



Audit Firms—Quality Management Systems

Increasing popularity of ISO 9000 Quality Management Systems for over a decade has changed the meaning and interpretation of the term 'Quality'. It has come to occupy significant position in the current quality conscious environment. This article offers an insight into the benchmarking ISO 9000 series of Quality Management System standards.

Quality has always been more important in certain fields of business, industry and commerce. It is sometimes difficult to determine precisely what is meant, or intended when someone states that a product or service must have quality. The formal definition of quality in accordance with International Standard ISO 9000:2000 is 'Degree to which a set of inherent characteristics fulfils requirements'.

Need for QMS Standard

In order to gain maximum benefit from our activities, it is obviously desirable to perform our activities, wherever they may be, in such a way that we achieve our goals first time and every time. To achieve this ideal situation we must adopt a policy of 'prevention' rather than 'detection'. That is, plan and systematise our activities throughout the whole organization in order that we have the best possible chance of achieving quality and getting it 'right first time'.



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was put in place with effect from 01.04.2003. There has been a steady increase in the number of practice units covered under the scheme and over a period of time. The effective implementation and maintenance of quality management system procedures would definitely make the audit firms better equipped to face the peer review.

Many organizations, even in the Service Sector, now choose to adopt the standard because they perceive benefits for themselves as an organization by structuring their working practices and measuring them against a known standard. An audit firm too, can adopt and develop the Quality Management Systems based on this standard, though not specifically aimed at certification.

Ideally, an audit firm with a size of more than seven personnel can think of implementing the Quality Management Systems based on this standard. The adoption and implementation of this standard is not difficult when we perceive many benefits discussed above. What it takes for effective

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implementation is the will and commitment from the persons concerned to successfully adopt and sustain them.

Quality Management Systems

Having discussed the benefits of quality assurance, it now follows that it would be desirable to have a benchmark, or standard, against which quality assurance systems could be established and measured. Standards for quality assurance systems have been around for quite some time specifically aimed at manufacturing sector, which were widely adopted and implemented only by them. These standards gradually became very popular as many organizations saw the benefits of applying the standard. The standard has been modified and reissued regularly which was intended to assist and harmonize the implementation and assessment of the standard across the now ever widening range of industries into which the standard was progressing, including the 'Service Sector'. Thus, now we have in force the ISO 9000:2000 series of Quality Management System Standard issued in December 2000 being adopted both by the Manufacturing as well as Service Sectors.

ISO 9001:2000 is the part of ISO 9000:2000 series that contains the requirements that an organiza-

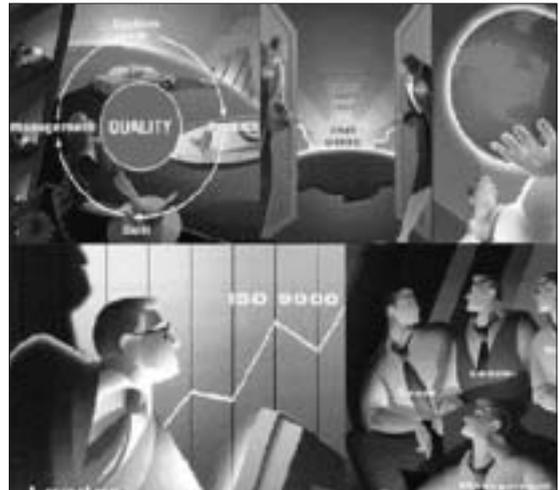
tion will have to address if it wishes to be certified against the standard. ISO 9001:2000 standard has been established on the basis of eight management principles viz., customer focus; leadership; involvement of people; process approach; system approach to management; continual improvement; factual approach to decision making and mutually beneficial supplier relationships.

ISO 9001:2000 promotes adoption of a process approach when developing, implementing and improving the effectiveness of a quality management system, to enhance customer (client) satisfaction by meeting customer (client) requirements. An activity using resources, and managed in order to enable the transformation of inputs into outputs, can be considered as a process. Often the output from one process directly forms the input to the next.

