirmation of the availability, roles and identities of any guides;
- The method of reporting, including the grading of any nonconformities; and
- Any questions the audit may have in relation to the conduct of the audit.

Records of attendance at the opening meeting should be kept and included in the audit report.

### ***Audit work documents***

Pre-preparation of work documents to use as a reference and for recording audit proceedings are useful for guiding the audit activities so they are focused on the objectives and remain within the scope of the audit. Such work documents may include:

- The agenda for the opening and closing meetings and provide a record of proceedings;
- Checklists;
- Forms for recording information and objective evidence;
- Forms for recording and reporting of nonconformities and audit findings; and
- Templates for the audit report.

The audit work documents should be amended where appropriate to suit the individual circumstances of each audit. For example, the audit may need to focus on a particular activity, process or area as a result of the findings from a previous audit.

The use of forms and checklists should not restrict the auditor or the extent of audit activities.

The audit work documents form a record of the audit and should be retained to support the audit findings and conclusions. Any documents involving confidential or proprietary information should be safeguarded at all time.

### ***Checklists***

An audit checklist is probably the most common work document used by auditors. It is useful for:

- Keeping the audit on track;
- Maintaining focus on the audit scope and criteria;
- Ensuring that sufficient evidence is collected to support the audits findings and conclusion;
- Ensuring that important or mandatory requirements are covered:
- Prompting the auditor on the information needed to satisfy the audit criteria; and
- Recording audit evidence.

A checklist is less effective when it is used simply as a list of questions that only confirm that an activity has been carried out. The auditor should be prepared to follow up any other line of enquiry that could provide information or objective evidence.

Flexibility in the order in which the checklist is followed can enhance the conduct of the audit by allowing the auditor to adapt to circumstances or situations as they arise.

### ***Obtaining objective evidence***

During the audit, information relevant to the audit objectives, scope and criteria, including information relating to the interaction between functions, activities and processes, should be collected by appropriate sampling and evaluation. Only information that is verifiable may be considered audit evidence.



Audit evidence should be identified and recorded to substantiate the audit findings and the resulting conclusions.

The auditor can obtain relevant information from a range of sources including:

- Questioning employees and other persons;
- Observations of activities and the surrounding work environment and conditions;
- Reviewing documents, such as policies, procedures, standards, instructions, licenses and permit, manuals, specifications, contracts and orders; and
- Inspecting records arising from the audited activities, such as work logs, measurement and monitor readings, maintenance and calibration schedules, purchasing records and usage logs.

## **Questioning**

Asking questions is an effective means of obtaining information and should be carried out in a manner that best suits the situation. The auditor should consider the following;

- Talking to persons from different levels and with different functions, especially those performing the activities or tasks under consideration;
- Putting the person at ease before and during the questioning;
- Explaining the reason for the questions and any note taking;
- Asking the person to explain their work and the procedures they follow can be a good way to get people talking;
- Avoiding questions that may influence or bias the answers (i.e. leading questions);
- Summarising, then reviewing the results of the conversation with the other person; and
- Thanking the person for their participation and cooperation.

The auditor should consider their approach carefully as their questions may put the person in a difficult position which may adversely affect their relationship with their employer or colleagues. If there is potential for this to occur the auditor should use discretion when reporting on audit findings.

If the people feel they can speak openly and honestly the auditor is more likely to obtain information that can lead to valuable sources of objective evidence.

## **Observation**

By being observant of their surroundings and aware of activities occurring that are not necessarily the immediate focus of the audit, the auditor can identify possible lines of enquiry that may not otherwise be apparent.

The auditor should also be conscious of the guide deliberately steering them away from particular areas and activities of interest in order to divert their attention away from potential non-conformities.

## **Documentation**

The auditor should review the auditee's internal documentation to determine if they comply with the audit criteria and whether the activities they describe are being performed in accordance with them.

If the auditee does not have any documented internal procedures relating to the audit scope then compliance should be assessed exclusively against the audit criteria.

