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Performance Based vs. Compliance Based Auditing The Similarities and the Differences*

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INTRODUCTION

Princeton University's Plasma Physics Laboratory (PPPL) is a world leader in research associated with plasma science including the use of materials, the development of future fusion devices, and the application of plasma techniques in industry. At PPPL, one of Quality Assurance's responsibilities includes the internal audit/appraisal program. In early FY95 a task force, including representation from internal customers, was created to improve the program and to assure that the program better supports the mission of the Laboratory.

One of the most significant changes recommended by the task force was to move from a compliance based auditing program to a performance based program. A trial of this change was successfully performed in fiscal year 1995. Because of the success of the trial, this change was adopted as standard practice. Today, a scheduled audit may be performance based, compliance based, or a combination of the two as determined jointly by the Quality Assurance Manager and the management of the program to be audited.

This paper discusses the similarities and differences between these two types of audits. Both audits are performed to effect improvements in the program being audited. However, compliance based audits focus on compliance issues with the risk of missing performance or efficiency issues. Performance based audits identify system level problems and inefficiencies but may miss compliance issues.

The processes for planning and performing compliance based and performance based audits are compared. While there are many similarities, there are differences including:

- The audit team itself (primarily quality personnel vs. cross functional teams)
- The planning for the audit (reviewing compliance requirements vs. clarifying performance objectives and criteria)
- The approach (verifying evidence of compliance vs. reviewing actual performance)
- The questions asked ("Show me evidence to support" vs. "What do you do to support a process, performance objective, etc.")

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- And the report itself (documentation of compliance issues vs. identification of opportunities for improvement).

Finally, a theoretical compliance based audit and a theoretical performance based audit are performed on a same program to further clarify the similarities and differences. Examples of teams, checklists, questions to be asked, individuals to be interviewed, and possible findings are given.

DEFINITIONS

Prior to continuing with this topic, definitions of both types of appraisals would be helpful. The following definitions are taken from Performance Based Assessments subtitled External, Internal, and Self-Assessment Tools for Total Quality Management by Paul F. Wilson and Richard D. Pearson, ASQC Quality Press, 1995.

Compliance Based Assessments: "Assessments which focus on verifying compliance to policies, plans, procedures, milestones, or other predetermined requirements."

Notice the key words "compliance" and "requirements". These assessments will indicate whether the requirements are indeed met, either yes, no, or partially. It is reactive, identifying problems after they occur with the hope of preventing future occurrences.

Compare the former definition to the following definition of performance based assessments: "Assessments which focus on the product, process, and system to determine how well they meet the customer's needs (specified and unspecified) as well as to identify opportunities for improvement."

This type of assessment focuses on the customer and includes both specified and unspecified needs, with an added emphasis on improvement. It is more proactive, hopefully identifying problems before they occur. In addition, it not only identifies potential sources of problems, but also identifies opportunities that are not directly related to problems, such as opportunities to reduce cycle time, reduce materials, etc.

Remember the training axiom that you were probably taught — that it didn't matter how a requirement was implemented as long as it was met. This axiom is not true for performance based audits; the method is as important as the results.

THE AUDIT CYCLE

The discussion emphasizes the differences between compliance based and performance based audits. However, in reality, there is a continuum between the two types of audits. Any particular audit will fall somewhere in this continuum and probably will contain some compliance based aspects and some performance based aspects.

Both compliance based and performance based audits use the same cycle of implementation: identifying the audit to be performed; scheduling the audit; selecting and training the team; identifying the scope, goals, and objectives of the audit; planning the audit; performing the audit; documenting the results; and providing follow-up. Each of these phases of the audit will be discussed in turn.

IDENTIFYING AUDITS TO BE PERFORMED

At PPPL, we ask for input from line management to identify those audits that they believe would be most beneficial to them. These may be audits of an activity within their own organization, one of their suppliers, or any other audits that are believed to add value. In addition, Quality Assurance identifies additional audits that they believe would be value added and works to obtain management concurrence. Finally QA meets individually with key individuals throughout the facility to obtain their personal input.

There are similar considerations for the selection of audits, whether compliance based or performance based. Both selection criteria use the concept of risk. However, the risks involved may be different for each type of audit.

