

**ΠΑΝΕΠΙΣΤΗΜΙΟ ΠΕΙΡΑΙΩΣ**



**ΤΜΗΜΑ ΝΑΥΤΙΛΙΑΚΩΝ ΣΠΟΥΔΩΝ  
ΠΡΟΓΡΑΜΜΑ ΜΕΤΑΠΤΥΧΙΑΚΩΝ ΣΠΟΥΔΩΝ**

**στην**

**ΝΑΥΤΙΛΙΑΚΗ**

**ΔΙΟΙΚΗΤΙΚΗ**

**INTERNAL AUDIT IN SHIPPING  
MANAGEMENT COMPANIES**

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*Διπλωματική Εργασία*

*που υποβλήθηκε στο Τμήμα Ναυτιλιακών Σπουδών του Πανεπιστημίου Πειραιώς ως μέρος των απαιτήσεων για την απόκτηση του Μεταπτυχιακού 4 Διπλώματος Ειδίκευσης στην Ναυτιλιακή Διοικητική*

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## ΠΡΟΛΟΓΟΣ

Η παρούσα Διπλωματική Εργασία συντάχθηκε στα πλαίσια της ολοκλήρωσης των μεταπτυχιακών σπουδών μου στον πρώτο κύκλο του μεταπτυχιακού προγράμματος “MCs in Shipping Management” του Πανεπιστημίου Πειραιώς. Πρόκειται για μία εργασία, η οποία έχει σκοπό την παρουσίαση της διαδικασίας ελέγχων που διεξάγονται στα τόσο καράβια όσο και στα γραφεία που έχουν την διαχείριση των καραβιών. Σκοπό έχει την ανάλυση των γνώσεων που χρειάζεται ένας επιθεωρητής για να διεξάγει τέτοιου είδους ελέγχους, την διαδικασία της προετοιμασίας και τέλος την παρουσίαση του ελέγχου στο πρακτικό κομμάτι της διαδικασίας.

Πρωτίστως, θα ήθελα να ευχαριστήσω τον Επιβλέποντα αυτής της Διπλωματικής, κ. Διονύσιο Πολέμη για την καθοδήγησή του, τόσο για την σύνταξη όσο και για την ολοκλήρωσή αυτής της εργασίας. Εν συνεχεία θα ήθελα να ευχαριστήσω την οικογένειά μου τόσο για την στήριξη τους όσο και για την υπομονή που έδειξαν το χρονικό διάστημα της φοίτησής μου. Τέλος θα ήθελα να αποδώσω ξεχωριστές ευχαριστίες σε όλους τους ανθρώπους από τον χώρο της ναυτιλίας που ήταν πρόθυμοι να με βοηθήσουν, μοιράζοντας μαζί μου τις προσωπικές τους εμπειρίες επί του θέματος.

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## ΠΕΡΙΛΗΨΗ

Ο εσωτερικός έλεγχος είναι μια πολύ σημαντική διαδικασία που βοηθά στην καλύτερη διαχείριση της εταιρείας. Όλες οι εταιρείες ακολουθούν αυτήν την διαδικασία ώστε να μπορούν να προστατεύουν την περιουσία τους και να γνωρίζουν ότι οι εργαζόμενοι ακολουθούν τους κανονισμούς. Για μία ναυτιλιακή εταιρεία συγκριτικά με άλλες εταιρείες, ο εσωτερικός έλεγχος είναι πιο σημαντική διαδικασία καθώς γίνεται διαχείριση πλοίων τα οποία έχουν πλήρωμα, δηλαδή ανθρώπινες ζωές, καύσιμα τα οποία μπορεί να προκαλέσουν ρύπανση στο περιβάλλον και φυσικά το φορτίο που μεταφέρουν, το οποίο μαζί με το ίδιο το πλοίο είναι περιουσιακά στοιχεία. Καθώς τα παλιότερα χρόνια υπήρχαν πολλά ατυχήματα στη θάλασσα τα οποία προέρχονταν από ανθρώπινα λάθη, δημιουργήθηκε ένας κώδικας για την Παγκόσμια Ασφαλή Διαχείριση στη ναυτιλία από τον Παγκόσμιο Ναυτιλιακό Οργανισμό. Ο κώδικας αυτός αναφέρεται στην ασφάλεια του πληρώματος, του φορτίου και στην αποφυγή μόλυνσης του θαλάσσιου και εναέριου περιβάλλοντος και αυτόν τον κώδικα υποχρεωτικά πρέπει κάθε ναυτιλιακή εταιρεία που διαχειρίζεται πλοία να ακολουθεί. Μία βασική διαδικασία που απαιτεί αυτός ο κώδικας είναι ο Εσωτερικό Έλεγχος και στα γραφεία της Διαχειρίστριας Εταιρείας αλλά και πάνω στα πλοία. Σε αυτήν την εργασία θα περιγραφεί η αναγκαιότητα του Εσωτερικού Ελέγχου, οι τύποι εσωτερικών ελέγχων, οι προδιαγραφές που πρέπει να έχει ένας επιθεωρητής για να εκτελέσει τον έλεγχο καθώς και οι τομείς που ελέγχονται. Εκτός από τον εσωτερικό έλεγχο, σε αυτήν την εργασία αναφερόμαστε και στον εξωτερικό έλεγχο αφού συνηθίζεται η διαδικασία του εσωτερικού ελέγχου να γίνεται λίγο πριν τον εξωτερικό έλεγχο. Τέλος σε αυτήν την εργασία ο αναγνώστης μπορεί να καταλάβει πως διεξάγεται η διαδικασία σε πραγματικό χρόνο, αφού στο τελευταίο κεφάλαιο θα περιγραφεί η διαδικασία όπως ακριβώς γίνεται στα γραφεία της διαχειρίστριας εταιρείας από την στιγμή που θα ενημερωθούν οι υπάλληλοι ότι πρόκειται να διεξαχθεί εσωτερικός έλεγχος στο τμήμα τους και πάνω στο πλοίο από την στιγμή που θα φτάσει ο επιθεωρητής στο λιμάνι πριν ακόμη ανέβει πάνω στο πλοίο. Φυσικά σε όλη τη διαδικασία θα περιγραφεί και η προετοιμασία των μελών (επιθεωρητής και επιθεωρούμενοι).

## **SYNOPSIS**

Internal audit is a very important process that helps companies to have better control. All companies work in accordance with this process so that they can protect their property and know that employees are in compliance with the rules and regulations. For a management shipping company compared to other companies, internal audit is more important procedure as ships have crew, which means human lives, fuels that can pollute the environment and of course the cargo they carry, which together with the ship itself is an asset. As in the past there have been many accidents at sea caused by human error, an International Safety Management Code was created by the International Maritime Organization. This code refers to the safety of the crew, the cargo and the pollution prevention, and this code is mandatory to be followed by all management shipping companies operating vessels. A key process that this code requires is Internal Audit both at the Management Shipping Company's (ashore) and on board ships. This assignment will describe the necessity of Internal Audit, the types of the Internal Audit, the requirements which an auditor must have to perform the audit, and the areas which should be audited. In addition to internal audit, this assignment also refers to external audit since it usually the internal audit process performed before external audit. Finally in this assignment the reader can understand how the procedure is performed in real time, since the last chapter will describe the process exactly as it is done in the management shipping company, once the employees are informed that the internal audit of their department is to be carried out and on board the ship as soon as the auditor arrives at the port before even boarding the vessel. Of course, throughout the process the preparation of members (inspector and inspector) will be described.

## Chapter 1. Introduction

The Maritime Industry aims to the transportation of goods via sea either by using dry bulk vessels, containerships, ro-ro vessels, LPGs / LNGs for the transportation of liquefied gases or even passenger ships.

The Vessels are operated in order the cargo to be transported from port to port in various countries or domestic.

During the past years and especially at 80's and 90's, due to increase number of vessels accidents, most of which were caused by human errors, causing loss of life, property and goods as well as environmental pollutions, the International Maritime Organization (IMO) fought this situation by adapting the International Safety Management Code (ISM Code), which refers to the Safety of crew, vessel and cargo and to the Pollution Prevention in general.

As a consequence of the above all management shipping companies which were operating more than 600gt vessels should implement a Safety Management System according to ISM Code's requirements. One of the requirements of the code, among others, includes the **Internal Audit**; which should be carried on board each vessel and at the Management Company as well.

According to the Code, an Internal Audit should be carried out **at least** once per 12 months. This means that it is Company's decision if the next schedule audit will take place earlier from the exceeding period in order to comply with interval period.. However, there are cases where a third party (i.e. Flag / Class / PSC, Rightship, P&I, etc) during inspection may request an additional Internal Audit to be carried for further verification of the system and the procedures followed, for example if there is an evidence of a serious deviation from the system or the procedures failure.

The main aims during the Internal Audit are findings of weaknesses in order to prevent incidents and / or accidents, by raising any observations or non conformities for procedures improvement and for proper implementation of the SMS system.

