

Strengthening Inquiry Skills

Tips for Gathering Information
You Need on Audits

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Learning Objectives

1. List tips for designing questions to illicit the information you need to evaluate the fair preparation of financial statements
2. Recall best practices for structuring inquiry sessions to meet your objectives – whether in-person or virtual



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Inquiry Defined

- Seeking information from knowledgeable persons in financial and nonfinancial roles
- May be performed throughout the audit in addition to other audit procedures
- Range from formal written inquiries to informal oral inquiries

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Word of Caution #1

- Inquiry, by itself, does not provide sufficient audit evidence to reduce audit risk to an appropriately low level for a relevant assertion
 - Or to support a conclusion about the effectiveness of a control

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Word of Caution #2

- Paper or electronic documentary information is generally more reliable than evidence obtained through oral inquiries
 - E.g., a contemporaneously written record of a meeting may be more reliable than a subsequent oral representation of the matters discussed

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Example – Limitations of Inquiry

Auditor: “Do you sign purchase vouchers?”

Auditee: “Yes.”

Auditee Thinking: “I usually sign purchase vouchers, unless I am busy. Sometimes I just move them on for processing if I don’t get around to it.”

Lesson Learned: While auditees may not be bold-faced liars, they may tell you what you want to hear.

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Relative Strength of Evidence

- Information obtained directly by the auditor (observation of the application of a control) may be more reliable than information obtained indirectly or by inference (asking about the application of a control)
- Additional procedures may be needed to evaluate the reliability of information obtained indirectly or by inference
 - Such as reperforming the control activity

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Inquiry as Corroboration

- Inquiry may corroborate other information or with new information
 - OR may contradict other information
- Responses to inquiry may provide a basis for modifying or performing additional audit procedures
- Evaluating responses is critical to the inquiry process

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Ask for Physical Evidence

- For significant matters ask for some form of documentation or physical evidence before you leave the interview
 - What do you have that I can put in my working papers to show my supervisor that you sign the purchase vouchers?

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External Confirmation?

- Inquiries of knowledgeable persons outside the entity do NOT meet the definition of external confirmations
- Yet may constitute reliable information to use as audit evidence

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Exercise – How is Inquiry Used on Audits?

1. Make engagement acceptance/ continuance decisions
2. Understand the entity and its environment to identify and assess risk of material misstatement
3. Evaluate the design and implementation of internal control
4. Evaluate the operating effectiveness of internal control
5. Fraud inquiries

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Exercise – How is Inquiry Used on Audits?

6. Fruitful engagement team discussion
7. Obtaining explanations for variances in analytical procedures
8. Resolving discrepancies in audit evidence
9. Identifying presentation and disclosure issues for specific audit areas
10. General audit procedures

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Remote Auditing Technological Necessities

- Videoconferencing technology
 - May still watch for visual cues that would be observed during a site visit
 - Facetime, Zoom, Skype, Google Meet, Microsoft Teams
- Document sharing for simultaneous viewing on-screen
- Secure web portals to share documents and data
 - Email is not secure for sensitive information
 - Some allow for Q&A functionality
- Read-only access to select client systems and databases

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Structuring the Audit Interview



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Stages of an Interview

- Opening stage
 1. Connect
 2. Start off Right
- Middle stage
 3. Dialogue
 4. Stay on Track
- Closing stage
 5. End on Positive Note

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Stage 1: Connecting



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Connecting

- Meaningful
- Fosters trust, care and confidence
- On-going
- Most interviewees view the auditor with a bit of distrust
 - Work towards bringing down barriers
- Remember – The purpose of an interview is to get information!!!

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Do Your Homework First About the Interviewee

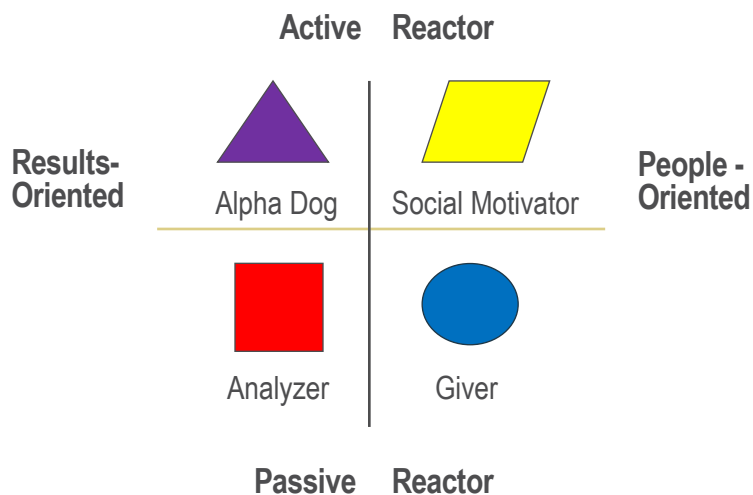
1. Position
2. Scope of responsibilities
3. Department's goals and functions
4. Lines of reporting
5. How department "fits" into the organization