Compliance based audits may be chosen for activities for which the costs of non-compliance may be high. Examples of these are programs that have associated laws and regulations (hazardous waste); programs established to protect the environment, safety, or health; or programs for which the level of compliance has not been determined but for which this information would be beneficial. At PPPL, audits of suppliers performing ES&H related services, such as treatment, storage, or disposal of hazardous waste or analysis of environmental samples, are always compliance based. The risks to PPPL are high if the suppliers do not comply with the associated laws and regulations and with the requirements of our contract. However, whether they perform these services efficiently is less important to us. The bid system plays a significant role in assuring that the supplier is efficient and can therefore offer the best price.

Performance based audits may be chosen for programs or activities for which compliance is either known or is not a significant issue or for which improvements are desired. For example, performance based audits might be performed on processes or work activities that are resource intensive in order to increase efficiency and productivity.

When appropriate, an audit may be a combination of performance- and compliance based. An example might be an audit of a lockout/tagout system where the performance of the system as a whole is important but compliance to OSHA requirements is also important.

SCHEDULING AUDITS

The scheduling of compliance based audits is generally dependent only upon the availability of the auditors and the individuals to be contact during the audit.

For performance based auditing, scheduling becomes extremely important. A performance based audit cannot be effective without witnessing or observing the activity, independent of when the activity is being performed. If the activity is performed on a night shift or on weekends, in order to effectively perform the audit, it may be necessary to include some of these times in the audit schedule. Sometimes the activity, such as performing routine scheduled maintenance, is only performed during a portion of the work year. Other activities, such as emergency repairs, are not scheduled in advance, but witnessing these activities is important to the effectiveness of the audit.

SELECTING AND TRAINING THE AUDIT TEAM

Compliance Based

The traditional wisdom is that an audit could be performed by one individual who is knowledgeable about auditing techniques, somewhat knowledgeable about the subject area, and is independent of the activity being audited. The only subject knowledge needed is the ability to be able to determine whether the information received during the audit demonstrates that the requirements have been met. Independence is considered by many traditional auditors to be critical for an honest and thorough audit.

Some quality professionals have made the claim that they could audit any area with confidence. This is probably true of audits of quality/management systems. However, when the compliance is defined by complex laws, regulations, or requirements, someone who understands these laws, regulations, or requirements is absolutely necessary for an effective compliance based audit. For example, even though our Quality Assurance organization has been performing audits of hazardous waste treatment, storage, and disposal facilities for many years, we would be extremely uncomfortable performing these audits without the assistance of a hazardous waste engineer. The laws and requirements are too complex and the risks of a less than adequate audit too high. In most traditional compliance based audits, these individuals would play the role of technical specialists, supporting the audit and are not part of the audit team itself.

The training for these technical specialists is typically focused on the process of auditing — the audit cycle and how to perform the interviews.

Performance Based

For a compliance based audit, subject matter experts (SMEs) would be helpful as technical specialists supporting the audit. For a performance based audit, they are indispensable. While the quality professional may play an important role in organizing and leading the performance based audit, the SME is the audit team member most qualified to evaluate the process or activity being observed and to identify potential issues.

We have found that quality professionals still play an important role in leading the audit for the following reasons:

- They have experience in planning, organizing, and leading audits.
- They are knowledgeable about techniques used in audits, such as sampling, the use of open-ended questions, and root cause analysis.
- Since they perform many audits as part of their normal job activities, they can provide consistency to the audit process.
- They can serve as on-the-job trainers for the other members of the team.
- And they are familiar with the steps involved in the audit process itself and the work to be done at each step and are more likely to assure that these steps can be done properly at the proper stage. They frequently are the only ones willing or able to take the time to write an effective report or generate the flow diagram to be used by the rest of the team in understanding the process being audited. While others on the team have the best intentions of supporting the

audit, they are temporarily assigned to support this effort but, in reality, still need to support their normal work activities.

Individuals knowledgeable about the activities being audited are also part of the team. Their role is to:

- Provide expert knowledge on the activities being audited.
- Share this knowledge with the other members of the team.
- Identify areas of concern to the rest of the team providing the appropriate background or knowledge to support the concern.

