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ISO 9001 Auditing Practices Group

Guidance on:

IMPARTIALITY

Impartiality and objectivity of auditors are basic prerequisites for an effective and consistent audit.

This paper illustrates good behavioural practices for the benefit of the auditors themselves and of the bodies in charge of assessing auditor behaviour, i.e. certification bodies and accreditation bodies.

1. Scope

- 1.1 The overall aim of third-party certification is to give confidence to all parties that rely on certification. Among the principles for inspiring confidence are independence, impartiality and competence both in action and appearance.
- 1.2 This paper only concerns itself with issues relating to the threats and safeguards to auditor independence and impartiality.

2. CERTIFICATION BODY commitment to impartiality

- 2.1 The CERTIFICATION BODY employing the auditors should be able to demonstrate how the requirements of IMPARTIALITY are fulfilled with respect to all of its operations, including those of its auditors and its relevant outsourced activities.
- 2.2 The CERTIFICATION BODY should demonstrate, through the structure of its organization, its policies, processes and training, how it deals with the risks related to conflicts of interests, the pressures and other factors that can compromise or can reasonably be expected to compromise an auditor's objectivity and which may arise from a wide variety of activities, relationships, and other circumstances as well as from various personal qualities and characteristics of auditors that may be sources of bias.

3. Threats to auditor impartiality

- 3.1 Threats to auditor impartiality are sources of potential bias that may compromise, or may reasonably be expected to compromise, an auditor's objectivity and his attitude ~~ability~~ to make unbiased audit observations and conclusions.

Because threats may, or may reasonably be expected to, compromise an auditor's attitude to make unbiased audit observations and conclusions, CERTIFICATION BODY should identify, analyse, evaluate, treat, monitor and document such risks and demonstrate how threats are eliminated or minimised in order to achieve an acceptable level of risk that are sources of potential bias.

3.2 Threats are posed by various types of activities, relationships, and other circumstances. In order to understand the nature of those threats and their potential impact on auditor impartiality, the CERTIFICATION BODY should identify the types of threats posed by specific activities, relationships or other circumstances. The following list provides examples of the types of threats that may create pressures and other factors that can lead to biased audit behaviour.

Although the list below is not mutually exclusive or exhaustive, it illustrates the wide variety of types of threat that CERTIFICATION BODYS need to consider when analysing auditor impartiality issues:

- Self-interest threats — threats that arise from auditors acting in their own interest. Self-interests include auditors' emotional, financial, or other personal interests. Auditors may favour, consciously or subconsciously, those self-interests when performing a management system audit. For example, CERTIFICATION BODY relationships with clients create a financial self-interest because the clients pay the CERTIFICATION BODY's fees. Auditors could also have a financial self-interest if they own shares in an auditee's organization. Similarly they may have an emotional or financial self-interest if an employment relationship exists between auditor's family members and an auditee.
- Self-review threats — threats that arise from auditors reviewing the work done by themselves or by their colleagues. It may be more difficult to evaluate without bias the output of one's own work than the work of someone else or of some other organization. Therefore, a self-review threat may arise when auditors review judgments and decisions they, or others in their organization, have made.
- Familiarity (or trust) threats — threats that arise from auditors being influenced by a close relationship with an auditee. Such a threat is present if auditors are not sufficiently sceptical of an auditee's assertions and, as a result, too readily accepts an auditee's viewpoint because of their familiarity with or trust in the auditee. For example, a familiarity threat may arise when an auditor has a particularly close or long-standing personal or professional relationship with an auditee.
- Intimidation threats — threats that arise from auditors being, or believing that they are being, openly or secretly coerced by auditees or by other interested parties. Such a threat may arise, for example, if an auditor or CERTIFICATION BODY is threatened with replacement over a disagreement with an auditee's application of a specific requirement of the normative document being used as the reference for the audit.
- Advocacy threats (this could occur when a body or its personnel is acting in support of, or in opposition to, a given auditee, which is at the same time its customer, in the resolution of a dispute or litigation);
- Competition threats may happen, for example, when a contracted technical assessor is employed by a direct competitor of the auditee organization.