The Industry needs safe and quality services for operation effectiveness at sea which managed from right and clear instructions ashore. The company has to provide the necessary resources ashore and onboard and to take the measures required for an effective SMS implementation by:

1. Allocating Ultimate Authority of the Master as required by ISM Clause 1.5 (refer to “ISM Implementation” Safety Procedure).
2. Providing enough monitoring measures such as record keeping and record reporting controls as per “ISM Implementation” Safety Procedure.
3. Ensuring that all necessary inspections are fully and successfully completed within due time

## **1.1 Regulatory Compliance**

A Shipping Company cannot manage or operate vessels without the existence of a DOC which implies a valid SMS. Company's SMS is the Company's Operating System and is developed for the safety of life at sea and for the safe operation of the vessel. The SMS has to be written in a working language that is understood by the officers and crew that serve onboard the managed vessels. Also the SMS is mandatory to meet as a minimum standard, the requirements of the ISM Code as specified in company's management system and documented at its procedure. The Company has to establish a Safety and Environmental Protection Policy in accordance with the relevant policy and definitions which included to their procedure, responsible for which is the safety manager. Every person involved with company's SMS implementation (onboard and ashore) must be familiar with company's policy, procedures and instructions as well as all the above mentioned should be available for all personnel to read at any time in a hard or soft controlled copy. Management Shipping Companies are audited also for the quality of their services. Every company in order to be competitive should establish a Quality Policy in accordance with developed Quality Management System that implements, which should be in compliance with the requirements of ISO 9001:2015. As every vessel, owned by a company, is a separate entity, therefore each vessel should have a valid ship management agreement with the managers. This agreement should be established with company's stamp and managing director's signature as evidence of consent of the management. If there are any amendments to the contract, then managing director should review and initiate same on the original ship management agreement. The managing director is responsible to ensure that should these amendments affect any of the company's operations, and then these amendments and respective operational changes are notified to all employees onboard and ashore. Safety manager is responsible to ensure that the Owners representative has reported the full details of the company to vessel's Flag Administration as required.

An important topic at shipping management companies is the monitoring of maritime regulations. Generally, the Safety Manager (Designated Person) co-ordinates the following:

### **1. Identification of all relevant mandatory rules and regulations**

The Safety Manager, in co-operation with the heads of the department, analyses the legal requirements for the Company from the existing list of publications, stating the mandatory rules and regulations as well as the accompanying data.

### **2. Identification of other regulations, guidelines, recommendations and standards applicable for the company**

The Safety Manager, in co-operation with the heads of the department, determines and analyses which other regulations, guidelines, recommendations and standards are applicable for the Company. Depending on company's policy:

- Upon non applicability, the reasons for this decision have to be documented
- Upon applicability, the requirements which result thereof have to be evaluated and it has to be assessed whether there are implemented in the Company's SMS
- Upon applicability of new requirements (refer to relevant section of company's SMS).

### **3. Regular summary of new editions and amendments**

It is the Safety Manager's duty, to collect and provide the information about new editions and amendments of rules, regulations, guidelines and recommendations.

For this duty the Safety Manager shall make use of means available, e.g. the internet. The information provided from the following institutions has to be evaluated and assessed in 6 month intervals.

- The IMO ("IMO News" brochure, IMO database in the internet)
- The Flag State (circulars, database in the internet)
- The Port States (contracts of authorities and agents according to trading area)
- The classification societies (brochures, databases in the internet)
- The ship owners associations (circulars, database in the internet)
- Other institutions and associations, e.g. ILO, P&I, etc. (regular or irregular information)
- Shipping publications (daily or other) i.e. Lloyds List, Trade Winds or other

### **4. Considering need for action**

The Safety Manager analyzes the collected updated data with regard to its applicability and creates a list stating all new requirements, which are applicable to the Company. In

case of need, the entire documentation of the new requirements has to be collected to evaluate the means for implementation.

## **5. Implementation of the mandatory rules and regulations as well as voluntary rules and standards**

The Safety Manager analyses the requirements and sets up a team with the aim to establish recommendations for implementation. The institutions recommendations regarding implementation are to be considered and observed. The implementation takes place in accordance with the relevant “Non Conformities Control” Office Procedure.

The Safety Manager shall:

- Inform in written all personnel concerned, such as the Managers of the departments
- Determine training needs / organize training in order the employees to have the adequate knowledge of the ISM requirements and in consequence the SMS parts
- Supervise the implementation of the SMS together on board and ashore with scheduled audits
- Perform the maintenance of all above mentioned lists for both company and vessels.

The company, in addition to the regulatory requirements, may wish to subscribe (to be certified) to additional international management standards and incorporate same in its management system. This transition shall be carried out in a predefined and structured way in order to minimize the potential risks from this change (safety / quality / environmental / H&S risks etc). This can be achieved with the following steps:

### **i. Review of Requirements**

The SQE Manager is responsible to review the requirements with the new standards and present them to the Top Management. During this review the SQE Manager takes into consideration the following derivatives:

- applicable standard (i.e. if the new regulation is applicable to the type of ships the company manages)
- relevant publications, newsletters published and distributed to the ships or the company (maybe some documents need to be reviewed)
- information from third parties for the manner of implementation (additional information can be helpful)

- other sources of information (articles published through the shipping society can lead a better way for the implementation)

The results of this review shall be discussed during a management meeting where the action plan shall be drafted. In case Top Management needs additional evidence to support a decision, then the “Initial Assessment” will be carried out prior the meeting.

#### **ii. Initial Assessment**

After Top Management’s authorization, the Safety & Quality Manager is responsible to perform, or co-ordinate the initial assessment. This assessment may be carried out by:

- Safety & Quality Manager and
- company’s personnel and/or
- company’s consultants

In any case the assessment team must be familiar / experienced with the standard / regulation and its applicability to shipping. This assessment shall be documented and shall include the aspects and impacts derived from the implementation of the standard / regulation. Such documentary evidence may be:

- A Risk Assessment in case of a change in safety matters or/and
- A Change Request and the subsequent analysis in case of major change at the existing regulations or/and
- A Gap Analysis to eliminate mistakes and define any training needed
- Any other formal report that may be needed to verify that the changes do not bring an unwanted result or mislead

Further to this assessment, the Safety & Quality Manager shall propose a brief implementation procedure in order to effectively implement the new standard / regulation. The results of this review shall be discussed during a management meeting where the action plan shall be drafted, discussed and finalized and an estimated time frame shall be set.

#### **iii. Implementation of new Standard / Regulation**

The Safety & Quality Manager is responsible for the effective and timely follow up of the implementation plan and the notification of the Top Management on its progress.

This implementation process may involve:

- revision of the existing documented procedures, forms, instructions (i.e. update of fire fighting manual due to a new regulation for fire fighting means)

- introduction of a new manual / plan under this management system (i.e. new duties cards due to a change in life boats regulations and construction)
- new equipment / machinery / software (i.e. new software due to a change in resting hours regulations)
- provision of additional resources ashore (i.e. personnel, infrastructure, subcontractors etc)
- provision of additional resources onboard (crew, equipment, supplies etc)
- additional / concentrated familiarization onboard and ashore during initial implementation (i.e. specified familiarization for the usage of ECDIS)
- additional / concentrated training at routine intervals (i.e. Seagull program or videotel for refreshing of knowledge or additional training)
- internal / external audits in order to verify the correct implementation of all regulations
- other countermeasures to minimize risks from this implementation (i.e. company schools for personnel before embarkation)

The Safety & Quality Manager is responsible to ensure that the implementation progress is reviewed regularly and any corrective and/or preventive actions are taken to ensure the end result. Furthermore, the Safety & Quality Manager is responsible to ensure that proper arrangements have been made for the certification of the company to the new standard / regulation, if necessary (eg. ISO9001 certification audit etc)

#### **4. Continual Improvement - Review and Improve**

Upon completion of the implementation plan, the Safety & Quality Manager shall ensure that the new standard / regulation is included in the regular continuous improvement circle of the company (**Plan – Do – Check – Act**). This review and improvement shall be carried out through the established “Management Review” procedure of this management system, unless is otherwise specified by the new standard / regulation.

#### **5. Monitoring and measuring company processes**

The Company adopted simple methods aiming to demonstrate the processes suitability to achieve the fixed objectives. For each main process, the Company provides objective evidence of the following:

- Definition of process objectives in order to be clear and easily followed by every candidate
- Identification of key factors affecting the process in order to draw attention to the most important and effective parts
- Definition of the reference value of each key index and the acceptability criteria so to indicate the understanding level of candidates
- Monitoring of the key factors (quarterly reviews carried out by the Quality Department and documented) in order to verify that the company's policies are followed
- Corrective actions in case the indexes prove to be out of acceptability criteria and follow up reports in order to verify that the actions are implemented.

Moreover, the company has developed a set of KPIs, to monitor the effectiveness of the Quality Management System. The Key Performance Indicator is a measurable value which demonstrates the effectiveness of the company to achieve its business goals. The companies use KPIs in order to evaluate their success in achieving targets. The Safety & Quality Manager maintains and monitors the abovementioned set of KPIs regarding the QMS Monitoring. Additionally, the Company shall ensure to manage monitoring and control over outsourced processes and more specifically Manning Processes through the implementation of relative procedure i.e. "Control of Manning Agents" at the relevant manual i.e. "Crew Management".

## **6. Monitoring and measuring the products**

The Company planned some controls over the effectiveness of the technical management services. The controls are carried out by analyzing the outcomes of the Reports of Superintendent Inspection Reports, Job Order / Defect List and the Master's Quarterly Vessel Condition Reports. Performing scheduled audits guarantees adequate monitoring and measurement of the Company's products and services.