## **Records**

Records are usually the primary source of audit evidence. They can provide a history of what was done, who did it and what the result was. By examining and tracing through related records the auditor can build a picture of compliance.

Inconsistencies and anomalies between related records can be an indicator of contrived or falsified information intended to mislead the auditor. Experienced auditors learn not to take things at face value and trust their instincts.

## **Sampling**

In most cases audits are conducted by taking a sample of the available information. As it is usually impractical to check all of the available information the sample size should be sufficient for the auditor to establish confidence in the audit findings and conclusions. The sample size may vary depending on the nature of the objective evidence sighted and also the risk or importance associated with the activity being audited.

Things such as record, activities and employees can all be considered for sampling.

When determining the size of the sample consider whether another auditor would draw similar conclusions based on the same sample.

Selecting the sample is usually done at random and could be by date, location or any other suitable criteria. Often it is useful to check the information either side of the initial sample. Tracing forward or backwards to related information is also a good method to use. The auditor should make their own selections on what to sample and avoid being influenced by the auditee on what to select or being presented with samples selected by the auditee.

Where possible look for other evidence to verify and cross-check.

Sampling does not guarantee that problems which may exist will be found and this should be understood and acknowledged by the auditor and auditee.

## **Recording evidence**

The auditor should document the nature, identity, description, level of compliance and the criteria against which it was evaluated at the time it was collected. Do not rely on your memory.

Record both good and bad findings.

Photos can be an effective means of substantiating findings that are not based on written records.

## ***Audit findings***

Collected audit evidence should be evaluated against the audit criteria to generate the audit findings. An audit finding can indicate either conformity or nonconformity with requirements.

### **Evaluation of evidence**

The audit team should meet prior to the closing meeting to collate and evaluate the audit evidence and determine the degree of conformity. All identified non-conformities should be documented and presented to the auditee at the closing meeting.

The audit findings are then considered by the team to arrive at the overall audit conclusions. The team leader is responsible for ensuring that there is consensus among the team that any difference of opinion is resolved prior to the closing meeting.

### **Reporting non-conformances**

Any non-conformities, corrective action requests or observations must be documented and presented to the auditee's management at the closing meeting. The non-conformance report should:

- Be factual;
- Reference the relevant audit evidence;
- Reference the criteria against which it was evaluated;
- State the degree of non-conformity;
- Provide for the auditee to acknowledge and accept the nonconformity;
- Provide for the auditee to describe how the non-conformity will be addressed; and
- The time frame in which it will be addressed.

A separate non-conformance report should be written for each problem or deficiency identified unless they are of the same type or similar in nature.

There is no benefit in presenting non-conformance reports or corrective actions that are not realistically able to be addressed by the organisation.

## **Categories of non-conformance**

The categories of non-conformity should be defined prior to the audit and understood by the auditee. Often the audit conclusion will be based on a predetermined acceptable number of non-conformances and their category.

Following is an example of non-conformance category definitions and how they can combine to influence the audit conclusion:

**Observation:** Comment or observation from the auditor about an opportunity for improvement or acknowledgement of something well done.

**Minor non-conformity:** A deficiency that is confirmed through the collection of objective evidence that shows discrepancies or lapses in discipline relating to the audit scope and criteria which may compromise the overall effectiveness of the audited activities.

**Critical non-conformity:** Occurs when, as a result of the collection and analysis of objective evidence, it is concluded that the audited activities and/or the audited organisation has been seriously compromised in its ability to meet the audit criteria.

***Note:** A CRITICAL non-conformity is grounds to conclude that the auditee has failed the audit. For certification/accreditation audits this could result in the auditor recommending suspension or withdrawal of the auditee from the scheme.*

## **Closing meeting**

A closing meeting, chaired by the audit team leader, should be held to present the audit findings and conclusions in such a manner that they are understood and acknowledged by the auditee. The auditee should outline their proposed actions and the timeframe for addressing any adverse findings arising from the audit. If the lead auditor agrees that this will adequately address the issues identified they will agree on and, arrange with, the auditee on any follow-up actions that may be required.

