

AUDITING CONCEPTS

1. BACKGROUND

Each of the twenty aspects in SAP Sections B and C has been separated into components that need to be addressed individually. As well as addressing the specific SAP requirement, the line of audit questioning should be extended to include a logical progression that would probably occur to support a particular requirement. For example, if the SAP questions the level of compliance to legislative requirements, the questioning should also include how the organisation knows what their legislative requirements are, the process they use to determine and maintain this knowledge, how they apply this knowledge, and how they monitor and measure compliance. Without this knowledge, it would be difficult for the assessor (or the organisation) to determine whether the organisation is compliant and can maintain that compliance.

In the SAP, both columns are scored. If a column has more than one point ("component requirement"), all criteria must be met for a score to be awarded. The aspect score is the lower of the two column scores. The worksheet assists in determining and documenting the aspect scores that are awarded by assessing each "component requirement" for each column of an aspect.

Each assessment situation is different, and a particular response may require a deeper line of questioning, or that some questions are not asked. This is left to the discretion of the assessor.

2. OVERVIEW

- a) An audit is an objective process done to measure performance against some standard and/or planned arrangement. This is achieved by comparing **actual** conditions to **expected** conditions, and determining whether these are in conformance or not in conformance (**not** whether they are **right** or **wrong**).
- b) An audit evaluates **objective evidence** against **audit criteria** to determine findings. The **objective evidence** is the information collected through interviews, visual reconnaissance, and documentation review. The audit **criteria** are the expectations or "rules" (application of the IHA Guidelines as measured by the IHA Sustainability Assessment Protocol in this case) of how conditions should be. Audit findings (and in the case of the Sustainability Assessment Protocol, the resultant scoring) are supported by objective evidence.
- c) Comparing evidence to criteria determines whether the audited entity does or does not conform. This determination is a finding, which can either be one of conformance, or of non-conformance. An audit always produces findings, even if what is being audited is in full conformance with criteria.
- d) Relevant definitions include: **objectives**, **scope**, **auditee**, and **auditor**.
 - i. Audit **objectives** are why the audit is being conducted. This could include intended audit accomplishments. The reason often is to demonstrate conformance to stated criteria.
 - ii. The **audit scope** refers to the activities covered by an audit. Audit scope includes, where appropriate:
 1. Nature and extent of auditing procedures performed. This can include activities and/or locations and/or business divisions, etc.
 2. Time period audited.
 3. Related activities not audited in order to delineate the boundaries of the audit.
 - iii. The **auditee** includes any individual, unit, or activity of the organisation that is audited
 - iv. The **auditor** is the person actually collecting evidence and determining findings. The auditor can be one person or several individuals on a team.

3. AUDIT vs. ASSESSMENT

- An **assessment** focuses on the effectiveness of a system and makes judgements on its performance.
- An **audit** focuses on compliance and conformance to a given standard and is based on factual verification of conformance or nonconformance. Audits document the differences between a set of observed facts and a desired baseline, so it is important that the basis for this comparison be unambiguous and well known. Audits focus on factors that can be thoroughly documented.

Audits do not make specific recommendations about how to fix the problems they identify. An auditor's role should be completely neutral, and making recommendations could introduce a potential conflict of interest.

Whereas audits measure gaps between an organisation's position and some recognised standard, the purpose of assessments is to identify risks and suggest ways to control them.

The IHA Sustainability Assessment Protocol has been developed to provide a tool for systematically evaluating the effectiveness of a sustainability management system, and can be used either in an audit or assessment capacity. In performing an assessment, much of the audit process described in this document can be followed.

4. THE AUDIT

4.1 Essential Features of an Audit

An audit incorporates the following essential elements:

- a) Audits are pre-planned and methodical in nature rather than haphazard.
- b) Audits should be free from bias or prejudice.
- c) Audits encompass some form of inquiry and critical consideration of the resultant findings.
- d) Audits are concerned with activities that affect sustainability issues, with results that demonstrate sustainability performance, and with the processes (how the activities are planned and carried out) that achieve that performance.
- e) Audits should verify that such activities are carried out in an effective and consistent manner in accordance with planned arrangements.

4.2 Rationale for Performing Audits

To verify that a system operates effectively, it is essential to carry out some form of periodic monitoring activity in addition to any ongoing operational monitoring and measurement. Potential benefits of adopting audits as the basis of any such additional periodic monitoring include the following:

- a) Audits provide a means of confirming that a sustainability policy, and the resulting procedures and plans, are understood and are being implemented.
- b) Audits provide evidence to management (and staff) that a system is being implemented in the manner prescribed and desired, and that performance meets expectations.
- c) Audits provide a structured means of identifying deficiencies in a system, agreeing on corrective action, and following up to confirm effectiveness of the corrective action.
- d) Audits enable system weaknesses to be highlighted before potential problems are reflected in sustainability performance.
- e) Audits provide a convenient framework for investigating operations in a particular area, e.g., in response to sustainability problems.
- f) By involving personnel from other areas, an opportunity is created for interchange of ideas so that successful features of a particular system can be applied elsewhere if appropriate.
- g) Audits can, by involving organisational personnel, lead to increased commitment, motivation, and efficiencies.

