

## Internal or Third-Party Auditors: Which Is More Ethical?

by Don Brecken

*As auditor competence becomes a focus for accreditation and certification bodies, auditor ethics are also being spotlighted.*

Are third-party auditors more ethical than internal auditors? This was an interesting question asked of me lately. Auditors—internal or third-party—are people like anyone else. But is there something about one or the other group that makes it different? Both groups of auditors focus on compliance to requirements, albeit from different perspectives. Both have skills and abilities, though generally speaking the third-party auditor is more highly trained and experienced than the internal auditor. Could these two disparities (different perspectives and levels of training and experience) be the root of what makes one group appear more ethical or principled than the other?

Some clarification is required before delving deeper into this topic. This is more for the novice auditor than for the experienced practitioner. ISO 9000:2005 defines internal audits, sometimes called first-party audits, as "... those audits conducted on behalf of the organization itself for internal purposes." Third-party audits, however, are audits conducted by external independent organizations. Such organizations provide certification or registration of conformity with requirements to quality management system (QMS) standards.

### Third-party auditors

Why are third-party and internal auditors perceived differently with regard to ethical conduct? In general, a third-party auditor is more experienced, more highly trained, and has pledged to uphold a particular code of ethical conduct in the performance of the audit. The third-party auditor works for a quality registrar that also

has policies, rules, and regulations to which the auditor must abide. These policies, rules, and regulations, along with an auditor code of ethical conduct, are for the protection of the registrar, the audited organization, the auditor, and the profession.

Most third-party quality auditors are trained on the contents of ISO 19011, Guidelines for quality and/or environmental management systems auditing. ISO 19011, *(Continued on page 11)*

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## Auditor Ethics (Continued from page 1)

being the standard upon which all lead auditor courses are based—albeit a guideline rather than a standard—indicates “[a]uditors should possess personal attributes to enable them to act in accordance with the principles of auditing...” These principles include ethical conduct, fair presentation, due professional care, independence, and free use of an evidence-based approach.

### Internal auditors

Is not the internal auditor required to perform audits in an ethical manner? An organization’s internal audit program should take into consideration the requirements of ISO 19011. Although ISO 9001, ISO 14001, ISO/TS 16949, and AS9101 all advise registered organizations to “See ISO 19011 for guidance,” there is

(arguably) no requirement for an organization to follow this guideline when managing auditors or audit programs, or conducting audits.

Herein lies the gap between internal auditors and third-party auditors. Most third-party quality auditors are trained on the principles and practices stated in ISO 19011 as part of their lead auditor course, whereas internal auditors—because they don’t require certification—may never be exposed to them. If an internal auditor is not exposed to the guidance found in ISO 19011, then one cannot expect the auditor to perform as if he or she has.

### Risks associated with third-party and internal auditing

The presence or absence of risk can help compare the ethics of internal auditors and third-party auditors. What is the risk, for instance, of an internal auditor disclosing proprietary information, and what is the risk of a third-party auditor so doing? What is the likelihood an internal auditor would be offered a bribe?

Figure 1 shows the associated risk and risk levels comparing auditors and common ethical dilemmas.

Third-party auditors, and even formally trained internal auditors, are better equipped to deal with ethical dilemmas facing quality auditors than those who have not been so trained. This is just common sense. All else equal, the third-party auditor will fare better when faced with an ethical dilemma. But all else is not equal. The third-party auditor is far more exposed to a wider variety of ethical dilemmas than is the internal auditor. And the ethical dilemmas the third-party auditor faces are often different and far more intense than those faced by the internal auditor.

