Quality Auditor Review

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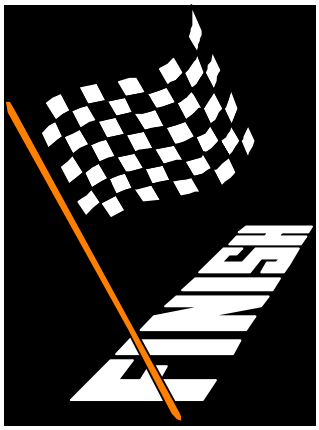
When does the Audit End?

Audit Thinking *By: J.P. Russell*

ISO 10011 states that "the audit is over when the report is issued to the client"... or is it? The auditor's involvement in the audit may end when the client no longer needs the auditor's services... or simply stated "the audit service ends when the client says so."

...auditor involvement does not always end with the issuing of the audit report



When auditing for fraud, wrong doing, compliance to regulations, and third party auditing, it makes sense for the auditor to end his/her involvement with the report. Management (client, audit program manager, chief enforcer) will address the wrong doing or penalties for noncompliance (although the same or another auditor from the same organization may conduct a follow-up audit to verify that the wrong doing has ended or that the organization is now compliant). And, it would make sense for the auditor to get feedback to improve his/her performance (e.g. Was the citation rescinded because of the poor wording of the audit report? Was the supplier dropped due to the fraud that was detected?) Even in the most formal of cases, auditor involvement does not always end with the issuing of the audit report.

The statement "The audit ends with audit report" has unintentionally created a negative mind-set regarding post audit activities. A considerable amount of damage has been done by only focusing on finding problems and not putting enough focus on supporting solution initiatives. If we take into account the definition of a *quality audit*, we must conclude that the audit ends with the audit report. The definition does not contain any mention of support for follow-up activities; however, the audit program service and auditor involvement does not need to end with the report. We may view the report as the end of the problem identification phase of the audit service. The scope of the audit service should be consistent with the audit program mission and objectives.

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From the News Desk

⇒ Visit our site at www.QAReview.com or www.JP-Russell.com and complete the audit program survey to share insights for improving the effectiveness of your audit program. All participants will receive ongoing survey updates. It is high time that we share what works and what doesn't with our colleagues.

⇒ The Y2K ISO 9001 standard is evolving. It may be late 2000 before the new version is finalized. It would not be advisable to make any changes to your existing quality management system based on the current committee draft.

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inside...

The Audit Guy

Dennis Arter

Cause and Effect Analysis

Next year, all wonder why the non-conformity happened again.

Many auditors examine an operation and come up with a list of "nonconformities." Basically, the auditee made a promise to do something and the promise was not kept. This is a binary thing - they did what the procedure stated or they did not follow the procedure. Some audit programs go so far as to label these nonconformities as "major" or "minor." Each of these nonconformities is listed in the report.

This approach to auditing works well for third-party registration. You have paid big money for the registration auditors to examine your conformance to a set of rules. You don't want them telling you how to run your business, but are you following the rules?

This compliance approach rarely works for internal (self) or external (supplier) auditing. The auditors present a list of deficiencies. The audited group is then asked to start acting responsibly and follow the rules. Next year, all wonder why the nonconformity happened again. The classic compliance audit does not include problem analysis. No one evaluated the controls to see if they are present and working, therefore there was no real corrective action. This article describes an approach that will help you add value to your audit program.

Step one - list all the bad facts

As the fieldwork is done, make a list of all the good facts and bad facts. This requires no judgment on the part of the auditor. There was a requirement and the requirement was met, so we have a good fact. The requirement was not met and we have a bad fact. This is classic inspection to defined requirements. This also gives us a list of nonconformities. At the end of the audit, we may have two pages of these nonconformities. These become your raw data.

Step two - identify the pain

Now step back and identify the pain that is occurring in the organization you just audited. This is necessary because of a basic human reaction. We always want pain to go away! Pain, however, needs to be defined in business terms: cost, schedule, and risk. Pain is also subjective. It may be something such as, "high inspection costs," or "lost sales," or "unnecessary overtime." It must appeal to the Board of Directors and get their attention. We find that actual pain always generates more agreement than anticipated pain. Thus, it is better to say, "You experienced a production slowdown," rather than, "Production could be adversely affected." People will agree to something that has already happened; they find it hard to agree to something that might happen.