### **1.2 ISPS Compliance**

The International Ship and Port Facility Security (ISPS) Code referred to the minimum security arrangements for vessels, ports and government agencies. The Code defines the responsibilities of the ports, the Shipping Companies, seafarers and the government and poses preventive measures in order to ensure that the security incidents will not affect

the people onboard, the vessel, the cargo or the port. The Company implements a Ship Security Plan that meets as a minimum standard the requirements of the ISPS Code. The ship security assessment was also developed according to the minimum standards set by the ISPS Code. The Company any the vessel comply with the relevant requirements of ISPS Code taking into account the guidance given in part B of the ISPS Code as well as with any Flag State additional requirements and such compliance shall be verified and certified. Every Company should establish a Security Policy and each vessel should be certified. For vessel's certification, the CSO is responsible to ensure that vessel holds a valid ISSC (or Interim International Ship Security Certificate) in accordance with the requirements of the ISPS Code. The CSO is responsible to arrange for external audits and certification by an authorized by the Administration of the vessel managed to provide such certificates. Finally the CSO is responsible to keep valid documentation (i.e. certificates and any class reports) in order to demonstrate to the parties involved in vessel's generation that the ISPS certification requirements are satisfied. In addition, every vessel must have permanently marked a ship identification number. This marking should be placed for example:

1. in a visible place either on the stern of the ship or on either side of the hull, amidships port and starboard, above the deepest assigned load line or either side of the superstructure, port and starboard or on the front of the superstructure (shall be not less than 200 mm in height) and

2. in an easily accessible place either on one of the end transverse bulkheads of the machinery spaces, or on one of the hatchways (shall not be less than 100 mm in height)

All markings shall be permanent and plainly visible clear of any other markings on the hull and shall be painted in a contrasting color, the width of which shall be proportionate to the height.

All Companies have to provide resources onboard the vessel and have to take all necessary measures for effective implementation of the Ship Security Plan by:

1. Allocating Ultimate Authority of the Master as required by ISPS Code Clause 6.1 (refer to "Security Organization and Responsibilities").

2. Providing with all necessary security equipment, such as citadel or razor wires or night vision binoculars, to ensure secure operation of the vessel. According to company's manual, an Officer is responsible for the security matters.

3. Providing enough monitoring measures such as record keeping and record reporting controls
4. Ensuring that all necessary inspections are fully completed within due time.
5. Provisions to ensure the vessel always operates at Security Level 1

Below mentioned cases that the Ship Security Officer is responsible to request the completion of a Declaration of Security in order to address the security requirements that should be shared between the vessel and the port/platform/other ship and to state the responsibility of each part.

1. When ship is at a Port of a State which is not a Contracting Government
2. Ship is interfacing with a ship to which ISPS Code does not apply
3. Ship is interfacing with a fixed or floating platforms or a mobile drilling unit on location
4. Ship is interfacing with a port or port facility which is not required to comply with SOLAS chapter XI-2 and Part A of the ISPS Code

Such ports or port facilities can be considered such that servicing vessels not complied with the ISPS Code or ports/port facilities servicing ships with not international voyages. The ship should attempt to conclude, if possible, a Declaration of Security or to take the following actions:

1. record the actions taken by the CSO and/or SSO to establish contact with the PFSO, and/or any other persons responsible for the security of the port, ship or platform being interfaced
2. record the security measures and procedures put in place by the ship, bearing in mind the security level set by the Administration and any other available security related information; and complete and sign, on behalf of the ship alone, a Declaration of Security
3. implement and maintain the security measures and procedures set out in the Declaration of Security throughout the duration of the interface
4. report the actions taken to the CSO and through the CSO to the Administration; and request the CSO to inform the authorities responsible for the exercise of control and compliance measures and the PFSO(s) at the next port(s) of call of the difficulties the ship experienced and of the actions the ship itself took.

### **1.3 Necessity and purpose of Internal Audits**

Internal Audit is an important procedure which helps the management of the company to find the problems and then to acknowledge and rectify them with revisions at its functions and may be at its main policy. Also one main reason of its necessity is that if the company acknowledged that has acquire its scopes and targets should set its next target and find new ways of operations in order to achieve them. In other words, the purpose of Internal Audit is to verify that company's activities and results comply with ISM Code and SMS provisions and that the company's documented SMS is effective. Finally it is gaining clients' trust as they can easily observe that company's services are sure and successful. There are 5 reasons of the importance of Internal Audits:

1. It provides an objective picture, as the purpose of the Audit is not to punish and/or criticize the way of which people are working but to find the problems of the system in order to rectify it.
2. It improves Efficiency of Operations by continuously monitoring and reviewing company's policy and procedures. Also allows the system to be dependent on process, rather than people.
3. It evaluates risks and Protects Assets assisting the management by identifying and prioritizing risks with a systematic risk assessment. An internal audit program will help to document any changes that have been made and ensure the mitigation of any found risks.
4. It assesses controls improving the organization's control environment and evaluating and operational efficiency.
5. It ensures compliance with laws and regulations and helps to be prepared for the next external audit.

Onboard vessels are carrying out inspections from PSC. International and local rules apply all times. Local PSC / Coast Guard Officers will take action against ships that do not comply with laws or regulations. If serious defects are found during an inspection an expanded examination will be carried out. Inspections may result investigations of violations of laws, some of which carry criminal sanctions for the crew. The penalties

for safety, security or environmental violations can be less severe. If the PSCO has clear grounds for more detailed inspection and the findings are strong enough for the PSCO to detain the vessel, then the company has the choice to carry Internal Audit and proceed with corrective actions.

Last but not least, Internal Audit is very important for External Audit. The vessel and the Management Company as per ISM Code's requirements should be performed with External Audit at least once per 12 months, in order the third party (Flag, Class, etc) to verify that the Company's System works effectively and followed by the employees and the crew. For this reason, the internal audit helps the Managements to correct problems (if exists) and to be prepared for the external audit.

#### **1.4 MLC Implementation**

The Master and the officers onboard must understand the laws and government regulations applicable to the vessel regarding Maritime Labour of convention. These laws and regulations must be strictly complied. Company's instructions are intended to supplement and not replace statutory or RO's regulations. Applicable codes, guidelines and standards recommended by IMO, Flag State Administrations, ROs and other industry organizations shall also be taken into account and followed.

Every Company should commit to provide all managed vessels with

1. The necessary informations regarding the Company's SMS and other rules such as company's ISM manuals,
2. Regulations, instructions and guidelines related to the implementation of a safe and free of pollution environment on board.
3. Regulations, instructions and guidelines related to the correct implementation, rights and protection of decent conditions of work for seafarers

Such references shall be available to all officers and crew in a language, or languages understood by them (i.e. English) as per relevant Safety Instruction regarding shipboard controlled documentation. Furthermore, a number of other references and publications regarding safety management and environmental protection should be available in the office and vessels' library as per relevant Safety Instruction regarding shipboard con-

trolled documentation. The Master is responsible to ensure that seafarers on board have an adequate understanding of the rules, regulations, codes and other information related to their rank, duties and responsibilities. In addition, the Master and Chief Engineer are responsible to ensure that the safety and pollution prevention requirements, as defined in the major conventions (SOLAS, MARPOL, etc.) and the

Company's management system are communicated to the ship's officers and crew and understood. Such communication and discussion of important safety and environmental issues take place during any suitable circumstances (such as Safety meetings, Safety drills etc.) and shall also be recorded in written, when and if deemed necessary. Furthermore, all newly joining seafarers shall be familiarized to critical safety and environmental aspects according to their rank.

Any additional instructions should be forwarded to the vessels through daily correspondence, letters or circulars.

Vessel's original certificates should be kept on board in a file and always be at the disposal of Inspectors, Port Authorities, Agents, and Class Surveyors. They are to be properly handed over to the relieving Master and being given to Port Authorities when same required.

Superseded certificates should be removed from the file. The Safety Manager is responsible to ensure that the company holds a valid DOC and every vessel managed holds a valid SMC in accordance with the requirements of the ISM Code. Company ensures that a copy of DOC will always be available onboard and that the original SMC will be forwarded to the vessel. Furthermore, Company ensures that a letter of review will be sent to the ship and that DMLC I and II will be forwarded to the ship as well. The Office should be informed at least one month prior the expiration date of each certificate's due date, in order to proceed with necessary arrangements and inform Master accordingly.

For the Ship Sanitation Certificate / exemption certificate, it is Master's responsibility to make arrangements with local Agents for its renewal, reporting same to the Office. According to schedule, the Technical Department shall communicate with the Master of the vessel and arrange with him the date for the survey. Consequently, the Technical Department shall notify the certifying organization of the particular vessel's schedule and request the survey.

The authorized surveyor shall conduct the survey accompanied by the vessel's Master, the Chief Engineer and/ or the Company's representative according to the specific survey importance, extent and difficulties. The Master (or the Company's representative) shall report the completion of the survey in which will include a record of all works carried out and any remarks/ recommendations made by the surveyor.

Upon completion of the survey a survey report is issued by the attending surveyor, a copy of which shall be kept onboard the vessel.

