

QUALITY ASSURANCE AUDITING

CONSUMER QUALITY MANAGEMENT

THE UNIVERSITY OF ALABAMA

Where did audits start?

- Began in the financial and accounting area:
- Detect violations
- Ensure proper methods are used
- Ensure compliance to company policies
- Provide protection against fraud.

Characteristics of audits:

- A systematic activity which is planned and documented, which systematically appraises for:
 - Compliance
 - Adequacy
 - Effectiveness of controls

Audits are necessary because:

- Policies, procedures, and plans do not offer proof of effectiveness.
- Auditing is an effective way to catch programmatic mistakes, and people sometimes make mistakes.
- Management can use audit results to evaluate the effectiveness of delegation of authority and control.

Poorly conducted audits:

- Perpetuate quality problems.
- Misinform the management.
- Reflect poorly upon the audit team and the management they represent.
- Cost about the same as properly conducted audits but return little of value to management.

Audits help management to:

- Coordinate, observe, analyze, and control.
- Augment communication.
- Provide visibility of concern.
- Correct quality problems which require it.

Audits must:

- Support management's quality philosophy.
- Provide answers to questions and concerns important to management.
- Use channels established by management.
- Present conclusions and represent a true indication.
- Operate ethically.
- Be performed competently.
- Motivate for improvement.

Additional important points:

- Auditing is a service to management, although those who are being audited don't always see it as such.
- Auditing is a highly visible activity, and to be successful it must be approached as a service to management which requires careful preparation and execution.
- Errors in auditing are much more obvious and important to the audited organization and to the management than to the auditors.

Elements of the audit process:

- Preparation
- Performance
- Reporting
- Follow-up

Preparation

- Preparation is the first part of the audit process.
- It is of critical importance, since the rest of the audit depends upon preparation in order to be effective.
- The one step which most affects the success of the audit is – preparation.

Audit preparation includes:

- Development of an audit plan.
- Audit team orientation.
- Preparation of audit checklists.
- Notification to the audited activity.

The Audit Plan identifies:

- The audit scope, requirements, and objectives.
- The lead auditor and other auditor(s).
- Activities to be audited.
- The organization or people to be notified.
- The applicable requirements documents.
- The schedule for the audit.

Audit team orientation:

- Audit team leader reviews the audit plan, assembles the required policies and procedure documentation, plans the audit, and calls an audit team orientation meeting.
- The audit team plans then audit and the team leader makes assignments for team members to prepare audit checklists.
- Particular attention should be directed toward understanding of internal, external, and contractual responsibilities of the organization to be audited.

Preparation of audit checklists:

- Audit team members study the audit plan, procedures, and requirements, and prepare detailed audit checklists as directed by the audit team leader.
- The audit checklists are detailed and documented, usually containing a question, the correct response, and a blank space for writing responses.
- The audit team leader has approval of the checklist used on the audit.

Elements of audit performance:

- Pre-audit meeting
- Audit
- Post-audit meeting

Purpose of the pre-audit meeting

- Confirm scope and objectives of the audit.
- Introduce the audit team.
- Meet counterparts of the audited organization.
- Discuss the audit sequence and post-audit meeting.
- Establish channels of communication.

The draft audit report:

- Is prepared immediately after the close of the audit but prior to the post-audit meeting.
- Contains a narrative summary of the audit results, audit findings, and audit observations.
- Is not a comprehensive audit report in the sense that the final audit report is.

The draft audit report is difficult to prepare:

- Time pressure and emotional involvement work against the need for thoughtful and careful consideration.
- The careful preparation for the audit, checklists, and notes taken during the audit are most helpful.
- Allow sufficient time to prepare the draft audit report. Postpone the post-audit meeting if necessary.

Preparing the post-audit meeting:

- Occurs soon after the audit concludes.
- Is conducted by the audit team leader.
- Audit team and audited management attend.
- Time and location is usually established in the notification letter or in the pre-audit conference.

Purpose of the post-audit meeting:

- The audit team leader presents the draft audit report to audited management.
- The draft findings and observations are discussed to obtain a clear understanding and agreement on the facts.
- In case the audit team and the audited management do not agree on the facts, the audit may be re-opened or the positions may be reported to the manager who requested the audit for resolution.