As you try to do this in your audits, you will find that you probably didn't bother to explore these "pain" areas during the fieldwork. You need to go back and gather more data. Think of the first bad fact as a sniff of something going on. Look into similar areas. Start tracing the activity to see what happened because the wrong blueprint was being used. Look into repair and rework records. You will soon see that your checklist is only a start for investigation. While you must *always* stay within the scope of your audit, the checklist must be ex-

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Dennis has been an independent quality assurance consultant since 1984. His primary service is instruction in the field of management auditing for a wide variety of clients, including government, manufacturing, energy, research, aerospace, and food processing. He is an ASQ Fellow and active in the Quality Audit Division. His home page is at http://home.earthlink.net/~auditguy/ *or he may be reached by calling 509.783.0377 or internet:* arter@quality.org

Quality Audit Primer

Auditing tips and reminders

Audit Report:

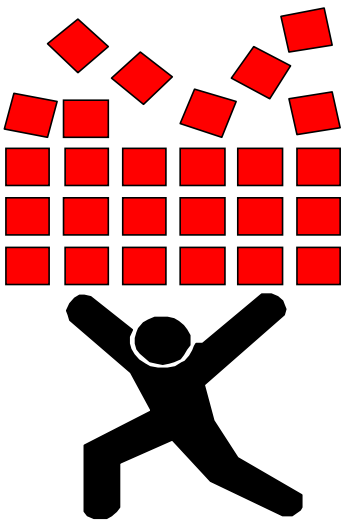
Preparing the Final Report

The audit team leader is normally responsible for reporting the results of the quality audit. During the preparation stage, the lead auditor will seek input from several sources. Foremost are the statements issued to the auditee at the exit meeting and the minutes taken at the exit meeting. Next the lead auditor will gather up papers and sources where observations are recorded such as checklists, audit log sheets, and handwritten notes on forms, data sheets or schedules collected during the audit. Review of the notes will help clarify the reasons for the reported findings and the relative importance of the findings.

The review of the data should not result in new audit findings. All the findings should have been reported at the exit meeting. It is not good practice to report findings not discussed with the auditee at the end of the audit. If, at the time of the exit meeting, additional research was necessary to evaluate the merits of a finding, then this should have been conveyed to the auditee representative/ management. It is much easier to withdraw a finding or nonconformance than to add one after the exit meeting. If new data surfaces and either the quantity or severity of findings differ from the exit meeting, the client, audit program manager and auditee organization should be notified immediately. A full explanation should be provided for the changes. This is true for both additions versus withdrawals and major versus minor categorizations.

Normally, the review of the notes and working papers will support the original results. Items may pop up that will help clarify certain portions of the findings that can be integrated into the report. In some cases, the original meaning of the notes will be unclear and the lead auditor will need to recall the circumstances or contact other auditors or review their notes to clarify the situation or event.

The first order of business is to write up Findings and nonconformities. The second important activity is to write up the conclusion. The third step is to write up scope limitation issues such as: "the audit team could not audit the pro machine area due to...," "the corrective action area was not audited due to lack of records at this time," etc. It is not unusual for audit areas to be excluded or have limitations for one reason or another. Changes or exceptions to the audit plan should be recorded in the audit report. Noting scope changes is another good reason for auditors to review prior audit reports in the audit planning stage, even if there were no findings or nonconformities.



The remainder of the preparation of the audit report is taken up with background information. The more formal the audit (3rd Party, 2nd Party, and large organizations) the more background information is needed; the less formal the audit (1st Party, small organizations), the less information may be needed. Refer to page 4 of the for a detail list of topics to be considered for the audit report. The list should be used to identify: 1) essential topics for the audit report and, 2) topics that can be dropped from the report due to redundancy or being superfluous. Many organizations have one page fill-in-the-blank audit reports and attach the finding statements on corrective action request forms. For many audit programs there is no need to repeat everything that was in the audit plan. It is, however, important to note any exceptions of the original audit plan in the audit report. The audit plan can be referenced in the final report or attached to it.

The final check is to ensure the report is in the proper format as required by the audit organization or agreed to between the client (audit boss), and auditee. The auditor should resist the temptation to aggrandize, but should ensure certain important and essential information is provided for every report such that the effectiveness of the report (product of the audit service) is maximized.

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It is much easier to withdraw a finding or nonconformance than to add one after the exit meeting.