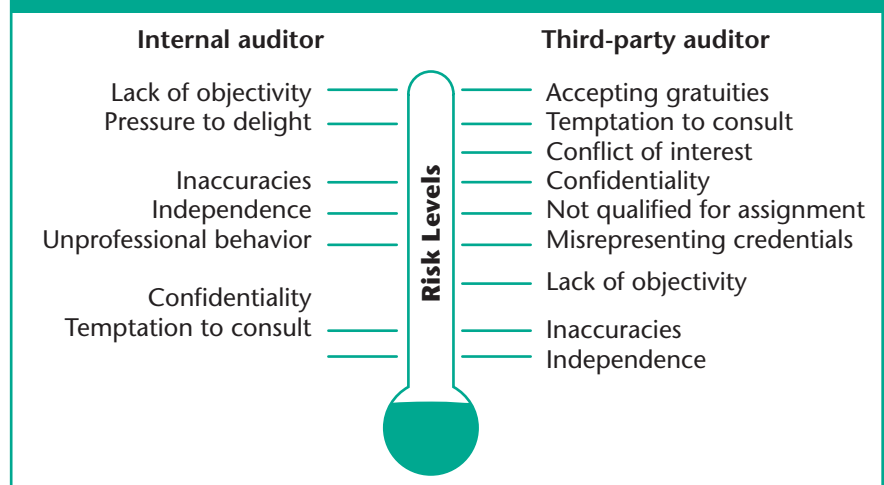
### Ethical anecdotes

Here are three actual examples of real auditing dilemmas faced by auditors. One example is an internal auditor who had to audit his vice president of quality, who was ultimately responsible for leading the organization’s quarterly

### Check Points

- ✓ Third-party auditors generally have more formal training than internal auditors, including ethics training. They are also potentially exposed to more ethical breaches.
- ✓ Compliance with ISO 19011 requires auditors to act ethically, but this usually applies only to third-party auditors because they are employed by certification bodies that require compliance with it. Other than company-specific ethics requirements, there is no similar standard for internal auditors.
- ✓ The presence or absence of risk can help assess the danger of ethical breaches by internal vs. third-party auditors.

Figure 1: Associated Risk and Risk Levels Comparing Auditors and Common Audit Dilemmas



management review. The auditor, who indirectly reported to the vice president, found that the management review had not been held for almost 10 months. The last time a quarterly management review was held in person was just prior to the organization's last surveillance audit. The auditor, in good conscience, wrote the nonconformance. The vice president downgraded the salaried auditor to an hourly production job two weeks later.

A second example is the third-party auditor who accepted an invitation to lunch on the final day of a registration audit. The CEO drove the auditor and other executive leaders to the restaurant. The place was hopping and the service was slow. The CEO seemed to be in no hurry to order and even joked about holding the audit closing meeting there, if necessary. The tactics employed here were clearly designed to waste the auditor's precious time on the day he needed to pull together the nonconformances and write his final audit report. Needless to say, this auditor no longer accepts invitations to lunch away from the audited facility.

The final example is of a third-party auditor who went to lunch with a client and was offered a bribe to ensure that the client passed the audit. The client asked the auditor, "What will it take for us to

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pass this audit?" The auditor proceeded to tell the client how the organization needed to document its processes, follow them, monitor them, continually improve them, and then ensure action is taken on any nonconforming aspects of its processes. The organization's management representative slid an envelope of money across the table saying again, "What will it take?" The amount in the envelope was \$5,000. The auditor, rightly, refused the offer.

This document provides guidance on auditor conduct and ethical behavior. The code indicates that, in promoting high standards of ethical behavior in the performance of their duties, auditors shall conduct themselves accordingly. This and other documents providing guidance on quality management system auditing can be found at [www.iso.org/tc176/ISO9001AuditingPracticesGroup](http://www.iso.org/tc176/ISO9001AuditingPracticesGroup).

**Codes of ethical conduct**

The ISO 9001 Auditing Practices Group is described as "... an informal group of

quality management system experts, auditors, and practitioners drawn from the ISO Technical Committee 176 (ISO/TC 176) and the International Accreditation Forum (IAF)." This group provides a number of documents providing guidance on QMS auditing. One such document is the Auditor Code of Conduct and Ethics.

There are two codes of ethical conduct that are prominent in the quality auditing profession: the International Register of Certificated Auditors (IRCA) Code of Conduct and Code of Conduct for Registrar Accreditation Board/Quality Society of Australasia (RABQSA) Certified Persons. Each of these codes reflects the guidance provided by the ISO 9001 Auditing Practices Group.

**IRCA Code of Conduct**

*"It is a condition of certification that you agree to act in accordance with, and be bound by the following Code of Conduct:*

1. *To act in a strictly trustworthy and unbiased manner in relation to both the organization to which you are employed, contracted, or otherwise formally engaged (the audit organization) and any other organization involved in an audit performed by you or by personnel under your direct control.*
2. *To disclose to your employer any relationships you may have with the organization to be audited before undertaking any audit function in respect of that organization.*
3. *Not to accept any inducement, gift, commission, discount, or any other profit from the organizations audited, from their representatives, or from any other interested person nor knowingly allow personnel for whom you are responsible to do so.*
4. *Not to disclose the findings, or*

any part of them, of the audit team for which you are responsible or of which you are part, or any other information gained in the course of the audit to any third party, unless authorized in writing by both the auditee and the audit organization to do so.