The Safety Manager at the office and the Master, who has the overriding authority, onboard each vessel are the only persons having the authority to approve a deviation from the documented instructions of the SMS provided that the deviation could be justified. On every such deviation from the SMS onboard the vessel the Master should immediately inform the Safety Manager (Master's discretion) and report as required by the Safety Manager (Safety Manager's discretion).

Usually, every Company recognizes the importance of each form and checklist to assist the Master and Officers in their routine operation of their ship. The checklists are only meant to assist in compliance with the Company's Instructions, Procedures and Documentation for the safe operation of the vessel, the safety of the crew, the cargo and the environment. Checklists are to be used when required and once completed, a log entry is to be made where appropriate, and then to be filed as required by company's manuals. It is emphasized that checklists are only meant to assist the Officers and do not detract from his responsibility towards the safety of the vessel, her crew, her cargo and the environment. Copies of the forms or checklists completed onboard the vessel should be kept as appropriate onboard as described in relevant company's Deck Manual, for deck department and relevant Engine Manual, for engine department regarding company's filing system. The official documents onboard the vessel are only the Logbooks and not Company's forms and checklists. All forms are to be forwarded to the office at fixed intervals (e.g. monthly or semi-annually, according to company's policy) the relevant records should be continuously updated by the crew.

All inspections related with SMS (i.e. including maintenance inspections, Internal Audits Superintendent inspections etc.) should be carried out at prescribed intervals or when same required by Flag or ROs. In cases where the inspection cannot be carried out (e.g., there is no time, unavailability of personnel, strict vessel voyage requirements) a

report should be submitted to the Safety Manager explaining the reason of the inability to respond to SMS requirements and then request for an time extension. Regarding the inspections for MLC compliance the following procedure should be followed, unless otherwise requested by the inspector.

An opening meeting is to be conducted with at least the Master and the person / persons designated for assisting the seafarers in following the onboard compliance procedures, using, for example, the following agenda:

1. Confirm the working language
2. Introduce of the members of the inspection team
3. Explain of the scope and requirement of the inspection
4. Outline the inspection program and ensure that there is sufficient time to complete the inspection
5. Set communication guidelines for inspectors and crew
6. Agree which members of the crew will accompany the inspector(s) as they verify the measures on board the vessel
7. Verify vessel's crew list
8. Confirm that the inspector will ensure the confidentiality of the information obtained during the inspection
9. Schedule of the closing meeting

During the inspection the following items should be checked using company's MLC audit report:

1. Records of the elements of decent work, human and operational issues such as payment of wages accounts, qualifications, manning levels, seafarers' employment agreements, minimum age, medical certification and hours of rest
2. Records of occupational health, safety and accident prevention programs, including operational practices, hazard identification and risk evaluation, permit to work systems, risk assessment, accident or incident and near-miss reports, safety committee meeting reports
3. Accommodation, recreational facilities, galley, food and catering, including the records of inspections
4. Medical chest, medical logs, hospital
5. Deck areas, machinery spaces and personal protective equipment

## **6. On-board complaint handling procedures**

Furthermore an interview should also be conducted with several seafarers in private.

After the inspection is completed a debriefing with the inspection team should take place in order to gather conclusions and recommendations.

The closing meeting should also include at least the Master and the person or persons designated to assist the crew with the on-board complaint procedures.

Accidents resulting in injury whilst assigned to a company ship then the accident should be recorded as a Work Related Accident or Non Work Related Accident according to the following:

- 1.** If the accident took place onboard it should be recorded as a Work Related Accident
- 2.** If the accident took place off the ship but while being engaged in work related activity then same, should be recorded as a Work Related Accident
- 3.** If the accident took place off the ship but while being engaged in non work related activity (personal, recreational, social etc) then same, should be recorded as a Non Work Related Accident
- 4.** Related Accident

## **1.5 Types and Characteristics of Internal Audit**

The Internal Audit is an audit which carried out from an employee with specified qualifications and knowledge in order to verify that the company complies with the regulations and has an effective system. The person who has the authority to carry out an Internal audit is called Internal Auditor.

The I/A, as per IMO's requirement, carried out annually both onboard and ashore. Every department should be audited separately, and this is the reason which creates the types of the audit.

### **1.5.1 Generally**

In general at all companies there are the following types of audits:

1. **Operational Audit.** This type of audit evaluates the performance in order to assess its effectiveness and efficiency. The auditor use economic data and business policies to identify if the organizational targets have been achieved.
2. **Compliance Audit.** This type of audit evaluates the compliance with the regulations, established laws, policies and procedures.
3. **Financial Audit.** This type of Audit evaluates the fairness, accuracy, and reliability of financial data. The main purpose is to identify that the financial activity is completely and accurately reflected through appropriate financial reports.
4. **Follow Up Audit.** This type of Audit evaluates the corrective actions that have been taken regarding the problems which arose and the procedures which revised for prevention purposes.
5. **Investigative Audit.** This type of Audit is carried out where there is an unusual situation which reported and focuses to the weaknesses in controls in order recommendations for corrective actions to be made.
6. **IT Audit.** This type of audit evaluates the automated information processing systems. The main aim is to ensure that the systems are safeguard company's assets through maintaining data integrity.
7. **Management or Performance Audit.** This type of audit evaluates the efficiency of business process through an independent and objective review.

### 1.5.2 Onboard vessels

Onboard the vessels there are the following types:

1. At **Bridge**, where the Auditor checks the navigational equipment to be fully operational and class / administration approved, the charts on ECDIS, publications and notices to mariners, which should be updated and controlled properly, the orders (standing master's orders and night order book) to be issued regularly by Master, etc. Every Master can be issue different Standing orders when take over, but in night order book must entry in daily basis instructions for the officers / crew of the night actions

even if it is the same. Also make sure that the crew is familiar to operate all the equipment and the records are up to date correctly in related forms

**2.** At **Accommodation Space**, where the Muster list should be available and updated, vessel's drawings and instruction books to be properly controlled, instructions posters to be posted at crew recreation spaces plastic card regarding garbage disposal is posted as well as instructions to avoid any oil pollution and is understood from the crew, the medicament (drugs) are properly controlled, separate all the expired items, record and inform the management for further actions in order to send them to dedicated approved store to dispose. Safety different type for the purpose signs illuminated stickers, etc.

**3.** On **Deck**, where LSA, FFA should be in order, in good condition, operational, without damages, stored properly in an accessible space with instructions how to be operated, fire hoses to be in good order and stored in position, inventory list of the equipment and all the crew are familiar to operate the equipment. The Fire dampers, ventilation trunks with their dampers (some automatic / pneumatic operated), hatches or other closing appliances are properly sealed when closing, operated and maintained. The save all at the bunker lines to be intact, the fire, hydraulic and bunker lines / pipes to be in good condition without rust parts or clamps, marked with the last date and the pressure tested. In general all the deck machinery / equipment are in good order and operational, there are not wasted or visual damages and hull part is attended maintained properly, there are not any parts or machinery which repaired temporarily, etc. Instructions are posted as required for the operation of safety parts such as dewatering and water increase system.

**4.** At the **Engine Room**, which should be clean at all spaces, flats, machinery, bilges, without indication of drains leaks of water or oil. Verify as possible that all the machinery are in order and operational. The bilges to be clean, dry and accessible. The oily water separator is maintained properly, spare filter genuine is available in stock on board and the 15ppm alarm activated as required with the auto valves in order, instructions and certificate from last inspection posted. The incinerator is in good order and operational. The escape trunk entrance to be accessible and free of any obstructions, the door to be seal proper, the auto closing device in working condition and inside with

the rope and lighting as required. Instructions for the machinery safe operation procedure to be posted at the specific equipment. Safety signs sticker illuminated to be posted for the escape and operation of machinery (safety shoes, helmet, ear protection etc.) Protection items such as glasses at grinder, gloves rails to be in order and intact. All maintenance related to the machinery is recorded as required according to company Plan Maintenance System (PMS) and is updated. The Engine log book records is updated and signed by Chief Engineer as required. The oil record book and other records to be in order and updated.

**5. Steering Gear Room**, where all the machineries should be in good operational condition, the space to be clean without oil leaks from the hydraulic pumps, or water leaks from emergency fire pump which is in the same space in the trunk and must be in order and in working condition.

**6. Documents / Certificates** The Internal Auditor except the spaces checks also vessel's documents and certificates, which should be properly updated and filled. Checks all the documents which prove that all the safety and security drills and trainings have been successfully carried out according the Company's SMS schedule. All crew certificates are original, if same is necessary, onboard.

At every department Internal Auditor should also interview the crew in order to cross check the finding and if crew is capable to perform his duties successfully. Company's procedures are followed as required according to manuals.

### **1.5.3 Shipping Management Companies**

The types at Shipping Management Companies are separated according to the departments of its. So, there are the following types:

**1. Operations Department**, where the Auditor checks if the department is alert and their instructions are clear and fully understood by the crew.

**2. Crew Department**, where an Auditor checks if all the crew members have the relevant certificates for their position, the required certificate for their health condition is available and updated and of course if MLC requirements are met. Also if the employees are capable to perform their duties with relevant certificates of training from

related training centers and how efficient act during inspection providing the required documents and exchanges.