For an organization to function effectively, it has to identify and manage numerous linked activities. Typically, in an audit firm, the interlinked processes when a client approaches for filing his income tax return could be:

- Obtaining various information on his sources of income
- Comparison with his previous year's computation
- Preparation of computation statement
- Preparation of Return of income
- Payment of income tax
- Attach the relevant documents with the return of income
- Verification of final set of Return papers
- Filing of Return of income with the Department
- Forward the copy of acknowledged return to the client
- File the return of income duly acknowledged in the client's file.

Thus the application of a system of processes within an organization, together with the identification and interactions of these processes, and their management, can be referred



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to as the ‘process approach’.

In addition, the methodology known as “Plan-Do-Check-Act” (PDCA) can also be applied to all processes. PDCA can be briefly described as follows:

Plan: establish the objectives and processes necessary to deliver results in accordance with customer requirements and the organization’s policies.

Do: implement the processes.

Check: monitor and measure processes and product against policies, objectives and requirements for the product and report the results.

Act: take actions to continually improve process performance.

Requirements for ISO 9001 QMS

The ISO 9001:2000 contain the ‘requirements’ against which all organizations are presently certified. It is very important to understand that ISO 9001 is not a ‘product’ standard but a ‘Quality Management Systems’ standard since this standard specifies requirements for a ‘Quality Management System’ with focus on ‘customer (client) satisfaction’. ISO 9001 standards are ‘generic’ in nature and hence can be adopted by any type of organization both in the manufacturing and service sector. The standard specifies requirements for a quality management system that can be used for internal application by organizations, or for certification, or for contractual purposes. It

focuses on the effectiveness of the quality management system in meeting customer (client) requirements.

The ‘core’ of the standard, which contains all of the requirements, is stated in sections 4, 5, 6, 7 and 8. These sections are then divided and sub-divided to provide all of the relevant requirements. It should be noted that the intention of the standard is not necessarily to standardise every organization’s



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quality system so that they are all the same. The standard may be considered as a template for audit firms to use when establishing their management systems.

The core requirements of ISO 9001:2000

The key requirements of each of the five main sections of ISO 9001:2000 can be briefly described as follows, particularly keeping in view an Audit Firm with a size of 10 personnel:

Quality management system

✎ **General requirements:** The audit firm shall establish, document, implement, maintain and continually improve a quality management system. The firm shall identify the processes needed and determine their sequence and interaction. It shall also ensure that resources and information are available to support the processes and measures and monitor them for continual improvement.

✎ **Documentation requirements:** The documentation requirements encompass framing of ‘Quality Policy’ and ‘Quality Objectives’ and also include documented ‘Quality Manual’, ‘Quality System Procedures’ and ‘Work Instructions’ supported by requisite ‘Records’. These are required for ensuring control and sustenance of various processes.

Management responsibility

✎ **Management commitment:** The audit firm shall establish ‘Quality Policy’ and ‘Quality Objectives’ and conduct management reviews and ensure availability of adequate resources.

✎ **Customer focus:** The audit firm shall ensure client requirements are determined, understood and met in order to enhance client

satisfaction.

- ✧ Quality policy: As stated earlier, the senior partners of the audit firm shall frame an appropriate 'Quality Policy' stating the commitment to complying with requirements and continual improvement and also providing a framework for continuous review of objectives. The policy framed must be communicated and understood by everyone within the audit firm.
- ✧ Planning: The senior partners have to ensure that 'Quality Objectives' are established at all levels and are consistent with the 'Quality Policy'. The partners shall also ensure that the objectives are made measurable by suitable means.
- ✧ Responsibility, authority and communication: The responsibilities and authorities shall be defined and communicated and a 'Management Representative' (MR) shall be appointed whose job is to ensure that a quality management system is established, implemented, maintained and improved. Normally, the Management Representative is appointed from among one of the senior executives of an organization. Ideally, in an audit firm, the Management Representative shall be one among the senior partners of the firm.
- ✧ Management review: The Quality Management Systems shall be reviewed at planned intervals to ensure continuing suitability, adequacy and effectiveness with maintenance of suitable records.