4.3 Potential Disadvantages of Audits

- a) The potential cost of an audit is often a concern. Audits may require additional resources, because results are superficial if sufficient time is not allocated for audit preparation and performance. The audit should be structured to make the most effective use of the available resources. The audit's contribution to the effectiveness of a sustainability system should outweigh any additional costs.
- b) The principle that audits should be independent may mean that audits are conducted by personnel not familiar with the area being audited, thus restricting their effectiveness. This potential disadvantage can be minimised by careful auditor selection and thorough audit preparation. If this is done, the new insights obtained by examination of the system from a different point of view are invaluable. Use of personnel from other parts of the organisational (or from other organisations), provides the ideal opportunity for exchange of ideas. It also provides an opportunity for the personnel involved in auditing to see problems from the user's point of view, thus increasing the potential for cooperation and better understanding within an organisation.

- c) A criticism of audits is that they involve outsiders telling the managers responsible for an activity being audited how to conduct their business. This criticism ignores the fact that the task of the auditor is to compare actual performance with what is stipulated in the agreed procedures, not to impose a personal interpretation of what is good practice. The use of properly trained auditors who understand the role they are required to fill and the extent of their responsibilities will help audits to be perceived as a constructive process, not a disruptive one.

5. THE AUDIT PROCESS

The entire audit process can be described as **planning, executing, and reporting**.

5.1 Planning the Audit

Planning the audit involves:

- a) preparing the specific audit plan,
- b) making team assignments, and
- c) addressing any circumstances that could affect the audit process.

The audit **plan** describes the **scope, objectives and criteria**, and the audit **schedule**. It describes:

- **what areas and/or activities will be audited,**
- **when, and**
- **by whom.**

The audit **plan** also may describe the procedures and methodologies of the audit process, especially if there are foreign language and/or cultural issues that could affect the audit.

5.2 Preparation for an Audit by those being Audited

If the organisation being audited has been adhering to the IHA Guidelines as part of their normal operations and has been performing self-assessments using the SAP, there should be little additional preparation for an audit. All the requirements are documented in the Guidelines and the SAP, so there should be no surprises.

The following preparatory activities would assist an audit:

- a) Ensure there is an understood agreement on the scope of the audit.
- b) Ensure there is an understood agreement on the dates, times, and locations of the audit.
- c) Review the IHA Guidelines and the SAP to ensure familiarity with these documents.
- d) Identify internal staff or other individual who will attend the audit, and ensure they are available when needed.
- e) Identify relevant objective evidence that will be presented at the audit as evidence of compliance, and ensure it is available when needed.
- f) Make ready a presentation about the scheme being audited. This will probably include a site tour.
- g) Reserve a room where interviews can be conducted and documentation viewed without interruption.
- h) If necessary, provide local transportation, accommodation, translators, and meals for the auditors. Any arrangements will probably be agreed before the audit.

6. CONDUCTING THE AUDIT

6.1 Audit Process Stages

The audit process normally includes the following stages:

- a) Opening meeting – to explain the audit process and set the scene;
- b) Examination and evaluation – fact finding through interrogation of the system and analysis of findings;
- c) Reporting of deficiencies – presentation of corroborated facts;
- d) Closing meeting – to advise the auditee of findings and what happens next.

6.2 EXECUTING THE AUDIT

6.2.1 Collecting Evidence -- Overview

The foundation of a good audit is effective evidence gathering. The ultimate interpretation of information used to develop findings is only as good as the raw data. The auditor must be aware of not only what the

requirement is, but what type of information is appropriate to verify conformance.

WRITE ALL DETAILS DOWN. The auditor keeps notes about the audit findings. These notes should contain sufficient detail and/or examples so that they assist the auditor in documenting the findings at the end of the audit. This detail should be specific enough so that the auditor and/or the auditee can identify the finding and relocate the evidence.