Tone of the meeting

- The audit team leader is the focal point of the meeting providing control and continuity.
- The senior manager of the audited activity should attend and becomes the secondary focal point.
- The audit team leader gives audited management a copy of the draft audit report and presents the findings and observations as well as any positive findings.
- Audit team members may be called on by the audit team leader to elaborate or explain specific points.

Concurrence on the draft audit report:

- As the audit team leader presents each important point, the audit team checks for understanding and concurrence by the audited management.
- If the audited management does not understand or does not concur, attempt to resolve the differences.
- If necessary, re-open the audit.
- If concurrence cannot be achieved, report the positions to the manager who scheduled the audit. Often, the best way to do this is in the final audit report.

Closing the post-audit meeting:

- The audit team leader outlines expected future actions:
- Informs audited management that he/she will transmit the final report to the scheduling manager.
- The scheduling manager will transmit the final audit report to the audited organization manager with a request for a documented corrective action plan.
- Audit team leader obtains an attendance list.
- Recognize cooperation and hospitality as appropriate.

Preparation of the final audit report:

- The audit team leader prepares the final report, including coordination, content, and editing.
- Obtain signatures of the audit team members.
- Promptly transmit the final report to the scheduling manager.
- Identify and resolve problems.

Content of the final audit report:

- Description of the audit scope.
- Identification of the audit team members as well as persons contacted during all phases of the audit.
- Narrative summary of the audit results, including an evaluation statement regarding the effectiveness of the QA program elements which were audited.
- Audit findings.
- Audit observations.

Guidelines for the final report:

- Include only conclusions, findings, or observations which were in the draft report and to which then audited management concurred.
- In general, do not add conclusions, findings, or observations with which the audited management did not concur. If you do add them, there must be a compelling reason.
- Areas of disagreement between the audit team and the audited management should be clearly identified for resolution by the scheduling manager.

Additional guidelines for the final report:

- List the most important evidence first, then the next most, and so on.
- Use a good technical report style.
- Save examples of good audit reports.
- Audit reports deal with information which is sensitive. Limit distribution of the audit report.

Actions by the scheduling manager after the final report is transmitted:

- Review the final audit report and evaluate the effectiveness of the audit against the audit plan, audit schedule, and programmatic requirements and goals.
- Transmits the audit to the manager of the audited organization.
- Provides a date when the response is due.
- Schedules a follow-up audit if necessary to evaluate corrective action effectiveness.

Audit report transmittal letter:

- Request audited manager to review the audit report.
- Request audited manager to prepare an appropriate corrective action plan including a schedule of corrective action accomplishment.
- A request to periodically report to the scheduling manager on progress made in accomplishing the corrective actions.

Actions by audited management:

- Review the final audit report and the transmittal letter.
- Evaluate whether further investigation is merited. If so, initiate the investigation and inform scheduling manager of intentions.
- Determine when sufficient information is available to determine the problem cause and corrective action.
- Determine appropriate corrective action and prepare then corrective action plan, including the schedule.

Auditor Conduct & Duties:

- Assist leader with preparation for the audit.
- Utilize good audit practices.
- Investigate problem areas.
- Record and document results.
- Evaluate results against criteria.
- Assist leader with report preparation.

Good audit techniques:

- Establish rapport.
- Use the checklist – provides structure to your line of investigation and documentation of results.
- Report excellence as well as problems.
- Use objective evidence.
- Use random sampling to get representative results.
- Avoid nit-picking and getting bogged down.

Good audit techniques:

- Minimize intrusions.
- Operate ethically.
- Revisit if needed.
- Document results and retain notes.
- Get a positive "ID" of persons contacted.
- Report problems, watch out for opinions.
- Be precise but not compulsive or tense.
- Motivate for improvement.

Traps auditors should avoid:

- Avoid sidetracks, isolation, extra non-audit duties.
- Avoid the free-lance consultant role – don't get into "how-to" or comparative discussions, don't second guess the engineer or manager.
- Don't allow your mission to be down-played.
- Maintain a cool and constructive relationship.
- Avoid hostility or "smart comment contests."

Ethics for Auditors

- Rely upon objective evidence and maintain objectivity.
- Respect and comply with customs.
- Adopt impersonal viewpoint and objective reporting.
- Avoid placing blame or fault for problems.
- If the situation is unclear, give the benefit of the doubt.
- Mistakes made by the audit team must be corrected when they are discovered or as soon as possible.
- Avoid springing surprises. Keep your contacts informed.