We have found that the best source for this knowledgeable individual is the organization that is being audited. We request that the manager of the audited area provide us with the SME. We emphasize the selection criteria for this individual — someone knowledgeable about the audit area, able to identify problems within his or her own work area, open minded, and having the trust and respect of his or her manager. While this may appear to compromise the concept of independence, we have not found this to be a problem. As long as the audit remains professional and the purpose of the audit is clear to all involved and kept in the forefront, we have found that including this individual has significantly increased the quality of the audit and the acceptance of the audit report by the audited organization. It may be argued that the SME could be a technical specialist for the audit but not a member of the team itself. However, we have found that including the SME on the team encourages this individual to play a major role in the audit and not just be a guide, answering questions but providing no additional information or insights.

Another individual that we have found to be extremely important to the performance based audit is a customer representative, someone familiar with the needs or requirements of the customer, typically from the customer's organization. Remember that performance based audits review the program against both the specified and unspecified requirements of the customer. Experienced auditors are well aware that sometimes the most important requirements or those that create the most problems have never been formally specified nor are consciously recognized by the individuals involved in the program.

When an audit spans more than one organization, each of which has an important role in the program and whose interfaces are complex, auditors frequently serve two roles — as SMEs from their own areas and as customers for the other areas.

A word of caution — ideally representatives from an audited areas should be willing and able to identify problems in their own organizations. We have found that these individuals indeed frequently identify the most critical problems. However, their line management must be willing to accept this role. This is why we emphasize that line management should choose someone in whom they have confidence and whom they respect. If there is any concern that line management may not willingly accept this role for these individuals, reduce their roles to guides within the audit and seek technical knowledge elsewhere. Do not compromise their relationships with their line management.

We have found that for the most part, performance based audits are successful with a maximum of three people: the lead auditor, the subject matter expert, and the customer. As the number of individuals assigned to an audit increases, the complexity increases.

The training for participating as an auditor on a performance based audit involves two parts. First, individuals must be provided information about what a performance based audit is about and how it is conducted prior to beginning to plan the audit. Second, individuals receive on-the-job training under the guidance of the lead auditor while conducting the audit.

GOALS, OBJECTIVES, & PURPOSES

Compliance Based

For compliance based audits, the goals and objectives are generally obvious, the requirements for the activity being audited. These requirements are specified in laws and regulations, customer contracts (written and implied), and policies and procedures. Please keep in mind that the term customers may be internal or external customers.

Clearly not all requirements are equal in significance. It might be appropriate to identify those requirements that are most significant to be included in the audit, taking into consideration problems that have occurred in the past in the area to be audited.

Remember also that traditionally the customer for the compliance based audit has been top management. The report documents to them how well an activity within their span of control meets its requirements.

Performance Based

The goals of a performance based audit are to provide insights and information to the managers of the areas being audited to help them improve their programs. Once an audit is identified, we meet with these managers and identify the processes or activities within the audit area that are most critical for success. For these activities, we then identify the associated performance objectives and criteria. How does management know if they are successful in these areas? What are the criteria used to determine this success?

Prior to this meeting, we would first review any information on the performance of the area being audited. Such data may come from earlier audits, performance indicators, accident data, etc. This data may identify areas of concern that should be included in the appraisal. Initially, high level performance objectives and criteria are identified. For instance, for an audit of fire protection, an objective might be that the fire protection system is available when called upon to fight a fire. These may be extremely high level POCs that must then be further refined. How would one determine that indeed the fire protection system is available at any time and would work successfully?

The customer representative on the audit team may be able to provide insight on what processes or activities are of most concern either because of their criticality or because of perceived problems.

Note that agreement must be reached with the managers of the audited organization on the POCs prior to the start of the audit. There remains the risk that the manager may not be open-minded about a review of his or her work or may not agree to the POCs that the audit team believes are important. Dependent upon

the risks involved, the audit team could move up the management chain to assure the inclusion or acceptance of important disputed POCs. This must be done with great diplomacy. The results of an audit must be truly accepted by the managers of the audited organization to result in effective improvements. If managers do not have this buy-in, they may give lip service to fixing the identified problems, but they will really not be resolved. In this case, the time spent on performing the audit was wasted and could have more productively been spent doing other work. It should be emphasized that buy-in and agreement by the audited manager is critical for the success of any audit process, compliance or performance based. If buy-in is not obtained before and maintained during the performance of the audit, a significantly greater amount of effort will be spent after the issuance of the audit report trying to get the appropriate corrective action.