The formality, agenda and attendance of the closing meeting will vary according to the nature of the audit. For example, internal audits may consist of just communicating the audit findings and conclusions to the relevant manager. As with many aspects of auditing there is no particular way to conduct a closing meeting but a typical agenda should cover:

- Introductions;
- Attendance list;
- Present and explain the audit findings;
- Present and explain the audit conclusions;
- Agree on any corrective actions required;
- Agree on any follow-up;
- Agree on the timetable for finalizing the audit report; and
- Any questions from the auditee.

The audit findings should include reference to any positives that were also evident during the audit including any staff that were particularly helpful, competent or professional or company practices that were particularly effective or innovative.

## **Audit Reports**

The lead auditor should be responsible for the preparation and content of the audit report. The audit report should provide a complete, accurate, concise and clear record of the audit and should include or refer to the following:

- The audit objectives;
- The audit scope, particularly identification of the organizational and functional units or processes audited and the time period covered;
- Identification of the audit client;
- Identification of the audit team;
- The dates and locations where the on-site audit activities were conducted;

- The audit criteria, including references to particular standards or other documents that form part of the audit criteria;
- The audit findings, including references to any non-conformance reports or corrective action requests that were issued; and
- The audit conclusions.

The audit report may also include, as appropriate:

- The audit plan;
- A list of auditee representatives;
- A summary of the audit process;
- Any uncertainty and/or obstacles encountered that could affect the reliability of the audit conclusions;
- Confirmation that audit objective were met;
- Any areas in the scope of the audit that were not covered;
- Any unresolved differences of opinion between the audit team and the auditee;
- Recommendations for improvement, if specified in the audit objectives;
- Agreed follow-up actions;
- A statement on the confidential nature of the contents of the audit report; and
- The distribution list for the audit report.

The audit report may be drafted, or even completed, prior to the closing meeting for presentation to the auditee, however it is more common to prepare the audit report after leaving the audit site. For this reason it essential that auditors ensure that their notes are organized and legible and that all objective evidence collected is recorded in detail.

The audit report should be issued within the agreed time period and distributed to all the designated recipients.

The audit team members and all report recipients should respect and maintain the confidentiality of the report.