**3. Technical Department**, where the Auditor checks if the department follow up the Plan Maintenance System and the maintenance schedule / forms followed according machinery instruction manuals. Check the correspondence with the Chief Engineer regarding technical problems and instructions given with respond of recovery. Check the reports from the ship with the repairs and actions from the office regarding repeated problems. Check the Certificates to be valid and dry dock periods to be in time class status for any memorandum or other issue and how followed up. Check the visits of the Superintendents on the ships and relative condition reports and or other reports with issues or repair list as per company's policy.

**4. Safety Department**, where trainings and drills should be carried onboard with evidence of relevant forms which should be filled up with attached photos and signatures from the crew. (Ship Shore drill – Docs of meeting after drills – improvements or corrective actions to up-grade the next drill).

**5. Supply Department**, where the Auditor checks if the department follow up the required from the ship parts & stores in time having cost offers for comparison from several suppliers (normally 3, unless the supplied part is genuine from the maker). If the required items supplied in reasonable time according to terms. Check also the critical parts to be in stock in the inventory list and some of them are original from maker as required from some Port State Control during inspection.

**6. The Auditor according to the company's controlled manuals and procedures also checks the relevant manuals when requested for verification during inspection and as well as the latest implementation / revisions of the manuals. In case the auditor identifies that there was no any implementation or revision to company's manuals for a long period is a reason for non conformity.** Therefore at all departments the relevant forms and instructions should be properly filled as per company's Manuals.

## 1.6 External Audit

The external audit is carried out from third parties (i.e. PSC, USCG, Flag, Class, etc). The external auditor may raise non-conformities to the vessel (in case the audit carried out onboard) and to fill in the company's non conformity form. The Master should inform the office accordingly and forward of the full report including the non conformities form. Furthermore, when each and every deficiency / non conformity is been closed out, the Master shall inform the Safety Department and forward objective evidence to validate the close out of them. If there are any non conformities form from an internal audit, which had to be closed before the date of the external audit, but remaining open, then the external auditor may raise major non conformity. Major Non Conformities may be issued by Administration (Flag) or RO acting on its behalf for deviation that poses a serious threat to the safety of personnel or the ship or a serious risk to the environment that requires immediate corrective action and includes the lack of effective and systematic implementation of a requirement of ISM Code. A major non conformity found may be downgraded to a non conformity and a non conformity may be downgraded to a downgraded non conformity if the Administration or RO is satisfied that effective corrective action is being taken. A major non conformity raised on a ship should be downgraded before vessel's departure. A schedule for completion of the necessary corrective actions should be agreed, which should not exceed the period of three months. Where the Administration allows a major non-conformity to be downgraded, at least one additional audit should be carried out, usually an Internal Audit, within the time frame indicated in the agreed corrective action plan; in order the effective actions which have been taken to be verified. A raised Major Non Conformity (even if it has been downgraded) is a very serious situation for the Company, because may lead to Certification withdrawal, and should be treated and addressed with actions based on Legislation conformance, full set of corrective and preventive actions implementation, immediate response and common industry practice. The actions to respond in such a situation should be in accordance with relevant paragraphs of company's manual.

Steps for response to MNC include but limited to the following:

- a.** Extra Management Review as soon as possible: In case of MNC, the company should have a meeting in order to identify the reason of the MNC at Management level via Management Review Procedure.

- b.** Issuance of Action Plan: In case of MNC, the company should make an action plan in order to impugn the problem.
- c.** Immediate implementation of Corrective actions: In case of MNC, corrective actions should be followed in order the non conformity to be closed.
- d.** Root cause identification and analysis: In case of MNC, the company and usually the DPA try to identify the reason of the raising of non conformity, such as the routine cause, etc.
- e.** Planning and implementation of preventive actions: In case of MNC, the company and usually the DPA is making a plan of preventive action in order the non conformity not to be raised again.
- f.** Extra training sessions on board regarding subject of MNC: Onboard the vessel should be made an extra training in order the crew to be familiar in relation to the non conformity task.
- g.** Safety meeting on board to communicate MNC issues with crew: In every non conformity or near miss, the topic of the above should be discussed onboard the vessel during the safety meeting.
- h.** Fleet wide notification for similar situation: Every vessel which belongs to the fleet of the management company should be notified about the MNC.
- i.** Audit schedule to verify carried out actions out within the time frame indicated in the agreed corrective action plan: The Company should define a period of corrective action and then an Audit, usually in case of MNC an External Audit, should be carried in order the corrective action to be identified.
- j.** Appropriate record keeping: For every non conformity or near miss the vessel and the company should keep relevant records.
- k.** Communication of all actions to Flag Administration and RO: In any case vessel's "mothers" should be aware about the problems of the vessel in order to be able to give relevant instructions and coverage.

All actions should be discussed and analyzed in annual SMS Review meeting and further preventive actions to be implemented for avoiding reoccurrence of similar situations.

The most important certificate for a company is the DOC and for a vessel is the SMC. For these documents responsible is the safety manager, who arrange for audits to be

done in order these certificates to be established or renew when same is necessary. Except DOC and SMC, safety manager is responsible to keep valid documentation (i.e. certificates, class reports etc) in order to demonstrate to the parties involved in vessel's generation that the ISM certification requirements are satisfied. In addition to Company's instructions, the Master and the officers onboard must understand the laws and government regulations applicable to the vessel. These laws and regulations must be complied with strictly. Company's instructions are intended to supplement and not replace statutory or classification society regulations. Applicable codes, guidelines and standards recommended by IMO, Flag State Administration(s), classification societies and industry organizations shall also be taken into account.

### **1.6.1 Differences between Internal and External Audits**

The findings of Internal Audit are reported to the Board Management and Senior Management which are within the company's structure. On the contrary, the findings of the External Audit are reported to the Shareholders who are outside of the company's structure. In addition, the Internal Audit evaluates and improves the effectiveness of company's SMS, and its processes. This situation helps the Board and Senior Management to be assured that all the members are fulfill their duties / obligations. The objective of the External Audit is to add credibility and reliability to stakeholders by giving their opinion to the report. Another major difference is the coverage of the external and internal audit. At the external audit we have financial reports and risks; instead at the internal audit we have all categories of risk and their management. At the external audit we have not any responsibility of improvement but duty to report problems and at the internal audit, we have not advising and facilitating but the improvement is fundamental.

## **Chapter 2 : Internal Auditor**

### **2.1 Requirements**

According to the ISM Code, there are not specific requirements for a person to be an internal auditor except very basic, such as that should be a certified person, however the Code gives guidelines and each Company defines the requirements of its internal auditor through its SMS. The Internal Auditor who carries out an audit at a specific department should be independent of the person responsible for the area to be audited. He/she should be well trained and experienced with auditing procedure and certified as an auditor for the relevant standard to be audited and should be also familiar with Ism Code, company's SMS, and other standards. The auditor should have adequate understanding of relevant rules, regulations, codes and guidelines to the departments being audited. And finally he/she should be very carefully as the safety department shall keep records of his/her performance. Except of these main requirements, an auditor should be able to have effective communications, as a part of the audit is the interviewing so should also has relevant techniques and off course audit investigation. The main principles which should be owned from an internal auditor are the ethical conduct, fair presentation, objectiveness and evidence based approach. He/She should be open minded, diplomatic, observant, polite and calm, direct and perceptive. The auditor should know how to listen what it is said and what is not said. Key points for a qualified auditor are at the behavior. As mentioned before, part of the audit is the interviewing. During the interview, the auditor should put the auditee at ease, speaking to him/her at the language which is understood and make him/her to feel comfortable in order to speak. The main challenge for an auditor is to make the auditee to understand that the purpose of the audit is not to punish him/her, but to understand the suffered areas at the system, in order to find ways to rectify them though revision of the system.

### **2.2 Auditor's Preparation**

The auditor upon notification to carry out the audit is responsible for the following:

1. Review all documents and data to that area to be audited
2. Review any operational data available
3. Familiarize himself with company's SMS and form to be used

4. Discuss with Safety Manager and being able to identify any problem areas that should be established concentrated during the audit

In case the internal audit is going to take place onboard, except this basic preparation, the auditor should be in contact with the relevant departments to inform him what they want to supervise and what problems have been realized in order to check the actions have be done from the crew onboard and to ascertain if the systems works under these situations.

### **2.3 DPA (Designated Person Ashore)**

The DPA belongs to the Top Management of the company, direct below the Managing Director. The DPA is a very important person at the company and many times is also the Safety Manager. The main responsibilities of the DPA are the following:

#### **1. General Aspects:**

- a. Ensures that the Company's SMS is effectively implemented and maintained.
- b. Ensures that the requirements of the "ISM requirements" are implemented and maintained properly.
- c. Monitors all incoming and outgoing correspondence and assigns necessary actions.
- d. Reports to the Top Management on the performance of the Safety Management System and any need for improvement.

#### **2. Office Organization Aspects:**

- a. Ensures that all office employees are familiar with the relevant requirements of the Company's SMS.
- b. Promotes the establishment of safe operating systems. Monitors the program of internal audits in the office and on board ships, analyzes and reports findings to the senior management.
- c. Coordinates with other office staff for the completion of tasks required.

#### **3. Vessel Operations Aspects:**

- a. Follows up the vessels maintenance, supply of stores and proper manning, in order to ensure that the vessels maintain their performance.