PLANNING FOR THE AUDIT

Compliance Based

The key to a successful audit of any time is careful planning. This is the hardest stage on which to remain focused until it has been properly completed. For the compliance based audit, the following steps are typically performed during this stage:

- Identify the key requirements to include in the audit.
- Identify how these key requirements are implemented via procedures. Do the procedures if implemented as documented correctly satisfy the identified requirements?
- Develop a clear understanding of the procedures and plan and how best to verify the steps indicated therein. The planning should include what documents to review that would provide evidence of compliance, which individuals by title to interview, and what questions to ask these individuals.

All these steps must be carefully performed in order to have a successful and efficient audit. This is the desk portion of the audit — reviewing paper — and can be extremely tedious. This is the step of the audit planning process that is frequently short-changed.

Performance Based

We have established the performance objectives and criteria in an earlier step. However, we are a long way away from being ready to perform the audit.

The next step is to identify those activities that support the POCs. Then the audit team must develop an appropriate level of knowledge of these activities as documented in area policies and procedures. Some of the following techniques are valuable here:

- Generate flow diagrams of these activities. Include data flows and timing information.
- Perform a barrier analysis of these activities. Identify those steps or areas that might be weak areas or might have the potential to result in problems.
- Review any available data for these activities that might indicate potentially weak areas (e.g. performance statistics)

- Determine how these activities support or have the potential for a negative impact on the POCs.
- Using these diagrams and analyses, look for unnecessary steps, wasted actions, or missing steps.

This is a time intensive, paper intensive activity. Be careful that you don't jump ahead to the next step until you have properly completed this.

But you are not yet done. After you have done the above, review the POCs and the results above. Break down the POCs to lower level criteria until the team understands how the criteria relate to the system. Use the information obtained in the previous analysis to help you identify these criteria. Then determine how the team should evaluate the criteria. What steps of the activity should be observed? What are the key issues to review during these observations? What individuals should be interviewed? What questions should be asked? What documents should be reviewed and for what data? Should drills be conducted? Should simulated exercises be held? What is the best way to actually evaluate the POCs in the field?

A good learning experience for this activity is to become a Baldrige examiner. First, the examiner develops a comprehensive understanding of the Baldrige criteria which are good POCs for performance based audits of management systems. Second, because the examiner has only a few days for a site visit that covers a significant amount of data, the site team must develop comprehensive plans for the site visit that will assure that the team does indeed cover all areas of interest. The process forces structured planning.

A caveat is in order here. You have spent a significant amount of time reviewing the documented system and developing a good understanding of the system. However, when you finally go into the field to review the actual practice, you may find that the documented system does not match the actual system. You may need to redo some of this work to reflect the actual field conditions. While this is frustrating, it is part of the job. The actual condition and process in the field are more important than what is documented in internal policies and procedures.

PERFORMING THE AUDIT

If indeed the planning for the audit was properly performed, the actual audit itself should be relatively simple. Many of the common issues identified to beginning auditors are common to both types of audits including:

- Keep detailed records of what was seen. At the end of the audit, you want to provide detailed information so that the customer for the audit report is aware of what the audit team saw.
- Keep management of the audited area informed about what you have seen. We have found that, although the important human touch is missing, electronic mail is an effective way to do this since the managers may be extremely busy and scheduling daily debriefings may be difficult.

Compliance Based

During a compliance based audit, the team will spend the majority of its time reviewing documents or interviewing individuals. The focus of the interviews will

be to primarily assess whether they perform their activities in accordance to the established procedures.

Performance Based

With the detailed planning that should have been performed earlier, the key steps involve:

- Observing work in progress. Does it match the procedure? Are there unclear steps or are there alternative methods that are more effective than those indicated in the procedure? Can you observe factors that might impact the effectiveness of the process?
- Performing drills or simulated activities when the actual work cannot be observed in normal mode
- Interviewing the individuals who actually perform the work. Ask them how the process works, what they do if it isn't working, how it can be improved, who their customer is and how do they know if they are satisfying their customer.
- Performing surveys or conducting focus groups of customers or employees involved in the process. However, before doing this, get the concurrence of the manager of the audited area.