## **Follow-up**

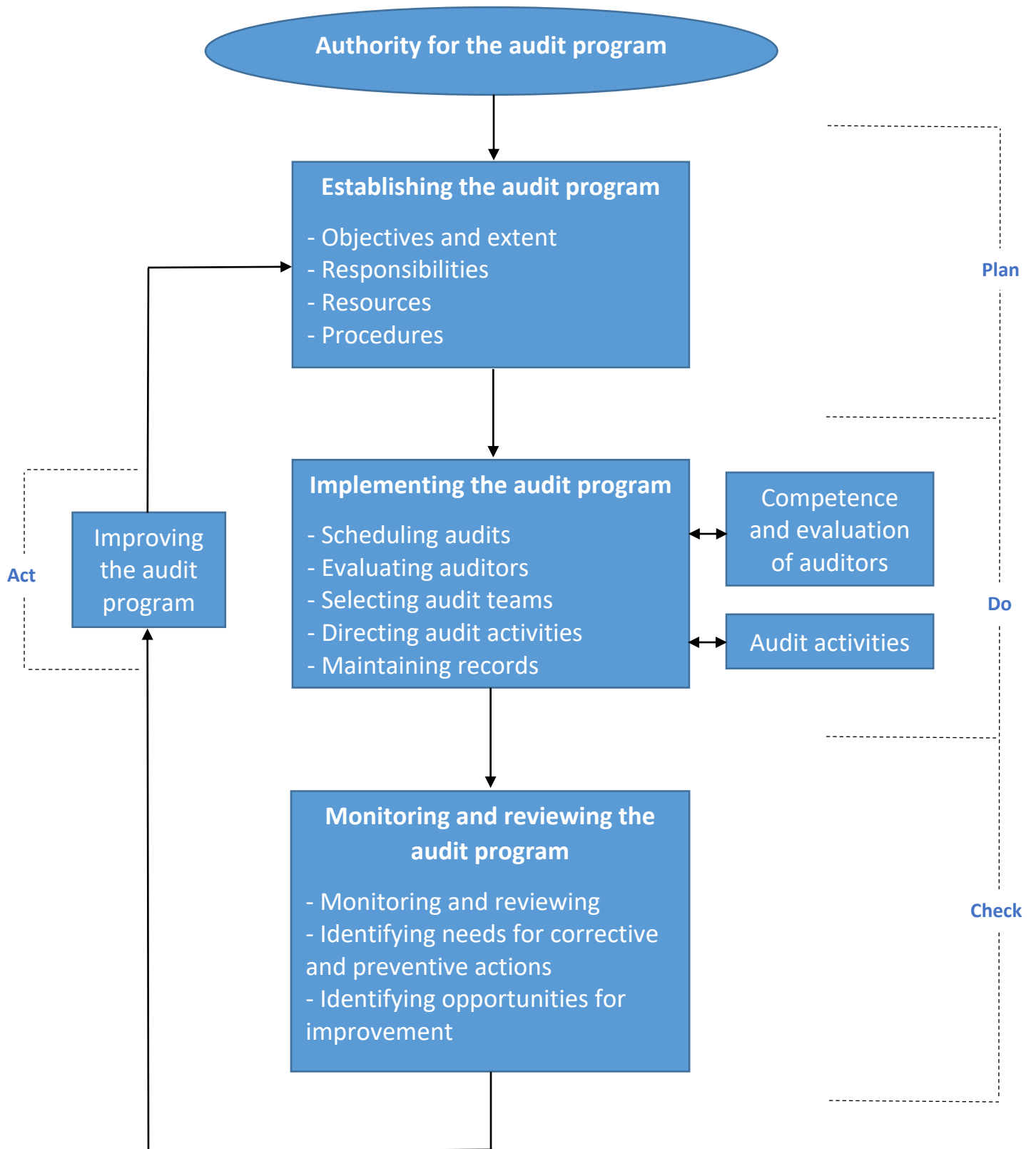
The conclusions of the audit may indicate the need for corrective, preventative or improvement actions, as applicable. The auditee is responsible for determining what action is required and the time frames for any actions should be mutually agreed by the auditor and the auditee.

Even though it is not the auditor's role to determine what actions may be appropriate to address an issues arising from the audit, they are often in a position to assist by suggesting possible alternatives to the observed practices. The auditor should be careful that any suggestions made to the auditee are not seen as the only solution to any problem or non-conformity

The completion and effectiveness of the corrective action should be verified by the audit team and may be done by means of a follow-up audit. The process for a follow-up audit is similar to that for any other audit activity except that the scope is confined to the deficiencies previously identified and described in the audit report.



# Managing the audit process



Audits are not done in isolation, they are normally part of an Audit Program that is intended to achieve certain objectives consistently across all the participants in the program.

Participation in an audit program is often voluntary and done for commercial reasons by the auditee. If they don't want to be audited then they can decline to participate in the scheme or program in question.

This section of the manual will provide a basic introduction to the principles and procedures that Audit Program Managers should follow to implement, maintain and improve their audit programs.

### ***Authority for the audit program***

Normally, the top level management of the organisation being audited provides the authority to undertake the audit program. Depending on the objective of the audit program their reasons for participating may include:

- Statutory, regulatory or contractual requirements;
- Commercial advantage from participating in a registration or certification scheme;
- Customer requirements;
- Reviewing and improving their management systems and operational procedures; and
- Risk to the organization.

### ***Establishing the audit program***

#### **Objectives and extent**

This is the reason why the audit program has been established and summarizes what is intended to be achieved by the audit process.