Audit Report Content Considerations

Check		**INTRODUCTION**
	1.	Purpose, scope (also in the audit plan).
	2.	Location, area audited, and audit dates (also in the audit plan)
	3.	Names of the audit team members and qualifications (also in the audit plan)
	4.	Statement concerning the confidentiality of the audit report and/or observations made dur-
	5.	Listing of performance standards audited against (also in the audit plan)
	6.	Name of the client, or audit sponsor or audit boss (information is in original cover letter of or-
	7.	Name of auditee representative(s) and/or escorts.
	8+.	Exceptions to the original scope and purpose
	9.	Methods used during the audit (interviewing, verification of records, inspection of product,
	10+	Report distribution

		SUMMARY
	1+.	Overall conclusions. For example: The quality process/ system audited: is at the expected level; has experienced significant breakdowns; will be recommended for approved supplier status; is acceptable contingent upon corrective action of the findings; is not acceptable and will need to be requalified, etc. The overall conclusion must be consistent with achievement of the three audit objectives: 1) Is the quality system adequately documented to meet require- ments, 2) Is the quality system implemented, and 3) Is the system effective in meeting organ-
	2.	Explanation of the auditor's prioritization and categorization of the results: major vs minor; system vs special or isolated; immediate response requirements vs future; nonconformities vs
	3+.	Summary list of significant findings or major nonconformities.
	4+.	Follow-up instructions for the auditee and request for corrective action. This may also be in a separate section or put in a cover letter by the client/ audit programs manager/ audit spon-
	5+.	Follow-up plans of the audit organization such as follow-up audits and dates.
	6.	List of positive practices or noteworthy achievements. This may include benchmarking or identification of best in class processes to pass on to other departments or units (if an inter-

		RESULTS
	1.	Definition of terms may be at the beginning of this section if not defined previously or not de-
	2+.	Nonconformity or Finding statements with supporting objective evidence. Each finding or nonconformity should be linked to a system performance requirement. In many cases it is
	3.	When agreed to, this section may also contain recommendations or improvement points.

		ATTACHMENTS (identify each attachment)
	1.	The Audit Plan, notification letter
	2.	Opening and exit meeting attendance record and minutes
	3.	Evidence needed to clarify the results (forms, schedules, document pages)
	4.	Sample plans
	5.	Tables with data or calculations

KEY		May not be needed or can be found elsewhere
	+	Important information that needs to be reported

Audit Thinking *(Continued from page 1)*

The people involved in the follow-up phase need to be selected in advance of the audit and their assignments put in the audit plan. The auditee should know from the very start what is going to happen with the audit report and the support to be expected from the audit program and client/ sponsor.

If we have learned one thing over the last 100 years of business management, it is that accountability can be a powerful motivation. At times accountability has been elusive due to the complexity and size of organizations and projects and must be re-mastered or reapplied. For example: When project managers build things, they no longer walk out the door when the operations people walk in. Now we know that the builders should hang around to ensure that the equipment works and that it meets performance specifications. Plant/ equipment start-up times and waste have been cut by 80% by simply holding the builders accountable for what they put together (close the loop). Furthermore, I believe the same to be true for the audit service. Auditors and audit program managers should be accountable for the quality of the audit service and the benefits realized for the organization.

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The Audit Guy *(Continued from page 2)*

panded and otherwise modified to search for these influencing events.

Step three - identify the reason

You now need to find the relationships between the bad facts and their control processes. Why are these events happening? What control is not being applied? Are requirements not clearly defined? Are machines not maintained? At this point, you need to look for patterns. Those individual nonconformities need to be grouped. They are symptoms of an underlying disease. If the control was applied, the symptoms would not occur.

This is classic grouping of data. Some folks will write the individual facts on a card and then move the individual cards into piles. Others use yellow stickies to accomplish this "chunking." You can put a star in the margin of your notes beside common bad facts. You are trying to establish the common characteristics of these individual data pieces. Try to restrict the total number of piles to less than four. You now have the missing controls identified.

Step four - combine the reason and the pain

This is classic cause and effect analysis. Combine the missing control and the pain: "The lack of clear and current requirements to the production operators results in a high number of rejected pieces. This results in rework." Notice that this is a subjective statement. It's an opinion. You have just shown the reader the reason for the pain. At this point, she is half convinced that you are right, but she needs some data.

Step five - cite the bad facts supporting your case

Go back to your pile of discrepancies developed in the third step. Transfer the pile of bad facts that supports a conclusion. Stick to one pile of bad facts per conclusion. These facts are objective and are all true statements. There can be no argument. List them as items under the cause and effect statement. The cause and effect conclusion at the top of the page and the list of supporting bad facts underneath it becomes the audit "finding."