Don't stop with the identification of a problem. Continue pursuing further. Why did the problem occur? What is the root cause of the problem? What could be done to prevent the problem.

Your success will be measured on how well the audited organization perceives your audit results. Did it help them solve problems? Did it identify problems of which they were not aware? Did it result in money or time savings? Did it result in more satisfied customers for them? Keep these goals of the audit process in mind continuously when performing the audit to help assure that you will reach these goals.

DOCUMENTING THE AUDIT

The audit should provide management with the information that was identified as desired at the start of the audit.

Compliance based

The compliance based audit should identify the following:

- Areas of strength - where the process or program is especially strong either because it exceeds the requirements or is performed in an especially cost effective manner
- Findings - noncompliances. If the culture permits it, related noncompliances may be rolled up into one finding so that a more comprehensive picture of the process or program is given, e.g. "the distribution subsystem of the document

control system needs improvement as identified by following:" followed by a list of all nonconformances found.

- If the culture supports it, a list of opportunities for improvement that were identified during the conduct of the audit. (suggestions/recommendations)

Performance based

The performance based audit report has a different focus. It should contain the following:

- An executive summary - While the report is primarily written for the manager of the audited organization, we have found that a short executive summary as the first part of the report is extremely valuable. This summary quickly sets the tone for the rest of the report and quickly tells the reader whether there any major concerns were identified.
- For each performance objective and criteria identified at the start of the audit, the report should provide a summary. How well is the POC being met? What opportunities for improvement exist? Don't repeat information that may be found later in the report. Instead provide a reference.
- Areas of strength - Identify any areas that were especially strong and in which changes should not be made. Identify any portions of the organization that are especially effective.
- Areas for improvement - identify areas for which improvements should be made. The motivation for improvements could be:
 - To better meet the customers' needs or increase customer satisfaction
 - To make the process or activity more robust or effective
 - To save dollars and time
 - To prevent future problems

You might also identify where the procedures are not being followed and provide information on whether the practice is better, the procedure, or a combination.

Provide as much information about the problems as you can including the root cause analysis or the basic cause of the problem.

When should opportunities for improvement become findings? This is a more difficult question to ask than for the compliance based finding. However, if you use the general guideline, does the problem that was detected have a significant impact on the performance of the process or activity being audited? If unresolved, would the value of the process or activity be significantly less than if it were resolved, either from a customer perspective, a reliability perspective, etc.? If so, then making this problem into a finding is a reasonable approach.

FOLLOW-UP

For either type of audit, it is important to follow up on the findings until either the problem is resolved or management decides to accept the risk. For a compliance

based audit, this is standard practice. For a performance based audit, since findings are only identified for those issues that we believe, if unresolved, could have a significant impact on the process or activity, we continue to track these findings until the problem is resolved or management decides to accept the risk.

AN EXAMPLE

To further illustrate the above concepts, let's take a theoretical audit performed in both compliance- and performance based modes and compare the two. For our example, let's "do" an audit of procedure usage.

First, let's define the scope of the audit.

Scope

Compliance based audit -	Verify that the procedures in the xyz facility are implemented as indicated and that any changes to the procedures are properly reviewed and incorporated before being implemented.
Performance based audit -	Determine how well the procedure system for the xyz facility provides instructions to the personnel for their day-to-day activities.

Audit Team

Compliance based audit -	Quality Assurance trained auditors Technical specialist, typically advisor, not part of team
Performance based audit -	Lead auditor trained in the performance based auditing technique used at your facility. Subject matter expert from area being reviewed, selected by area manager. Customer for the work being performed.