Resource management

- ☛ Provision of resources: The senior partners shall ensure provision of adequate resources to implement, maintain and continually improve the quality management system and to enhance client satisfaction.
- ☛ Human Resources: The human resources based on education, training, skills and experience shall be assigned responsibilities. The human resources in an audit firm could be qualified, semi-qualified and unqualified personnel and other clerical and administrative staff. The competence needs of these personnel shall be reviewed at regular intervals and further training shall be imparted, if required.
- ☛ Infrastructure: The audit firm shall identify, provide and maintain the required infrastructure such as the premises, workspace, equipment, hardware, software, library and supporting services like transport and communication.
- ☛ Work environment: The audit firm shall determine and manage the human and physical factor of the work environment needed to achieve the conforming service.

Product realisation

- Planning of product realisation: The audit firm shall plan and develop the processes required for providing various types of services to the clients and these shall be consistent with the other processes of the quality management systems.
- Customer related processes: Client specified and implied requirements shall be determined and these requirements have to be reviewed prior to commitment to provide the same. Also, the audit firm shall ensure that adequate customer communications are established regarding service information, enquiries, amendments and client feedback.
- Design and development: This section is normally not applicable to audit firms and can be regarded as permissible exclusion.
- Purchasing: This section too is not to be stressed upon for an audit firm where the general procedure with regard to purchase of stationary and equipment may be drawn and reviewed at regular intervals.
- Production and service provision: The audit firm shall perform the service to the client under controlled conditions including appropriate information, work instructions where required and provision of suitable equipment. The firm shall ensure that the service that is being provided is traceable at every stage of the activity. Also the property of the client like original documents, other information received in the course of service provision shall be identified and protected.

Control of monitoring and measuring devices: This section is normally not applicable to audit firms and can be regarded as permissible exclusion.

Measurement, analysis and improvement

- General: The audit firm shall plan and implement monitoring and analysis processes to determine conformity of the service and the quality management systems for continual improvement of the same, by using suitable statistical techniques.
- Monitoring and measurement: The audit firm shall monitor information relating to client perceptions of whether client requirements have been met. Also, internal audits shall be planned to determine whether the quality management system conforms to planned arrangements, meets the standard and has been effectively implemented and maintained.
- Control of nonconforming product: The service that is being provided when not conforming to requirements shall be identified and controlled to prevent unintended use.
- Analysis of data: The audit firm shall ensure collection of appropriate data for analysis in order to demonstrate the suitability and effectiveness of the quality management system and to determine where continual improvement can be made. The data shall provide information relating to client satisfaction and conformance to service requirements.

- Improvement: Continual improvement of the quality management system to be facilitated through the use of the quality policy and objectives, internal audit results, analysis of data, corrective and preventive actions and management review. Appropriate corrective action shall be taken where necessary to resolve nonconformance and prevent recurrence. Further, appropriate preventive action shall be taken to prevent potential nonconformance occurring.



Not all the points discussed above are applicable to all audit firms and hence there are certain permissible exclusions with proper justification for exclusions. It should never become the sole intention of the audit firm to simply comply with the standard. The benefits can normally be gained by using the standard as a template to check the quality assurance system against. The standard should fit around or alongside the firm's system rather than attempting to fit the firm into

Documented quality management systems may vary widely from one audit firm to another but the key factor to consider is that the system you have in place must be suitable for the people who are expected to use it. In order that the people will be encouraged to use the system it is important that they should feel some 'ownership' of it.

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Conclusion

To conclude, documented quality management systems may vary widely from one audit firm to another but the key factor to consider is that the system you have in place must be suitable for the people who are expected to use it. In order that the people will be encouraged to use the system it is important that they should feel some 'ownership' of it. Likewise, the document control system that is employed must be appropriate to the needs of the firm. As with many things, it is about getting the right balance between control and usability. It is highly unlikely that the audit firm will develop the 'perfect' system first time around but careful monitoring and a will to move forward with the co-operation of those involved can often achieve an improved system. Thus, an audit firm can initiate the adoption and implementation of these Quality Management System requirements to start with and then go for ISO Certification after due stabilization. After all, the tag of Quality Certification will always have an edge over others. ■