6.2.2 Audit Objective Evidence

Audit objective evidence:

- a) Exists and is retrievable or reproducible;
- b) Is not influenced by emotion or prejudice;
- c) Is qualitative or quantitative information, records or statements of fact;
- d) Pertains to the quality of an item or service or to the existence and implementation of a process;
- e) Is based on facts obtained through observation, measurement, test or other means;
- f) Is verifiable;
- g) Is used by an auditor to determine whether or not the audit criteria have been met;
- h) Is verbal or documented;
- i) Is reported using detailed notes taken during the audit of the specific reference to the audit objective evidence, whether it be documents, locations, etc.

6.2.2.1 Modes for Collecting Audit Objective Evidence

There are three different modes for collecting audit objective evidence.

- a) Document review - This could include examining, plans, procedures, documents, and records.
- b) Interviews - Interviewing is the technique of gathering information from another individual by asking a series of questions. There are varying styles of questions that will prompt different types of answers.
- c) Direct observation - This could involve looking at physical locations and at other activities related to management of an activity or process.

6.2.2.2 Considerations when Gathering Audit Objective Evidence

When gathering audit objective evidence, the following needs to be considered:

- a) Sufficient; is there enough evidence?
- b) Necessary; is it really essential evidence?
- c) Accurate; does it reflect what is really done or has occurred?

6.2.3 Outputs from Gathering Audit Objective Evidence

6.2.3.1 Audit Working Papers

Audit working papers should include notes of people contacted, discussions held, records reviewed, tests performed, and conclusions reached.

6.2.3.2 Documentation

A documentation review is part of the overall evidence, gathering phase.

Only copies of such documentary evidence necessary to support or verify the audit evidence and findings should be retained. References to documentation may be sufficient, but these need to be detailed and specific, including items such as page / paragraph identification, revision number, date, etc.

6.2.3.3 Photography

Photography may be a vital part of gathering audit evidence.

A photograph could be of value to the auditor, as it can be examined in detail after the site inspection and can be referred to in ensuring all relevant details are included in the audit report.

6.2.4 Recording Audit Objective Evidence

The role of the auditor is to observe, record, verify, and report.

The auditor needs to be attentive in making observations and be experienced in recording those observations.

Nothing should be committed to memory. It is impossible to recall all of the facts and figures that are presented during the course of an audit unless they are properly recorded.

It is important that each auditor needs to keep notes about each item of evidence examined, both of deficiencies and of conformance. This provides the basis for the scores assigned to the SAP aspect being audited. These notes must contain sufficient detail, identification, and/or examples so that they assist the auditor in documenting the findings at the end of the audit.

These findings need to be specific enough so that the auditor and/or the auditee and/or subsequent audits or examinations can retrieve the item that led to the finding (e.g., *"The system does not ensure that all chemical are labelled properly, e.g., in store No. 1 there are three 205 litre drums that do not indicate the dangerous goods class"* or *"Report A1234, Revision 2, dated 27 October 2007, page 17-18, states xxxxxx"*).

This is done by recording and providing sufficient information about the finding, including identification, location, and any other information that may assist.

6.2.5 Evaluating Audit Objective Evidence

An audit is a comparison of audit objective evidence against audit criteria to determine findings. The evidence is the objective information collected through interviews, visual reconnaissance, and documentation review. The audit criteria are the expectations or rules of how conditions should be.

When audit objective evidence is compared to criteria, one can determine whether the audited entity does or does not conform. This determination is a finding, and a finding can either be one of conformance, or non-conformance. Therefore, an audit will always produce findings, even if what is being audited is in full conformance with criteria.

7. COMPLETING THE AUDIT

7.1 Agreement on Findings

Once the evidence has been collected, the audit team meets to agree on the findings. Findings are the comparison of evidence to criteria to ascertain if the system is in conformance to planned arrangements. Therefore, findings will be either that a system is or is not in conformance.

It is important that the auditor records all the objective evidence available, both of deficiencies and of conformance with the procedures. This enables the findings to be reviewed with the other members of the audit team.

If a non-conformance is to be written, then there must be objective evidence that requirements and/or procedures are not being satisfied.

7.2 The Audit Report

Following the completion of an audit, the Lead Auditor, with the assistance of the other member(s) of the team (if any) and using completed checklists and notes, prepares an audit report. The composition of this report is:

- a) *Information and Summary*. This summarises the audit process and the audit findings. An Audit Report may contain information such as, but not limited to:
 - Audit number, date of audit.
 - Information about the auditee (organisation, area, location).
 - Auditor names.
 - Audit scope / criteria (e.g., SAP Section C, Aspects C10-C15).
 - Review of previous audit(s).
 - Summary of findings.
- b) *Comments not Included Elsewhere*. The audit report may contain general comments about the audit and its findings, e.g., "all records requested were available and easily retrievable". The report may also note positive findings, and minor opportunities for improvement or minor non-conformances that may not warrant a separate detailed report being written.
- c) *Non-conformance / Opportunity for Improvement Reports*
Details of deficiencies are included in non-conformance reports. Their purpose is:
 1. To convey to the auditee the findings in a clear and accurate manner;
 2. To present a record that can be reviewed and be understood.

