

## ASI Complaints Mechanism

### Status of Complaints

ASI aspires to ensure transparency of the ASI Complaints Mechanism in terms of its processes and outcomes. Reporting of some information may be limited by ASI where needed to protect the identity of parties who may wish to remain anonymous and to seek to minimise the risk of retaliation against stakeholders.

Complaint reference	Respondent	Complainant	Country/origin	Status	Date filed	Date completed
ASI/2024/3	BV, SGS, DNV, China Quality Mark Certification Group	Anonymous	China	Complaint investigated with ongoing monitoring	09.05.2024	See key dates below

### Complaint Background

Complaint Reference	ASI/2024/3
Status	Complaint investigated with ongoing monitoring
Respondents	BV, SGS, DNV, China Quality Mark Certification Group (ASI Accredited Audit Firms)
Complainant	Anonymous
Complaint subject	Allegations of conflict of interest by 4 audit firms operating in China through provision of simultaneous ASI auditing and consulting services to ASI members
Date complaint submitted	9 May 2024
Key dates	V1 summary published 7 June 2024  V2 summary published 19 June 2024  V3 summary published 22 July 2024
Country of complaint	China

## Summary of the Complaint

The complaint alleged that 4 audit firms – BV, SGS, DNV and CQM – were providing both ASI auditing services and ASI consulting services to ASI members in China that created a serious conflict of interest contravening both ASI requirements, ISO Standards and Regulations of the People's Republic of China on Certification and Accreditation. These actions were also deemed to involve unfair competition that severely impact the market interests of certification companies that adhere to the rules. Two examples of winning bid announcements from ASI members were shared which referred to both auditing and coaching services, though it was noted that the business contracts were not available and ASI needed to follow up on these.

## Position of the Respondents

DNV confirmed they adhere to ISO 17021-Requirements for bodies providing audit and certification of management system, and shared their impartiality management policy and procedures on Group level and Business area level. New employees complete the training course on this topic, and every employee attends annual refreshing training. DNV shared 4 service agreements, noting that advisory and solution provision is prohibited. As an improvement opportunity, DNV will add additional terms to the service agreement template, to clarify their Code of Conduct on these matters.

BV also shared their Impartiality procedure, noting the clause on "Self-review threats, Consultancy – An auditor shall not be used to audit a client where she / he has previously been involved in consultancy activity relating to the management system being audited for at least two years." This is consistent with ASI's requirement in its Assurance Manual. BV noted that for the winning bid announcement shared (from Baotou Aluminium Industry), they won the bid, explained their impartiality requirement to Baotou, and the company removed the "coaching part" in both the bid and the signed contract (a copy of which was provided to ASI).

SGS noted that they provide auditing and training services, but the respective teams are always separated to manage the potential for conflicts of interest. Usually "SGS Academy" carries out any training services. On one occasion, a member required one contracting entity, and the contract for this was shared with ASI identifying the different personnel used for each aspect. As an improvement

opportunity, SGS has undertaken to prepare a standard training and pre-audit contract template to further underline the separation going forward.

CQM's Confidentiality and Impartiality Statement has been signed by both active auditors with copies on file. Their auditor accreditation applications also provide for a signed acceptance of ASI's requirements re. Conflicts of Interest. For the winning bid announcement shared (from Huanghe Xinye), numerous non-conformances were identified during the audit, and the audit itself was subject to a Witness Assessment by the ASI Secretariat. No signs of auditor coaching were apparent as part of this process.

## **Process and timing**

In support of the above summary, ASI undertook the following investigations during May–July 2024:

- Reviewed Auditor Accreditation records and Conflict of Interest Declarations for the 4 firms
- Reviewed the Certification records for the 2 specific cases identified with winning bid announcements
  - These two Certifications had 12 and 15 Minor Non-Conformances respectively, indicating a rigorous audit process
- Held discussions with each of the 4 audit firms, seeking further details of how they manage conflicts of interest, with particular reference to auditing and consulting/coaching services (summarised above)
- Held follow-up discussions with each of the 4 audit firms, requiring comments to allegations raised in the Complainant's further communication
- Requested the following documentation/evidence from each firm:
  - Current official documentation which define the firm's management of conflicts of interest/impartiality and communication with members before on site audits
  - Commercial contract templates / contract examples with ASI members (with redacted information if needed) that refer to terms of service scope, define communication and conflict of interest and Impartiality.

## **Outcome**

It is important to note that ASI does allow Auditing Firms to undertake non-auditing work for any business (training, consulting etc.), including for the business that is being audited. However, the following conditions apply:

- Such activity must be disclosed as potential or perceived Conflict of Interest (Col) to ASI for review ahead of the audit
- Members of the audit team are not to be simultaneously involved in this kind of non-auditing work
- In some circumstances, members of the audit team must also have a demonstrated minimum non-engagement period of three years between any work undertaken for the Entity that directly relates to the Audit Scope and being a member of an audit team for that Entity
- There must also be appropriate 'quarantine' measures within the auditing firm (divisions, reporting structures etc.) to manage the potential Col situation.

On this basis, after two rounds of extensive investigation, ASI has found that conflict of interest situations in the 4 audit firms are being appropriately managed. Two improvement opportunities (DNV and SGS) have been identified out of this process which those audit firms will action.

### **Next steps**

ASI included a "Reminder on Avoiding Conflicts of Interest" article in the May 2024 Auditor Update, which is sent to all active ASI auditors, and gave a reminder presentation on Conflict of Interest during the most recent Auditors Calibration Call, held on 4 June. ASI also runs a Registered Specialists program as a resource pool for both members and auditors to find specialists who can support work on ASI Standards.

ASI thanks the Complainant for raising this matter, and will continue to monitor and manage these issues with all audit firms. Following additional comments received by the Complainant following publication of V1 of this summary, further investigations and follow-up are being carried out.