Audit objectives may be determined by:

- Participation in a registration or certification scheme;
- Regulatory or legislative requirements;

- Management priorities;
- Management system requirements;
- Commercial considerations;
- Client requirements;
- Supplier evaluation;
- Client needs;
- The needs of other interested parties; and
- Organisational risk.

Examples of objectives include:

- Meeting the requirements for certification or registration;
- Improving standards within an industry;
- Verification of compliance with contractual obligations;
- Obtaining and/or maintaining confidence in the capability of a supplier; and
- Contributing to the improvement of the management system.

An audit program also includes all activities necessary for planning and organizing the types and number of audits, and for providing resources to conduct them effectively and efficiently within the specified time frames.

## **Responsibilities**

The responsibilities of each of the interested parties should be documented and agreed upon prior to implementation of the program.

## **Resources**

The availability of the resources needed should be assessed to determine that the program can be delivered over the time frame required. Audit programs are often open-ended with no set finish date so consideration should be given to the ongoing capacity of the organization to sustain the program.

Where resources are limited the scope and extent of the audit program may need to be reassessed including the frequency of the actual audits.

Resources should be targeted to areas that provide the greatest return. High risk, high value, new process or areas with a poor record may warrant more attention.

## **Procedures**

Each audit conducted as part of an audit program should be performed in a consistent manner. Documented procedures should be in place to ensure that all auditors and audit teams are aware of the requirements and is able to comply with the procedure.

Re-distribute the procedures if any changes are made as a result of such things as process improvements.

## ***Implementing the audit program***

### **Schedules**

An audit schedule should be established specifying the frequency of the audits. When scheduling audits as part of an audit program a number of factors should be considered, such as:

- A minimum number of surveillance audits may be specified as part of a regulatory or certification requirement;
- Contractual requirements to audit;
- Significant changes in the organization such as change of ownership, management, staff, plant or processes;
- Analysing the risk to the organization;
- Follow-up audits; and
- Audit resource availability.

### **Auditor evaluation**

The skills, attributes and experience of the audit team members are a key element to implementing an effective audit program. Evaluation of individual auditor performance should be done regularly and provide an outcome that is

objective, consistent, fair and reliable. The evaluation process should identify training and other skill enhancement needs.

## **Selecting audit teams**

When selecting the audit team for a particular audit consideration should be given to:

- Knowledge, skills and experience of individual auditors;

The pairing up trainee auditors with more experienced ones is a good approach to assisting new auditors and building their confidence.

- Balance and the ability of the team to work together

- Independence of the auditor from the activities being audited, Avoidance of potential conflicts of interest up front is much easier than trying to deal with any problems later.

- Rotation of auditors so that they do not always audit the same company.

This helps improve the effectiveness of the audit program by allowing comparison of audit conclusions for consistency between auditors and team. Rotation of auditors encourages the exchange of approaches, techniques and experiences to the benefit of all. Another advantage of rotating auditors is to reduce the potential for inappropriate relationships to develop between auditors and auditees.

## **Directing audit activities**

The audit program manager is responsible for ensuring that audit activities are undertaken, coordinated and that they are consistent with achieving the overall audit program objectives.

## **Maintaining records**

A system should be in place for maintaining all records associated with the audit program and each audit, including retention periods and security issues.

## ***Monitoring and reviewing the audit program***

### **Monitoring and reviewing**

The audit program should be monitored and, at appropriate intervals, reviewed to assess whether its objectives have been met and to identify opportunities for improvement.

Audit program performance can be indicated by:

- The ability of the audit teams to implement the audit plan;
- Conformity with audit programs and schedules; and
- Feedback from auditees and auditors as well as other interested parties.

### **Identifying needs for corrective and preventative actions**

The review process can also identify problems or potential problems that may compromise the success of the audit program if not adequately addressed.

### **Identifying opportunities for improvement**

Those responsible for managing and implementing the audit program should always be open to suggestions for improvement.

It is common practice to establish a process of internal audits on the audit program itself to objectively review its performance and inform management of the effectiveness of the program.

Reference: 2005, Methyl bromide Fumigation Accreditation Scheme for Thailand