Documented findings must contain sufficient information and be specific enough so the auditor and/or the auditee and/or a person not present during the audit can relocate the finding and gauge its seriousness.

The use of descriptive terms is essential to communicate accurately the nature and extent of the deficiency, but care must be taken to ensure that their use does not result in a lack of objectivity. The auditor must also

take care to ensure that the description is not only accurate but it is also fair. Other considerations about reports on specific findings include:

- Similar findings may be grouped together.
- The auditor should provide an identification number for each report raised. This may simply be the audit number and a sequential number, e.g., 91-2, where "91" is the audit number and "2" is the second report raised. This facilitates subsequent referencing to findings and their resolution.

7.3 Presenting Audit Findings

Ideally, if time permits before the audit team departs, the audit team (in-person):

- a) meets with auditee representatives and presents the audit report, and
- b) discusses non-conformances and opportunities for improvement to ensure that they are understood by the auditee.

All matters in the audit report should be discussed at this meeting.

A copy of the audit report should be left with the auditee. A copy is normally forwarded to an overseeing body, if one exists, so that results may be collated and trends identified. This aids in continual improvement in an organisation and the industry as a whole.

If this is not possible in-person at the time of the audit, the Lead Auditor should send copies of the report to the auditee and, if possible, contact the auditee to discuss findings.

8. FOLLOW-UP and FEEDBACK

8.1 Auditee Follow-Up

The auditee should examine the audit report and determine the appropriate course of action required without undue delay, taking account of the nature of the issues / opportunities raised. The following points provide a guideline of what should occur:

- a) Plan actions to address issues raised, including appropriate resources, responsibilities, and target completion dates.
- b) Planned actions should be commensurate with the nature of the issue and the actions necessary to manage it.
- c) Issues should be evaluated to determine if the cause of the issue (as opposed to the issue itself) needs corrective action to reduce the risk of it recurring.
- d) Execute the plan and maintain appropriate records.
- e) Evaluate the effectiveness of actions taken.

8.2 Auditor Follow-Up

After audit completion, no further actions by the auditors who have conducted the audit are normally necessary, unless some other arrangement has been negotiated.

As a form of auditor follow-up, auditors performing an audit should examine previous audits (at least the audit directly before the current one) to:

- a) see what findings were made,
- b) see what auditee follow-up plan was developed, executed, and finalised,
- c) ascertain the effectiveness of the auditee follow-up plan, and
- d) gain a measure what overall improvements have been made.

8.3 Feedback from Assessments

In addition to providing information to the organisation being assessed on their performance, feedback should be forwarded to a designated IHA coordinator about the assessment process itself. This should be in the form of a short report that includes comments about the performance of the audit, and suggestions for improvement to the audit process, the Guidelines, the SAP, or any other relevant topic. Note that this report should not include any information about the auditee organisation or any findings that may be deemed "confidential".

OVERALL AUDITOR CHARACTERISTICS

Auditors must:

Be objective. Conduct an audit without bringing any personal assumptions, previous experiences, or grudges into the audit. Be able to audit anybody without prejudice or any risk to the audit process itself.

Be polite. Ask questions in a polite and professional manner, even if the answer to that question may be uncomfortable or reveal a problem. Put the auditee at ease, reminding them that audits are a comparison of process against requirements, and not an audit of anyone's individual performance.

Be inquisitive. Be interested in finding answers to questions, and be persistent without being annoying or pushy. Being inquisitive is a good trait, but turning the audit into an inquisition is not the intent. Know when to ask a series of questions to get an answer, and when to stop questioning if it is evident the answers are not there.

Be smart. Follow the "audit trail," which is the trail of evidence that leads from the original question to the final answer. Understand how to get from Question A to Answer B without unnecessary digressions.

Be open minded. There are many ways to answer a question. Be open to the explanation given by the auditee, even if it's something the auditor has never heard of before.

Some traits to avoid include:

Being rude. Rudeness immediately creates an adversarial relationship between the auditor and the auditee, when the audit process itself should be a mutually beneficial one.

Being power hungry. An audit is an efficient, effective, and recognised process to find existing and potential problems. An audit finding is an opportunity to fix something. People who have a tendency to think that pointing out other people's problems makes them look better should not be selected as auditors.

Being overtasked. Have the time to properly prepare or perform an audit. Not having sufficient time disadvantages the entire audit program.

There is no such thing as a "perfect" auditor. The differences in human beings are a strength of any audit process.