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Common Personality Profile Model



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Meeting With an Alpha Dog

1. Do not waste a lot of time socializing before getting to the point
2. Talk in “bullet point” or “executive summary” language
3. Early in the discussion, explain what is in it for them
4. Have an agenda and finish within planned timing
5. Allow them to feel like they are control, but do not let them overrun you

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Meeting With a Social Motivator

1. Have an agenda, and use it as a tool to bring them back on track
2. Plan extra time in the agenda for socializing
3. Give them positive recognition and praise -- for anything
4. Smile often and allow yourself to be entertained
5. Get them excited about something, particularly if you have a new idea or approach that will trigger their emotional hot buttons

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Meeting With a Giver

1. Invite all knowledge workers, decision-makers, and decision-influencers to attend meetings where decisions may need to be made
2. Be reassuring and supportive in their choices
3. Demonstrate empathy for others
4. Build trust and credibility – Don't push too hard because once trust is broken it is hard to get back
5. Talk about family and personal lives

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Meeting With an Analyzer

1. Have an agenda and allow them to give input prior to the meeting
2. Be prepared to offer proof and testimonials, and talk in absolutes instead of vague terms and assurances
3. Do not over promise
4. Address any negatives up front, as they are already thinking them
5. Keep socialization at a business level, unless they voluntarily share personal information

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Stage 2: Starting Off Right



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Ideas for Starting Off Right

1. Take the time to connect
2. Briefly explain the purpose of the interview
 - Don't get "all accountant" right away
3. Ask if the interviewee has questions
 - Resolve any questions before move on
4. Ask for the interviewee's assistance
 - I need to understand....
 - Will you help me by describing...
5. Save pointed questions for later

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Starting Off Right

- Schedule a time to meet
- Provide an agenda in advance
- Anticipate questions you may be asked
- If take longer, stop and ask first whether to continue or reschedule

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Agenda Considerations

- Identify topics to be discussed
 - Briefly explain why
- Give time limit
- Inform all parties of expectations
 - Information, reports, decisions, resources, etc.
- Provide research in advance, if appropriate

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Stage 3: Engaging in Dialogue



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Inviting the Person to Engage

1. Recognize importance of both perspectives
2. Make mutual purpose explicit
3. Check if okay
4. Invite to engage

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Questions as a Tool

- Means to engender cooperation, build trust, resolve conflict, and demonstrate respect
- Learn about the needs of others
 - Don't pre-judge before opening a dialogue
 - Listen with an open mind
- Use reflective listening to demonstrate care and understanding
- Be alert to sensitive topics

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Competency-Based Questions

- Draws from past experiences and behaviors and relates them to specific requirements, responsibilities or parameters
- Seeks specific examples
- Each question uses a lead-in phrase asking for specific information
 - Give me an example of a time...
 - Describe the most significant...
 - Tell me about...

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Open-ended Questions

- Encourages interviewee to talk
- Observation of nonverbal communication
 - What is the process...
 - What is your role...
 - Who are the people...
- Concern: May be too broad in scope

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Hypothetical Questions

- Allows evaluation of reasoning abilities, attitudes, values and approaches to tasks
- Requires interviewees to project what might do in a fictitious scenario
 - What would you do if...
 - How would you handle...
 - How would you avoid...

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Probing Questions

- Enables delving deeper for additional info
- Confirms truthfulness of a statement
- Short in length and simply worded
- Asks for a specific response
 - Why?
 - How?
 - When?
 - How often?

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Getting Specifics

- Human nature to speak in generalities
 - “That procedure would not be cost-effective.”
 - Ask: “What additional costs are involved?”
 - Ask: “Are there cost-effective alternatives?”
- Pay attention to what is not said
 - Auditees may think it is unimportant/irrelevant
 - Explain context of questions

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Questions to Avoid

- Multiple choice can be “loaded” questions
 - Would you say you review the payroll journal always, mostly or occasionally?
- Leading questions imply one correct answer
 - You always obtain a purchase order, right?