A reasonable person, seeing the same (bad and indisputable) facts as you have seen, will draw the same conclusion. Even more importantly, she will see the adverse business effect it is having. The desire to change comes from within her rather than from the auditor. She wants the pain to go away!

Most audits should go beyond reporting simple nonconformities. There has to be a reason for these unsatisfactory conditions. Treat those nonconformities as negative facts. They are the symptoms of an underlying disease. Find the relationships between those negative facts and their control processes. Why are these events happening? What's broken? Now present your analysis in a way that gets attention. What effect do these problems have on the business and on your bottom line? What's the pain? You are now assisting the organization rather than writing traffic tickets. You have presented cause (broken controls) and effect (business pain).

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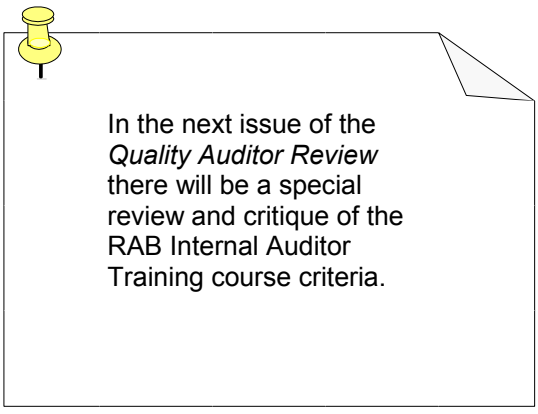

Field Reports:

The Good.. The Bad.. The Ugly..

Team Interviews

By Mark Kempf

"The auditor is on his way"-words that still strike fear in the hearts of the normally stouthearted. As a member of a team of full-time internal auditors, I am responsible for assessing locations remote from the main office. These locations, while included in the scope of our quality system registration, had not been part of internal audit program until recently. Meeting with employees at all levels of responsibility and functional disciplines, over the past several years, has made me an adept observer of non-verbal language. How uncomfortable an auditee feels is communicated, in no uncertain terms, through squirming, restlessness, and defensive or protective postures. Using my best interpersonal skills, I still find it hard to get all the information needed to provide an effective, value-added audit. It still proves difficult to convince these fellow employees that, even though my title includes the word "auditor", my true goal is to help.

Thinking back to the many times I've been audited, it occurred to me that I'd always been alone with the auditor. Even the most competent, process-oriented employee feels uncomfortable and vulnerable in such a situation. So I began suggesting, not dictating, a team approach to my customers. Agreement as to the scope of the audit is always completed prior to the entrance meeting. During the meeting, I offer the option of team interviews. Engineers with engineers, managers with managers, and so on. The benefits are immediate, and realized on both sides of the table. Auditees, when not alone, are more confident, better able to describe their responsibilities and the processes controlling their tasks. When one person fails to mention something, the conversation often jars the memory of his/her partner. Also, it provides audit experience to a larger cross section of employees who may be called upon to be part of an external registration assessment. From the auditor's perspective, there are compounded benefits, such as more complete answers, a more statistically valid sample size, and most importantly, a customer base that now views an audit program differently; an exercise in continual improvement.

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Send stories you would like to share, comments or suggestions to our PO Box or the e-mail address.

Quality CrossWord

Across

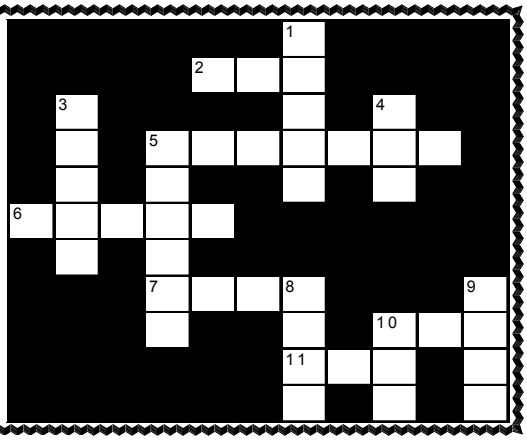
2#. Exist
5. Henry David _____
6. A giant killer
7. 1st part of the feature above
10#.Plural to be
11#.Everyone

used more than once in the quote

Down

1. A Ford
3. Not costly
4. 2nd part of feature above
5. Another word for widgets
8. Letter opener
9. Precedes High Frequency
10#.Everything

Solve the CrossWord and discover the quality quote.



Ans: All good things are cheap, all bad are very dear. By: Henry David Thoreau