- b. Monitors safety problems identified in relation to the operation of the ships.

**4. Safety & Environmental Aspects:**

- a. Ensures the Company's SMS effective and timely introduction to all new ships added to the Company's Fleet.
- b. Schedules, develops and implements a program of Internal Audits within the office and on board all managed vessels and ensures that audit results are reported to the Company's staff.
- c. Audits the Company's vessels according to planned schedules.
- d. Periodically analyzes all audit results and presents them to the Management Review Team.
- e. Ensures full investigation(s) of all accidents and hazardous occurrences reported in cooperation with the Managing director. Prepares periodic evaluation of such occurrences and presents these to the Management Review Team.
- f. Ensures that Non-conformities identified are followed up by the responsible personnel and keeps the Management informed.
- g. Monitors corrective action(s) applied and verifies the effectiveness of such action(s).

**5. Other Aspects:**

- a. Ensures that all the Company's Manuals are properly Approved and/or Authorized prior to their issue.
- b. Organizes and monitors the distribution of the Company's Manuals.
- c. Ensures that the office and all the vessels are supplied with all new revisions of Controlled Documents.
- d. Member of the Emergency Response Team (ERT) and Management Review Team (MRT).

Below are main authorities of the DPA:

- a. Acts as a Designated Person Ashore for the Company's vessels in accordance with ISM Code requirements.
- b. Selects and appoints the internal auditors and supervises the implementation of audits by the audit team.

- c. Initiates unscheduled audits if any serious deficiency in any part of the Company's SMS becomes apparent from dangerous occurrence
- d. Assigns and closes Non-Conformities
- e. Reviews and revises the Company's Safety Management System.
- f. Approves and issues any amendments of the Controlled Documents
- g. Issues, distributes, reviews and approves any amendments to the Forms.
- h. Issues circulars to the Master related to the operational and loss-prevention matters.
- i. Approves and reviews all circulars.
- j. Identifies training needs and initiates any further action(s), as may be necessary.

As the position of the DPA is very important and critical, every company has its own minimum requirements for DPA's qualifications, training and experience. Below are some examples of these requirements:

**Qualifications:**

Minimum of formal education:

- 1. qualifications from a tertiary institution recognized by the Administration or by the recognized organization, within a relevant field of management, engineering or physical science, **and / or**
- 2. qualifications and seagoing experience as a certified ship officer pursuant to the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW), 1978, as amended, **and / or**
  - a. other formal education combined with not less than three years practical senior level experience in ship management operations.

**Training:**

DPA should have undergone training relating to safety management elements in compliance with the requirements of the ISM Code, particularly with regard to:

- 1. knowledge and understanding of the ISM Code;
- 3. mandatory rules and regulations;
- 4. applicable codes, guidelines and standards as appropriate;
- 7. assessment techniques of examining, questioning, evaluating and reporting;

8. technical or operational aspects of safety management;
9. appropriate knowledge of shipping and shipboard operations;
10. participation in at least one marine-related management system audit; and
11. effective communications with shipboard staff and senior management.

**Experience:**

DPA should have experience to:

1. present ISM matters to the highest level of management and gain sustained support for Safety Management System improvements;
2. determine whether the Safety Management System elements meet the requirements of the ISM Code;
3. determine the effectiveness of the Safety Management System within the Company and the ship by using established principles of internal audit and management review to ensure compliance with rules and regulations;
4. assess the effectiveness of the Safety Management System in ensuring compliance with other rules and regulations which are not covered by statutory and classification surveys and enabling verification of compliance with these rules and regulations;
5. assess whether the safe practices recommended by IMO, Administrations, classification societies, other international bodies and maritime industry organizations to promote a safety culture had been taken into account; and
6. gather and analyze data from hazardous occurrences, hazardous situations, near misses, incidents and accidents and apply the lessons learnt to improve the Safety Management System within the Company and its ships.

The Company should provide training courses covering qualification, training and experience and the appropriate procedures connected to compliance with the ISM Code including practical training and continuous updating. The Company should also provide documentary evidence that the Designated Person has the relevant qualification, training and experience to undertake the duties under the provisions of the ISM Code.

## **Chapter 3 : Internal Audit procedure**

### **3.1 Preparation**

#### **3.1.1 Internal Audit Program**

All elements of the company's SMS shall be audited in line with the importance and impact to operational integrity on an Annual Basis. More specifically audits shall be carried out:

**1. On a schedule basis**

Every 12 months in the office and onboard each managed vessel. The interval between audits at each location shall not exceed a period of 15 months at any time. According to ISM Code 12.1, an internal audit may be with 3 months window (i.e. 12 to 15 months from previous audit) in case of exceptional circumstances as for example, due to delays to ship schedule, unavailability of transportation means, act of God or other circumstances beyond the company's control. In all such exceptional circumstances approval shall be given from the management of the company and the Flag Administration as may be necessary.

**2. On an unscheduled basis**

**i.** In any other case of system failure (i.e. serious failure like Port State Control Detention, serious incidents or accidents etc) to the discretion of the Safety Manager

**ii.** At the request of any third party (i.e. Flag / Class / PSC etc) or any other instance that may be deemed necessary as same may be decided by management.

The Safety Manager is responsible to develop an audit plan / schedule in line with the above for all results due (ashore and all vessels) indicating:

- 1.** Last audit carried out
- 2.** Type of audit (schedule / unscheduled)
- 3.** Internal / External audit
- 4.** Other notes that may be importance

### **3.1.2 Internal Audit Preparation**

The Safety Manager is responsible to carry out all preparation and arrangements for every audit including but not limited to:

1. Appoint a qualified auditor (internal to the company including himself or external to the company acting on company's behalf) to carry out the audit
2. Provide access to all required documentation and company's forms for the preparation of the auditor in order to carry out the audit
3. Co-ordinate for any travelling or other arrangement required
4. Notify the auditees about the date and the scope of the audit

When the auditor notified about the audit, he/she shall conduct an opening meeting with the auditees in order to advise them with the purpose and the scope of the audit. In this opening meeting they will discuss about the process which will be followed, as the auditor shall describe same and about the program of the audit shall be reviewed.

### **3.2 Non Conformities**

As it mentioned to the Introduction, the result of Internal Audit is the raising of non conformities for prevention of accidents. The safety manager is responsible for proper implementation of company's procedure which referred to the following up and closing of non conformities, either ashore or onboard. Non conformities may be identified through:

1. Internal Audit
2. ISM audits by the Classification Society
3. Port State Control Inspection, Surveys or Flag State Inspections
4. Normal Operation onboard

When a non conformity is identified, a relevant company's non conformity report is completed. If a non conformity identified onboard by a member of the crew must be reported to the Master, who is responsible to fill in the relevant form. The completed

form should be signed by the responsible person (person directly related or responsible for the area / system related to the problem) for acknowledgement only of the facts described in the non conformity section of the form. The safety manager should be informed accordingly and appraise the incident and if there is a need for corrective action the process to continue as necessary.

The DPA shall coordinate with relevant personnel as necessary to:

1. Investigate and analyze the non conformity with the objective to identify the root cause
2. Decide on the action to be taken for correcting the cause of the non conformity
3. Decide on the action to be taken in order to avoid similar future occurrences. For vessel related non conformities, particular attention shall be given in communicating preventive action measures, where appropriate, to the whole fleet as may be necessary.
4. Indicate the time period required implementing corrective and preventive action.
5. Assign it a unique number and register it in the non conformity register indicating the suggested date for the close out of non conformity.
6. Ensure that all staff related with the problem have been informed and given a copy of the non conformity form.

In case of shipboard audits where the corrective action may be decided between the Master and the auditor the safety manager shall review the incident as described above and may proceed with modifications as may think appropriate.

So the DPA is responsible for reviewing the action and non conformities registered in the non conformity register and ensure that:

1. All staff related with the application of appropriate corrective and preventive action are proceeding as agreed.
2. All corrective and/or preventive actions required shall be verified within the agreed time frames.

3. All non conformities shall be properly closed out by due date.

As result of the above, all non conformities must be closed out only after verification of implementation of the corrective and preventive action has been carried out by responsible personnel. The person closing out the non conformity shall indicate on the non conformity form the relevant documents as required by company's SMS, i.e.:

1. The objective evidence witnessed and any other verification details related to the effective implementation of the corrective and preventive actions
2. The date of the non conformity closed out, etc.