5. Not to act in any way prejudicial to the reputation or interest of the audit organization.
6. Not to act in any way prejudicial to the reputation, interests, or credibility of IRCA.
7. In the event of any alleged breach of this code, to cooperate fully in any formal enquiry procedure.”

### Code of Conduct for RABQSA-Certified Persons

“I will observe the RABQSA Code of Conduct and confirm that:

1. I will act professionally, accurately, and in an unbiased manner.
2. I will strive to increase the competence and prestige of my profession.
3. I will assist those in my employ or under my supervision in developing their professional competencies.
4. I will not undertake any assignments that I am not competent to perform.
5. I will not represent conflicting or competing interests and will disclose to any client or employer any relationships that may influence my judgment.
6. I will not discuss or disclose any information relating to any assignment unless required by law or authorized in writing by the client and/or my employing organization.
7. I will not accept any inducement, commission, gift, or any other benefit from client organi-

zations, their employees, or any interested party or knowingly allow colleagues to do so.

8. I will not intentionally communicate false or misleading information that may compromise the integrity of any assignment or the personnel certification process.
9. I will not act in any way that would prejudice the reputation of RABQSA or the personnel certification process and will cooperate fully with an enquiry in the event of any alleged breach of this code.”

### Potential failure modes and effects on the organization

Not everyone in an organization has intimate knowledge of standards as do auditors. Having this advantage, the third-party auditor could easily get away with imposing his or her biased interpretation of what the standard requires. One third-party auditor told me that I had to have measures for my objectives when the standard requires only that they are measurable. Another swore I had to have a process approach to auditing when the standard only requires that processes be audited; the standard does not specify such an approach. Granted, objectives should be measured and a different approach to auditing processes makes good sense. Figure 2 on page 14 shows the potential effects of auditing with no allegiance to an auditor code of conduct for both a third-party and internal auditor.

In the first scenario, the third-party auditor applies his own biased interpretation of the ISO require-

ments. This could cause an organization to spend time fixing things that were not broken. The potential cause

here is the auditor not embracing the ethic of accurately interpreting the standard. Again, not everyone in an organization has intimate knowledge of the standard as do third-party auditors.

An auditor imposing his or her own biased interpretation can be difficult to detect.

In the second scenario, the internal auditor fails to record an audit nonconformance. Not documenting the nonconformance can further perpetuate the problem, and, if detected, could prejudice management against the internal audit program. The potential causes here include lack of auditor training, sloppy or careless work, or an auditor who has not embraced the ethics of due diligence and objectivity when auditing people he or she knows. The latter could have a sizable affect on the internal audit program, if detected. Auditors should not play favorites.

### Do a gut check in ethical situations

The Institute of Business Ethics offers a simple three-question ethical test for business decisions related to transparency, effect, and fairness. Auditors may find this check for ethical decision making a useful method for exploring ethical dilemmas and identifying ethical courses of action. Applying this simple test in situations where auditor ethics could be called into play may help prevent a disaster. The three questions and auditor should ask are:

- *Transparency.* Do I mind others knowing what I have decided?

**An auditor imposing his or her own biased interpretation can be difficult to detect.**

Figure 2: Potential Effects of Auditing with No Allegiance to an Auditor Code of Conduct

Potential failure mode	Potential effect(s) on audited organization	Potential cause(s) of failure	Severity (1-10) 1 = No effect 10 = Hazardous	Detection (1-10) 1 = Very high 10 = Uncertain	Current controls
Third-party auditor applying own bias	Time spent fixing things that were not broken	Auditor not embracing ethic of accurately interpreting the standard	5	10	ISO standard, formal audit training, ISO 19011, code of ethics  Audit host's knowledge of standard
Internal auditor not recording nonconformance	Could perpetuate the problem	Untrained auditor	6	1	Internal quality audit procedure
	Prejudiced feelings toward the audit program	Sloppy or careless auditing practices	6	1	Internal quality audit procedure
	Prejudiced feelings toward the audit program	Auditor not embracing ethics of due diligence or objectivity when auditing acquaintances	6	8	None

- *Effect*. Who does my decision affect or hurt?
- *Fairness*. Would my decision be considered fair by those affected?