4 Safeguards to auditor impartiality

4.1 The CERTIFICATION BODY should have in place safeguards that mitigate or eliminate threats to auditor impartiality. Safeguards may include prohibitions, restrictions, disclosures, policies, procedures, practices, standards, rules, institutional arrangements, and

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environmental conditions. These should be regularly reviewed to ensure their continuing applicability.

4.2 Examples of safeguards that exist in the environment in which audits are performed include:

- the value CERTIFICATION BODYs and individual auditors place on their reputations;
- accreditation programmes for CERTIFICATION BODY that assess organization-wide compliance with professional standards and regulatory requirements regarding impartiality;
- general oversight by CERTIFICATION BODYs' committees and governance structures (for example, boards of directors, [advisory- or compliance committees](#)) concerning compliance with impartiality criteria;
- other aspects of corporate governance, including the CERTIFICATION BODY's culture that supports the certification process and auditor impartiality;
- rules, standards, and codes of professional conduct governing auditors' behaviour;
- contractual agreements with personnel, partners, etc. determining duties;
- the raising of sanctions, and the possibility of such actions, by accreditation bodies/IAF and others; and
- the legal liability faced by CERTIFICATION BODY.

4.3 Examples of safeguards that exist within certification bodies as part of a CERTIFICATION BODY's management system include:

- maintaining a culture in the CERTIFICATION BODY that stresses the expectation that auditors will act in the wider interest and the importance of good audits and auditor impartiality;
- maintaining a professional environment and culture in the CERTIFICATION BODY that supports behaviour of all personnel that is consistent with auditor impartiality;
- requiring auditing personnel to sign and adhere to a code of ethics including rules relating to impartiality
- management systems that include policies, procedures, and practices directly related to maintaining auditor impartiality;
- dialogue with relevant interested parties on the perception of impartiality and any feedback
- other policies, procedures, and practices, such as those concerning the rotation of staff, internal audit, and requirements for internal consultation on technical issues; and
- personnel hiring, training, promotion, retention, and reward policies, procedures, and practices that emphasize the importance of auditor impartiality, the potential threats posed by various circumstances that auditors in the CERTIFICATION BODY may face, and the need for auditors to evaluate their impartiality with respect to a specific client after considering safeguards in place to mitigate or eliminate those threats.

Another way of describing safeguards is by their nature. Examples include:

- safeguards that are preventive — for example, an induction programme for newly hired auditors that emphasizes the importance of impartiality;
- safeguards that relate to threats arising in specific circumstances — for example, prohibitions against certain employment relationships between auditors' family members and the CERTIFICATION BODY's clients and;
- safeguards whose effects are to deter violations of other safeguards by punishing violators — for example, a zero tolerance policy enabling accreditation bodies to immediately suspend or withdraw accreditation.

4.5 An alternate way in which safeguards can be described is by the extent to which they restrict activities or relationships that are considered threats to auditor impartiality, such as prohibiting auditors from providing consultancy to the clients they are auditing.

4.6 In assessing the impartiality of its auditors a CERTIFICATION BODY should consider:

- the pressures and other factors that might result in, or might reasonably be expected to result in, biased audit behaviour — here described as threats to auditor impartiality;
- the controls that may reduce or eliminate the effects of those pressures and other factors — here described as safeguards to auditor impartiality;
- the significance of those pressures and other factors and the effectiveness of those controls; and
- the likelihood that pressures and other factors, after considering the effectiveness of controls, will reach a level where they compromise, or may reasonably be expected to compromise, an auditor’s ability to maintain an unbiased audit behaviour.

The CERTIFICATION BODY should also make its auditors aware of the ways it intends to implement to ensure auditor impartiality.

5. Assessing the level of impartiality risk

CERTIFICATION BODYS should assess the level of impartiality risk by considering the types and significance of threats to auditor impartiality and the types and effectiveness of safeguards. This basic principle describes a process by which CERTIFICATION BODYS should identify and assess the level of impartiality risk that arises from various activities, relationships, or other circumstances.