The person who closed out a non conformity should sign the non conformity form and the original one should be kept by the safety manager, as safety manager keep all original non conformities for reference purposes. Regarding all non conformities issued to vessel during shipboard audit, a copy of non conformity form remains on board while the original is forwarded to the office until the verification of implementation of the corrective and preventive action and the actual close up of the non conformity. Then a copy of the closed non conformity is transmitted attached with a acknowledgement form to the vessel in order the relevant older copy. The safety manager is responsible to ensure proper keeping of all original defect list and non conformity and keep them in file. Specifically for non conformities, on completion of the close out of a non conformity, a copy of the properly closed out non conformity (signed by safety manager) should be forwarded to the vessel in order to update vessel's file accompanied by an acknowledgement form. Also the safety manager is responsible to review all system findings along with relevant corrective and preventive actions applied during the quarterly or annual system analysis, in accordance with company's management review procedure in order to ensure:

1. Effectiveness of closed actions
2. Proper implementation of actions
3. Further issues that may be considered

### **3.3 Performance**

The auditor shall carry out the audit at the workplace, and shall record on the relevant office forms regarding vessel (if the audit is carrying out onboard) and office (if the audit is carrying out ashore) audits accordingly objective evidence reviewed, any non conformance found and any other critical observations. The auditor may deviate from the report to include additional items and issues which become apparent as the audit progress. The auditor should review:

1. All certifications related items with respect to the audit
2. Key staff understanding of the SMS and the implementation of same
3. Records to verify that the SMS is effectively implemented onboard / ashore as necessary
4. Verify whether all those undertaking delegated ISM related tasks are acting in conformity with company's SMS and relevant legislation
5. Feedback received from the auditees
6. Any improvement ideas that may come apparent during the audit

All audits shall be carried out by the auditors on the basis of sampling of SMS implementation. The audit cannot be considered in any way an exhaustive examination of the SMS implementation. However taking into consideration the policy (which followed from the majority of management shipping companies) no audit shall be considered effective unless at least one non conformity is been issued. In any case an audit ending with zero non conformities shall not be considered an audit done and shall not be counted as an audit in line with the annual plan of the company.

All auditors are required to strictly comply with the following:

1. All observations may be documented
2. In order to raise a non conformity something which is a specified requirement is not been done. Specified requirements in order to raise a non conformity shall be considered something documented either in a regulation or company's SMS

3. Auditor should think twice if an observation is a non conformity (i.e. something documented as per above not done). In such case the auditor should fill in company's relevant non conformity form which is the non conformity report.

The auditor at the end of the audit shall review all finding and categorize them to non conformities and observations / improvement notes. Then he/she should complete the relevant company's form regarding office audit and issue non conformity forms for any non conformities identified. At the end the auditee will conduct the closing meeting where any non conformities found shall be explained to the auditees and ask auditees to acknowledge the audit findings by signing non conformities. He/she leaves a copy of the audit report and any non conformities to the auditees and forward the original to the Safety Department for further follow up, as soon as same is possible, but not later than the period that the company's SMS has define after the audit completion. After the completion of the audit, the Master of the vessel (if the audit is carrying out onboard) should inform the company about the audit outcome sending suggestions for the close out of the non conformity unless same has been already agreed with the auditor.

### **3.4 Office Follow Up**

The Safety Manager is responsible to ensure that all department Staff related to the system problem identified, are kept updated / informed. Therefore, a copy of all non conformity forms raised is given to the related employees (if not already available to them), and the original non conformity form is given to the responsible person. Also Safety Manager is responsible to maintain all documentation for every audit related to the audit, to non conformities, as well as all lists as per company's SMS. All items identified during internal audits will be reviewed and analyzed in the management review. The analysis shall include but not limited to the following issues:

1. Internal audit schedule and progress
2. Internal auditor's performance
3. Non conformities status

4. Corrective / preventive actions
5. Ideas for improvement identified during audits

### **3.5 Safety Management System Review**

In case of the management identify that Non-Conformities rose due to management fault, they are proceeding to Safety Management System Review. The company's SMS shall be reviewed in line with company's relevant procedure in order to ensure that:

1. The SMS is up to date
2. The implementation of SMS is effective
3. Adequate resources are provided for effective management system implementation
4. The performance of the SMS is effectively monitored, reviewed and followed up
5. Any deficiencies or potential problems are identified and followed up effectively.

Management review should focus towards achieving the general safety management objectives as defined in ISM Code. Based upon the result of such reviews, the company should implement measures to improve further the effectiveness of the SMS.

The members of the Management Review Meeting are the management of the company and the managers of company's departments. The Safety Manager is responsible for the schedule of Management Review Meeting, which is not arranged only when there is a problem, on unscheduled basis, but also on a schedule bases.

- On a schedule basis

On a routine basis, the Management Review Meeting is carried at least once per calendar year, covering all Management System aspects.

- On an unscheduled basis

1. In any case of urgency or operational matter requiring special attention on behalf of the management (e.g. Serious Failures like Port State Control Detention, serious incidents or accidents etc).
2. At the request of any MRT member who shall inform the Safety Manager in order to proceed with all necessary arrangements.
3. In any other instance that may be deemed necessary as same may be decided by management or requested by any third party.

For every Management Review meeting Safety Manager is responsible to:

1. Notify the attending personnel (MRT members) in advance for the date and place of the meeting
2. Compile the agenda of the meeting including identification of any items requiring special attention during the meeting
3. Provide copy of the SMS Analysis report in case of a ROUTINE Management Review Meeting
4. Provide access to any reports that are due to be discussed to that meeting

The meeting agenda shall be compiled by the Safety Manager and may include, but not limited to the following items according to its company's SMS:

1. Items due from previous meeting
2. Items requiring immediate attention
3. Progress since previous meeting
4. Discussion on any reports attached for discussion
5. Decisions Made
6. Action Plan decided
7. Verify whether all those undertaking delegated ISM related tasks are acting in conformity with Company's SMS and relevant legislation.

In order to prepare for a routine Management Review meeting, the Safety Manager shall develop an "SMS Analysis Report" which shall be developed and distributed in advance to the attendees of that meeting. The documented "SMS Analysis Report" shall include, but not limited, to the following items according to the company:

1. ISM / ISO Certification Status (as applicable)
2. Audits Carried Out (Internal / External Audits) / Number of audits/ inspections

3. Deficiencies and Non Conformity Analysis (Summary of N/Cs rose and Categorization of findings - Corrective / Preventive actions) / Defects
4. Third Party Inspections ( Class, PSC , P and I, Flag Inspections, Charterers etc)
5. Human Element Issues (Crew Evaluations, Manning Agent Control, Training Onboard and ashore)
6. Accidents and Near Misses Analysis / Incident investigation reports
7. Future needs Analysis (e.g. New vessels / types, Crew Needs, Regulation Coming into Force)
8. Ships' maintenance condition / any outstanding maintenance tasks across the fleet.
9. Master's SMS review Feedback summary
10. Review of SMS documentation (Major Amendments of SMS, Company Policies) Problem areas analysis (Analysis of current period, Comparison with previous years) / Problems identified / solved
11. Overall Evaluation and Proposals For Improvement
12. Customer feedback
13. Status of preventive and corrective actions
14. Changes that could affect the managements systems

The last paragraph shall outline the Safety Manager's Proposals and should outline strengths and weaknesses of the SMS Implementation along with an evaluation of the Overall Effectiveness of the Safety Management System.

The Safety Manager shall ensure that minutes are kept for every Management Review Meeting held. The Records kept for each meeting should include:

1. Agenda of the meeting
2. SMS Analysis Report in case of a routine Management Review Meeting
3. Review of any case (incident, accident or inspection etc.) along with analysis on that case in case of an unscheduled Management Review Meeting
4. Discussion and key decisions made
5. Discussion for proper implementation of Quality Management System
6. Action Plan for Implementation

The Action Plan for Implementation as a result of the Management Review should include:

1. A clear description of any action due
2. Person Responsible for Implementation
3. Due date for implementation
4. Assessing opportunities for improvement
5. The need for changes to the management systems, management policies as well as management objectives
6. Improvement of the effectiveness of the QMS and its processes
7. Improvement of product related to customer requirements
8. Resource needs

Any deficiencies found during the management review should be provided with appropriate corrective action taking into account the Company's and ISM Code objectives. The results of Management Review should be brought to the attention of all personnel involved in a formal way. Records, minutes and associated documents shall be kept by the Safety Manager, properly acknowledged / signed by all participants.

Except all the above, it is the Safety Manager's responsibility to ensure that the agreed action plan of each management review is effectively implemented by the responsible personnel. This may include (according to the action plan):

1. routine departmental or inter-departmental meetings
2. audits or any other type of inspection and follow up
3. follow up meetings

In case that a deviation / delay from the action plan occurs, the Safety Manager is responsible for taking the necessary corrective actions and keep the Management updated as necessary.

## **Chapter 4: Internal Audit in practice**

Depending on vessel's Internal Audit Schedule, usually the company's Designated Person Ashore (DPA) programming the audit, in order to comply with the ISM Code of interval period between the audits not to exceed the period of 15 months at any time.

### **4.1 Onboard**

The DPA will inform the vessel of the expected date of the audit to be carried for they information and preparation as well.

Therefore, upon availability of person assigned to carry the audit as well as convenient port availability the DPA will prepare the necessary forms and checklist to be completed in order to follow up the last audit carried out or if it is first time audit on board. The person who will carry the vessel's internal audit must be certified Internal Auditor for ISM / ISPS and for MLC Matters otherwise the audit will be considered as null and void.

Hence, the auditor before boarding the vessel will be familiarized with the company's SMS system to be aware of the policies and procedures followed by the Master and crew on board.

Usually the auditor when boarding the vessel is being accompanied by an officer or any deck rating in order to transfer the latter to Master's cabin. The auditor then will request to have an open meeting with all the deck and engine officers for informing them about the Audit program. Upon finishing of the open meeting the auditor having as guidance the checklist provided by the company will start checking one by one all items concerning each department e. deck, engine, navigational, accommodation, safety, etc.

