Auditing Module

Audits – Missing the Obvious
**Script**

PR: Until September 1998 Melbourne, the second largest city in Australia, had all of its gas supplied by one plant, the Esso gas plant at Longford in South Eastern Victoria. It consisted of three gas plants which process gas from wells in Bass Strait, as well as a plant which processes crude oil from other Bass Strait wells. On the 25th of September 1998 Gas Plant One at Longford exploded, causing the death of two operators and injuries to eight others. For two weeks after the blast, Victorians were without gas causing financial hardship for small and large businesses alike, and disrupting the lives of all of Melbourne’s residents. The cost of the crisis was estimated to be $A1.3 billion.

The Government of Victoria held a Royal Commission into this accident - This is the most powerful form of legal inquiry possible in Australia. In July 2001 Esso was fined a record $A2 million in the Victorian Supreme Court after being found guilty of 11 charges under the Victorian Occupational Health and Safety Act.

Victorian WorkCover had done an audit two years before the accident. It was a small scale audit and wasn’t designed as a hazard identification audit and it certainly failed to pick up any of the problems which became obvious later. But EXXON itself had done a major audit of ESSO’s sites in Victoria, including the Longford site just a few months before the accident. It was an audit of ESSO’s safety management system, which they called OIMS, which stands for operations integrity management system. So this was a major audit of OIMS. And the findings of this audit were conveyed to the CEO of ESSO Australia. This was an audit which was essentially conveying the message to senior management that all was well at the Longford site and the other ESSO sites.

The audit failed to pick up the fact that ESSO had not hazoped Gas Plant One. You would think that that would be something that a major audit would identify, but it hadn’t. And the Royal Commission was very critical of the audit process for this reason; The Commission’s opinion was that if an audit fails to pick up something as obvious as that, there is really something wrong with the audit methodology.

This is a very widespread problem. Very often after a major accident, we find that there were a number of obvious failures. And when we rake over the coals as it were, we find that there were audit reports prior to the accident which missed these failures and which essentially conveyed the message that all was well. One of the
most famous examples is the Piper Alpha explosion on an oil platform off the coast of Scotland in 1988 in which 167 men were killed. The inquiry found that prior audit reports had missed the things that became obvious at the inquiry and were basically telling management good news stories. One of the Piper Alpha inquiry members, Brian Appleton, made a comment about this. I remember his words clearly “There is always news on Safety and some of it will be bad news. Continuous good news... you worry”. I think that’s a very profound observation.

My view is that any major audit which is essentially saying that all is well is failing in its responsibility because we know that all is not well, there are always problems in any large organisation and if the audit report is saying all is well, it simply means that the auditors haven’t tried hard enough, and haven’t been looking in the right places.

**Suggested Discussion Questions and Answers**

1. How can we ensure audit methodology is rigorous?
   “A rigorous audit needs to examine the hazard identification strategy and make some effort to seek out hazards which may have been missed, so as to be able to make a judgement about how effectively hazard identification and control is being carried out...it requires auditors to go into the field, looking for unrecognised problems.” Professor A Hopkins 2000, *Lessons from Longford*, pp. 86-87

   - Audits have to be trusted and understood first and foremost as a tool for improvement. This has to come from management at all levels but particularly from the leadership team
   - Support for audits have to be embedded in the management processes and style
   - Auditors have to be highly competent and professionally qualified
   - The scope of an audit has to be very clear and well resourced
   - Corrective/follow up actions must be managed diligently