The level of impartiality risk can be expressed as a point on a continuum that ranges from “no risk” to “maximum risk.” One way to describe those endpoints, the segments of the impartiality risk continuum that fall between those endpoints, and the likelihood of compromised objectivity to which the endpoints and segments correspond, is as follows:

Table 1 — Level of impartiality risk

No risk	Remote risk	Some risk	High risk	Maximum risk
Compromised objectivity is virtually impossible	Compromised objectivity is very unlikely	Compromised objectivity is possible	Compromised objectivity is probable	Compromised objectivity is virtually certain

Increasing likelihood of compromised objectivity →

Although it cannot be measured precisely, the level of risk for any specific activity, relationship, or other circumstance that may pose a threat to auditor impartiality can be described as being in one of the segments, or at one of the endpoints, on the impartiality risk continuum.

6. Determining the acceptability of the level of impartiality risk

6.1 CERTIFICATION BODY should determine whether the level of impartiality risk is at an acceptable position on the impartiality risk continuum. CERTIFICATION BODY should evaluate the acceptability of the level of impartiality risk that arises from specific activities, relationships, and other circumstances. That evaluation requires them to judge whether safeguards eliminate or adequately mitigate threats to auditor impartiality posed by those activities, relationships, or other circumstances. If they do not, CERTIFICATION BODY should

decide which additional safeguard (including prohibition) or combination of safeguards would reduce the risk, and the corresponding likelihood of compromised objectivity, to an acceptably low level.

- 6.2 Given certain factors in the environment in which audits take place — for example, that the auditor is paid indirectly by the auditee — the impartiality risk cannot be completely eliminated and, therefore, CERTIFICATION BODY always accept some risk that auditors' objectivity will be compromised. Nevertheless, in the presence of threats to auditor impartiality, CERTIFICATION BODY should consider only a very low level of risk to be acceptable. Only such a small likelihood of compromised objectivity is consistent with both the definition and the goal of auditor impartiality.
- 6.3 Some threats to auditor impartiality may affect only certain individuals or groups within a CERTIFICATION BODY, and the significance of some threats may be different for different individuals or groups. To ensure that the risk is at an acceptably low level, CERTIFICATION BODY should identify the individuals or groups affected by threats to impartiality and the significance of those threats. Different types of safeguards may be appropriate for different individuals and groups depending on their roles in the audit.
- 6.4 CERTIFICATION BODY should ensure that the benefits resulting from reducing the impartiality risk by imposing additional safeguards exceed the costs of those safeguards. Although benefits and costs are often difficult to identify and quantify, CERTIFICATION BODY should consider them when they make decisions about auditor impartiality issues.

7. Organizational and structural issues

- 7.1 In addition to the aspects outlined above, auditor impartiality needs to be further protected by placing it within a structure in the organization, which will guarantee that the safeguards required are implemented. The part of the organization's structure should be such that the CERTIFICATION BODY can demonstrate its impartiality to an informed and disinterested third party.
- 7.2 The structure and organization of the CERTIFICATION BODY chosen to meet these objectives should be transparent and support the development and the application of the processes necessary to meet the above objectives. These processes should include:
- understanding the needs and expectations of customers and other stakeholders;
 - establishing the policy and objectives of the organization;
 - determining the processes and responsibilities necessary to attain the objectives;
 - determining and providing the infrastructure and resources necessary to attain the objectives;
 - establishing and applying methods to ensure appropriate determination and effective control of impartiality related risks;
 - establishing and applying methods to ensure the effectiveness of each process;
 - the identification of potential conflict of interest at the level of both the organization and the individual, and the means of identifying it and dealing with it;
 - determining means of preventing nonconformities and eliminating their causes; and
 - establishing and applying a process for continual improvement of the above processes.

Note: While the guidance in this paper has been presented with a focus on CERTIFICATION BODY auditors, similar considerations may (with due adaptation) be applied to accreditation body auditors.

For further information on the ISO 9001 Auditing Practices Group, please refer to the paper: *Introduction to the ISO 9001 Auditing Practices Group*.

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