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Interviewing Tips

1. Prepare, but remain flexible
2. Pace your questions
 - Establish rapport
 - Easy to tough
 - Fulfill your objective
3. Trust your instincts
 - Honest people usually don't mind
4. Double-check key facts
5. Be empathetic to other person's point of view

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Be Alert for Signs of Deception

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How to Detect Lies

Overall:

Behavior changes as questions get tougher
Look for breaks in patterns

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Nonverbal Signals of Distress

- **Gestures/ Expressions**
 - Rapidly changing, exaggerated, pained, stiff, lack of emotion, timing off with emotions and words
- **Mannerisms**
 - Fiddling, staring, varying eye contact, agitated, defensive
- **Proximity**
 - Distances oneself, leans back, crosses arms, arms at side, place objects between you
- **Physical**
 - Sweating, flushed, nervous hands, fidgets, touches mouth/face/throat, predictable eye movements change

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Verbal Signals of Distress

1. Uses your own words to answer a question
 - “Did you...” “No, I did not...”
2. Does not use contractions
3. Imply answers instead of answering directly
4. Adds unnecessary details to convince
5. Garbled or spoken softly
6. Seems relieved when topic changed
7. Inappropriate use of humor/sarcasm

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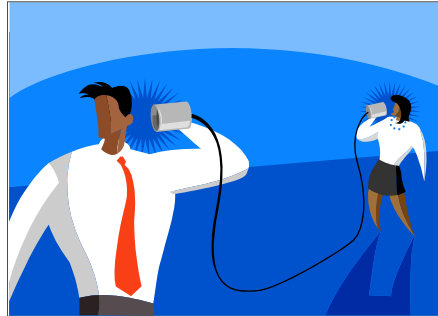
Stage 4: Staying on Track



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Four Ways We Communicate

1. What I Intend to Say
2. What I Actually Say
3. What You Hear
4. What You Remember



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Active Listening

- 30/70 Rule – Your job is to get information
- Focus on key information, not every word
- Filter out distractions
- Paraphrase for verification

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Use Thought Speed to Your Advantage

- We think faster than we speak
 - 400 wpm vs. 125 wpm
- Use time wisely
 - Prepare next question
 - Take highlighted notes
 - Analyze what interviewee is saying

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Avoiding Miscommunications

- Guard against unwarranted assumptions
 - Most often occur on recurring audits
- Pay attention to meaning of words
 - “File reports”...in a drawer or with IRS?
- Remember – If your mouth is moving, you aren’t learning
 - Be prepared to actively listen

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Analyzing Body Language

- Each person develops own consistent pattern of nonverbal messages
 - Be alert to sudden changes in behavior
 - May be a sign of deception
 - May be a sign of loss of interest or confusion
- Be aware of your own nonverbals
 - Stay engaged

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Exhibit the Right Body Language

1. Show the client your full face
2. Make eye contact
3. Breathe!
4. Smile occasionally
5. Have an interested expression
6. Vary the pace, pitch, and volume of your voice
7. Give the client the energy you want them to exhibit in return

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Remote Auditing Communication Strategies

- Turn laptop cameras on whenever you can
 - Don't forget about nonverbal cues
- Try to mirror procedures for on-site audits as much as possible when auditing remotely
 - If you would go down the hallway to talk to the client when off-site, don't rely on email now
- Preserve significant electronic communications

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Digging Deeper

Don't

- BUT
- WHY
- NOT WILLING TO

Do

- AND
- HELP ME UNDERSTAND
- NOT ABLE TO

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Encouraging Interviewees to Talk

1. Use repetition to encourage elaboration
 - Repeat last few words of answer, and allow voice to fade out as a question mark
2. Summarize to solidify key points
 - Allows opportunity for clarification
 - Consider using after each new topic
3. Use key phrases to show interest
 - “I see...”; “Really?”; “How interesting.”; Tell me more...
4. Use silence with positive body language

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Difficult Interviewees

- **Nervous**
 - Use a few closed-ended questions to put at ease
 - Start with non-controversial topics
 - Soften tone & exaggerate positive body language
 - Demonstrate interest in responses
- **Talkative**
 - Interrupt: “That’s interesting, but there’s a great deal more we need to cover.”
 - Speak more slowly to contrast styles and create awareness

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Difficult Interviewees

- **Aggressive or dominant manner**
 - May be a cover up for lack of skills/experience
 - Stay calm and maintain objectivity
 - Don't mirror the aggressiveness
- **Emotional**
 - Extend “empathy” rather than “sympathy”
- **Evasive**
 - Ask more competency-based questions
 - Seek info to balance a one-sided picture

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Stage 5: End on Positive Note



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Wrapping it Up

- Clarify key points before leaving
- Leave the door open for follow-up
- Do not take original documents without asking for permission
- Ask if any questions
- Explain what will happen next
- Thank interviewee for his/her time

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Thank you!



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