The auditor will check vessel Certificates i.e. Statutory, Crew and Safety as well. In the internal audit checklist there is a variety of items to be checked concerning:

**a. Deck Department Organization:** crew responsibilities as derived from company's SMS Manuals. Maintenance reports and sequence of the required intervals, tasks and any expired items.

**b. Navigation:** navigational books, equipment, checklists and relevant forms. Officers' familiarization in regards to bridge watch keeping and voyage planning, as well as voyage and cargo operations, i.e. relevant forms required and filled or sent to the office.

**c. Engine Department:** crew responsibilities and filling system as described to company's SMS Manuals. Maintenance schedule to be followed and forms required. Maintenance routine of the required intervals as well as the condition of engine room.

**d. Safety Department:** all forms and certificates required for ISM implementation and crew shipboard communication at working language. Office and officers follow up in regards non Conformities, accidents and near misses. Crew familiarization and training followed properly as per company's SMS schedule. Drugs and alcohol procedure to be followed and vessel to be equipped with relevant devices. Safety Management procedure is followed as per company's system, i.e. safety drills carried on time. Proper garbage collection and relevant books are updated as per environmental protection.

**e. MLC:** seafarers' age and duties according to their age, as per minimum age. Valid medical certifications and qualifications, as well as crew employment agreements to follow relevant rules and regulations. Crew payment wages and their hours of rest onboard. Seafarers' accommodation rules and regulations to be followed, as well as food and catering and onboard medical care.

**f. ISPS:** Every body onboard and ashore to be familiar with main ISPS Code's requirements, especially SSO and CSO, to be certified and familiar with company's procedure. ISPS implementation and proper control of documents and records. Security training, drills and audits as well as non conformities related to security matters and incident reporting. Vessel security monitoring i.e. proper signs onboard. Maintenance of security equipments. Crew awareness of Contingency Plan, contact list and alert system.

Upon completion of the Audit the Auditor will request again a meeting with the Deck and engine ratings in order to inform them about the findings and any observations or non-conformities which must follow and to close same.

Upon closing the meeting the Auditor will prepare the reports and will leave a copy at Master for his further follow up and the original will be submitted to the company in order the DPA to inform the other departments with the findings and the results from the audit carried on board and any further actions to be carried by the office side.

An experienced auditor even if using the checklist for checking all the above, before boarding the vessel, has already started the checking of the vessel by inspecting the exterior condition in order to be aware of how the vessel is maintained. Even when boarding by using the pilot ladder can check the condition of same and any visible damages, corrosions, if necessary fenders applied, etc. At the same time can check if Security measures applied by observing which side of the vessel is secured and if the crew on the gangway will request identification details. Or even when will carry the visual inspection at the deck or the engine compartments, if will be accompanied by the officer in charge. There are a lot of aspects and with a single view the auditor can check various matters concerning safety, security measures or even health condition on board. The auditor can even evaluate the crew awareness on their responsibilities, and attitude on safety, security and MLC matters by questioning same, actions carried on the spot and observing their duties during cargo operations.

#### **4.2 Ashore**

In case of the Auditor will be an employee of the company, all departments getting informed and starting their preparation for the Audit. The Auditor should be an independent person, so the employee may carry the Audit to all the departments, except the departments which work for. In case of the Auditor will be and external colleague, then (usually) the Safety Manager asks from the relevant company about dates available in order to arrange for the Audit. The next step is to inform all the departments. The departments which will be audited are: the safety/security, technical, operations, supply and crew departments. The auditor, except of company's departments, will also check company's organization i.e. employees' familiarization and awareness of their duties and responsibilities as derived from company's SMS.

1. **Safety / Security Department:** The most important to be checked is if the company complies with ISM Code. The person, who carries the audit, will check the document control, office's emergency preparedness, control and follow up of accidents, near misses analysis and non conformities. Previous internal audits' records, as well as contingency planning.
2. **Technical Department:** Vessel's maintenance monitoring to be followed as per company's program, as well as follow up and filling system. Very important is, the list of critical equipment and measures to be checked.
3. **Operations Department:** Vessel's communication with the office and ship's reports (i.e. sailing, arrival, waiting, departure, etc.) to be checked from the department.
4. **Supply Department:** Purchasing control as per purchasing cycle, requisition, checking, quotation and approval.
5. **Crew Department:** Seafarers' CVs filed as per company's SMS, crew Certifications checking as well. Checking of evaluation reports and keeping records, and finally proper cooperation with Manning Agents (if exists).

## **Chapter 5: Conclusion**

The Internal Audit is IMO requirement and ensures that the vessel complies with the rules and regulations, as well as that all the crew is familiar with the abovementioned. In addition, vessel's managers could be sure that their crew is familiar with drills and training onboard and they have the knowledge to encounter any emergency situation. Every Charterer wants to be sure that the vessel and consequently their cargo will be transported safely and timely. Is the Internal Audit a way for the Charterers to be sure? For Tanker Vessels there is the TMSA (Tanker Management Self Assessment) which is mandatory (as the Managers wants to charter their vessels) and performed in order the Charterers to be sure about the vessel. For the Bulk Carriers is there any Bulk Management Self Assessment? If no, why? This is a very good question for further investigation.

## **APENDIX I: Acronyms**

**CSO:** Company Security Officer

**DOC:** Document of Compliance

**DPA:** Designated Person Ashore

**ERT:** Emergency Response Team

**FFA:** Fire Fighting Appliances

**I/A:** Internal Audit

**IMO:** International Maritime Organization

**ISM:** International Safety Management

**ISPS:** International Ship and Port Facility

**ISSC:** International Ship Security Certificate

**IT:** Information Technology

**LSA:** Life Saving Appliances

**MNC:** Major Non Conformity

**MRT:** Management Review Team

**PCGO:** Port Coast Guard Officers

**PFSO:** Port Facility Security Officer

**PMS:** Plan Maintenance System

**PSC:** Port State Control

**PSCO:** Port State Control Officers

**QMS:** Quality Management System

**RO:** Recognized Organization

**SMC:** Safety Management Certificate

**SMS:** Safety Management System

**SQE:** Safety Quality and Environmental

**SSO:** Ship Security Officer

**SSP:** Ship Security Plan

## **APENDIX II: Definitions**

**SMS** is the management system designated by company with the intent of ensuring pollution prevention, safety at sea (ISM).

**DOC** is a Company's Certificate which certify that the company is complying with the ISM Code

**SMC** is a vessel's Certificate which certify that the vessel is managed by a company which is operating in accordance with ISM Code

“**Audit** means a process of systematic and independent verification, through the collection of objective evidence, to determine whether the SMS complies with the requirements of the ISM Code and whether the Safety Management System (SMS) is implemented effectively to achieve the Code's objectives.” (Procedural Requirements for ISM Code Certification, pg 2)

**External Audit** is an audit which carried out from an employee of third party i.e. Flag, Class, etc with specified qualifications and knowledge in order to issue company's or vessel's certificates, verifying that the company complies with the regulations and has an effective system.

**External Auditor** is the person who has the authority to carry out an External audit.

**Auditee** is the employee or department which evaluated during an audit.

**Risk Assessment** analyze the risks through difficulties, dangerous, condition or works in order to follow the safest way to carried out and reduce the risks of accidents

**Port State Control** is part of an international effort to identify and eliminate substandard ships.

**Opening Meeting** is a meeting where all crew members on a ship (except the crew on duty) attend to provide new ideas & questions. Take place mainly before starting a special job or drill preparing the schedule & introduce the follow up. Also this procedure takes place before every internal audit either onboard or ashore, in order the Auditor to inform the auditees about the main subject of the audit and the reason why

same take place.

**Closing Meeting** is a meeting where all crew members (except the on duty crew) discuss difficulties faced to reduce risks and to improve / make more effectively the operational part of any procedure carried out, after completion of such an operation. In case of an Internal Audit, when the audit finish the auditees discuss with the auditor the non conformities, near misses or observations issued and instructed for future procedures. In office followed up opening meeting for efficiently work progress from the employs.

“**Observation** means a statement of fact made during a safety management audit and substantiated by objective evidence”

“**Non Conformity** means a deviation from the company’s SMS requirements or an error which could endanger or has compromised that safety of people, the environment, the ship or its cargo.

### **Major Non Conformity**

“**Objective Evidence** means quantitative or qualitative information, records of statements of fact pertaining to safety or to the existence and implementation of the safety management system elements, which are based on observation, measurement or test and which can be verified” (ISM Code, 2018, pg 15)

**Corrective action** is an action which must be taken to reduce / eliminate potential factor which could lead to a non conformity / nonconforming service and upgrade the system.

**Administration** the government of the state whose flag the ship is entitles to fly.

**Company Security Officer** means the person designated by the Company for ensuring that a ship security assessment is carried out; that a ship security plan is developed, submitted for approval, and thereafter implemented and maintained and for liaison with port facility security officers and the ship security officer.

**Ship Security Plan** means a plan developed to ensure the application of measures on board the ship designed to protect persons on board, cargo, cargo transport units, ship's stores or the ship from the risks of a security incident.

**Ship Security Officer** means the person on board the ship, accountable to the Master, designated by the Company as responsible for the security of the ship, including implementation and maintenance of the ship security plan and for liaison with the company security officer and port facility security officers.

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