What is your understanding of auditor ethics now? Can you now identify the ethical dilemmas in a situation? Can you determine whether an audit decision was the correct decision, and why? Try your hand at the following ethics quiz. Do the decisions in these situations stand the test of the auditor codes of conduct we discussed earlier?

**Ethics quiz**

Is there anything wrong with these situations?

1. An internal auditor for your orga-

nization was told the paint department is no longer recording its required quality checks. It's suggested that the auditor audit them. The auditor investigates, finds this to be true, and then writes an audit nonconformance. Did the auditor uphold the auditor code of ethics?

2. When performing a surveillance audit for a major registrar, an auditor witness a violation of the organization's safety policies in an area of the organization beyond the scope of the audit. The auditor mentions this to the audit host and continues auditing. Did the auditor uphold the auditor code of ethics?
3. When leading an audit, the auditor find a "special process" is oper-

ating outside its stated process parameters, and the auditor suspects the product produced may be nonconforming. The auditor brings this to the attention of the area manager and writes the nonconformance. Later the same day the auditor checks and finds the process still operating outside its stated process parameter. The auditor takes the concern to the plant manager. Did the auditor uphold the auditor code of ethics?

4. When auditing an organization, an auditor finds that none of the organization's internal auditors have had any formal auditor training. The auditor identifies this as an opportunity for improvement and informs the organization that the auditor's company offers for-

mal auditor training. The auditor further indicates that he is one of the instructors and the organization would benefit by sending its internal auditors to his class. Did the auditor uphold the auditor code of ethics?

5. When performing a registration audit, the auditor finds the organization he is auditing clearly deserves a major nonconformance. The registrar for which the auditor works requires all lead auditors to call headquarters before writing a major nonconformance. The auditor calls to speak with the program manager. He tells the auditor to write the nonconformance as a minor instead because the registrar is afraid that a major will send the organization shopping for a new registrar. You write the minor nonconformance. Did the auditor uphold the auditor code of ethics?

The answers can be found on page 21.

### Dealing with ethical violations

What can an organization do if it encounters unethical behavior in a third-party auditor? The ANSI-ASQ National Accreditation Board (ANAB) accredits certification bodies (CBs) that employ third-party auditors who perform audits to certify organizations. ANAB provides a mechanism to address complaints. However, follow-up with ANAB finds this complaint mechanism is seldom used. Is this good news or could it be few are aware of this

service? To lodge a complaint about a third-party auditor or a CB, visit [www.anab.org](http://www.anab.org).

What about complaints regarding internal auditors? According to ANAB, “[a] certified organization that claims conformance to ISO 9001 or ISO 14001 must effectively handle complaints.” An organization’s internal policies and procedures must deal with these complaints when they occur. Having an internal auditor on the audit team who exhibits unethical behavior is not a

desirable situation. The organization should look for the root of this behavior. It’s likely that the organization will find it neglected to train its auditors and design its internal audit program using the ISO 19011 standard for guidance.

In general, organiza-

tions that use certified persons to perform internal audits can rest assured their auditors have been exposed to ISO 19011 and an auditor code of ethics.

### Conclusion

Auditing is an important management tool for monitoring and verifying the effective implementation of an organization’s quality management system and for identifying opportunities for improvement. To be successful an organization needs the

perspectives provided by both the internal and the third-party auditors. Both these perspectives must be objective, honest, accurate, independent, trusted, and free from bias and prejudice. Auditors must also be discrete and above reproach. Those responsible for managing audit programs should follow ISO 19011 as a guideline when managing auditors, managing audit programs, or conducting audits. They must ensure their auditors adhere to proper ethical conduct for the protection of the audit program, the organization being audited, the auditor, and the profession.

***In general, organizations that use certified persons to perform internal audits can rest assured their auditors have been exposed to ISO 19011 and an auditor code of ethics.***

### About the author

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## Cover Story: Auditor Ethics Quiz (Continued from page 14)

1. No. Following up on such a lead is not being objective. Don't use the audit for this purpose. Instead, take the concern directly to the paint department manager.
2. Yes. Such violations should be reported, even though it was beyond the scope of the audit.
3. Yes. The area manager chose to ignore the nonconforming condition. His manager should be made aware.
4. No. This is a conflict of interest as it could be perceived that the auditor is using his or her position to influence the organization's choice of training providers.
5. Yes. The registrar made the call, albeit a questionable one.