Initial Planning for the Audit

Compliance based audit -	<ol style="list-style-type: none">1. Identify areas of special concern from earlier audits, performance statistics, etc.2. Identify audit requirements from standards, contracts, etc.3. Verify that the procedures, if implemented, satisfy these requirements.
Performance based audit -	<ol style="list-style-type: none">1. Identify areas of special concern from earlier audits, performance statistics, etc.2. Generate a flow diagram of the procedure on procedures. Identify potential areas of concern (wasted steps, missing steps, etc.)3. Propose performance objectives & criteria.4. Meet with management to discuss potential areas of concern and proposed POCs.5. Finalize the POCs and areas of concern. Break down into lower level criteria or issues. Determine how to review each of these criteria or issues.

Possible Performance Objectives and Criteria

Compliance based audit -	<ol style="list-style-type: none">1. Procedures should be consistent with the requirements for the work and accurately reflect the steps required.2. Procedures should be up-to-date and readily available in the work place.3. Deviations from the procedures should not be allowed except as indicated in the procedure for procedures.4. Procedures should have the required reviews and approvals as indicated by the procedure on procedures.5.
Performance based audit -	<ol style="list-style-type: none">1. Are the appropriate procedures available for the work being done?2. Are the procedures well written and easy to use, when necessary?3. Do the procedures provide the proper information for the work being done? Are they accurate?4. Do the procedures provide the appropriate level of detail for the skills of the individuals involved in the work?5. Are the workers able to find the information when needed in a timely fashion?6. Are emergency procedures available, quickly accessible, and easy to determine what needs to be done?.....

Checklist

Compliance based audit -	<p>Randomly select a statistically significant of the procedures. For each of these procedures, generate a detailed checklist that includes questions such as:</p> <ol style="list-style-type: none">1. Have they received the appropriate reviews and approvals?2. Are the steps in the procedures followed as indicated? This might involve observations or the review of completed documentation that provides objective evidence that the steps were completed.3. Do the employees involved in the work understand their responsibilities? This might involve interviews with open-ended questions, such as what is your responsibility in the xxx procedure.
Performance based audit -	<p>For each lower level criteria or issue identified during the planning stage, specify how to resolve. Considerations are:</p> <p>Observe the operators performing the functions covered by these procedures for which a process flow was performed. How does the practice compare to the written document? If the operator is not performing the work as indicated in the procedure, is his or her method better? If so, what are the problems with the procedure? If not, why did the operator do the activity in a different manner? If so, why? (training, time constraints, etc.)</p> <p>Are there common problems with many of the procedures or are the problems, if any, unique?</p> <p>Survey operators/workers and ask specific concerns about the use of procedures.</p> <p>Are the emergency procedures of appropriate content and level of detail and appropriately located to assist, if necessary? This might be a good place for a drill.</p>

Performing the Audit

Compliance based audit -	Use the checklist as guidance to find out answers. Review the documentation to determine whether the system as implemented complies with the procedures. Interview individuals involved to verify how well they understand the requirements and their responsibilities.
Performance based audit -	With the lower level criteria and issues identified in the planning stage, interview personnel, review documents, watch work in progress, conduct surveys, perform drills. Use the information developed for the checklist as guidance.

Sample Finding

Compliance based audit -	<p>The procedure system for the xyz project needs improvement. This is demonstrated by the following:</p> <ol style="list-style-type: none">a. Of the 20 procedures reviewed, 5 did not have the appropriate reviews.b. Operators do not consistently follow the procedures. The following instances were observed:
Performance based audit -	<p>The following opportunities for improvement exist in the procedure system for the xyz project:</p> <ol style="list-style-type: none">1. The procedures are unnecessarily detailed. This makes it difficult to find the important information when it is needed. The experience and technical expertise of the operators are not taken into consideration when the procedures are developed. Examples are:2. Of the three emergency procedures for which drills were performed, two did not provide adequate information for the situation. Problems encountered and the root causes for the problems as perceived by the audit team were:

CONCLUSION

Both performance based and compliance based audits are extremely valuable tools to a company. They both provide information that may be used to effect improvements, reduce problems, and, in general, allow more efficient usage of limited company resources. The type of audit to be performed, whether performance based or compliance based or a combination, is dependent upon the purpose of the audit and the type of information needed as determined by the customer for the audit. While there are many similarities between the two types of audits, the differences are significant and do require different techniques and tools. It is imperative that quality professionals become knowledgeable about and capable in performing both types of audits to maintain their value.