

# *Using Audit Enquiry to Maximize Value Added*

**Canadian Environmental Auditing  
Association**

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# *Presentation Objectives*

- Understand nature of audit enquiry and its current uses
- Appreciate the need for heightened consideration of audit enquiry in planning and execution
- Be familiar with the implications for auditor competence and attributes
- Look for ways to make audit enquiry more effective and increase audit value

# Presentation Outline

## Context

- Define audit enquiry
- Review traditional role

## New Perspectives

- Developing imperatives
- Enquiry and auditors
- 360° Reliability

## Adding Value

- Implications for auditors
- Audit planning and execution

# *Audit Enquiry – What is It?*

“... the process of gathering relevant information, through the asking of questions...

for the purpose of generating reliable evidence to support audit findings and provide assurance regarding the audit objectives.”

# *Enquiry & Evidence Types*

## Gathering evidence:

- Interviews
- Inspection of documents and records
- Observation of stated and actual practice
- Sampling and testing

## Evidence types:

- Testimonial
- Documentary
- Physical
- Circumstantial

ENQUIRY

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graph LR; ENQUIRY --> Testimonial; ENQUIRY --> Circumstantial;
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# *Management System Auditing*

- Interviews often primary means of gathering evidence; significant component of field work
- Generally accepted auditing practice for EMS accepts high degree of reliance
- Consider also H&SMS and Social auditing
- Much more than traditionally accepted in financial arena...

# *Financial Auditing Perspective*

- Enquiry traditionally been “bottom of the totem pole”
- New business drivers and auditing milieu is putting more importance on audit enquiry → sidebar..



# *Need for more audit enquiry*

- Get inside the heads of management
  - Assess risks and conduct effective audit
- Obtain assurance on 'softer' performance information
- New systems → lack of audit trails
- Assurance required on new subject matter
  - Management system effectiveness, controls and governance, ethics or value system
- Add value through enhanced feedback



# *Financial Auditing Perspective*

- New business drivers and auditing milieu is putting more importance on audit enquiry → sidebar..
- Means that more formal consideration of the use of enquiry is needed
- Recent research report points the way.....

# *Strengthening 360° Reliability*

Canadian Institute of Chartered Accountants

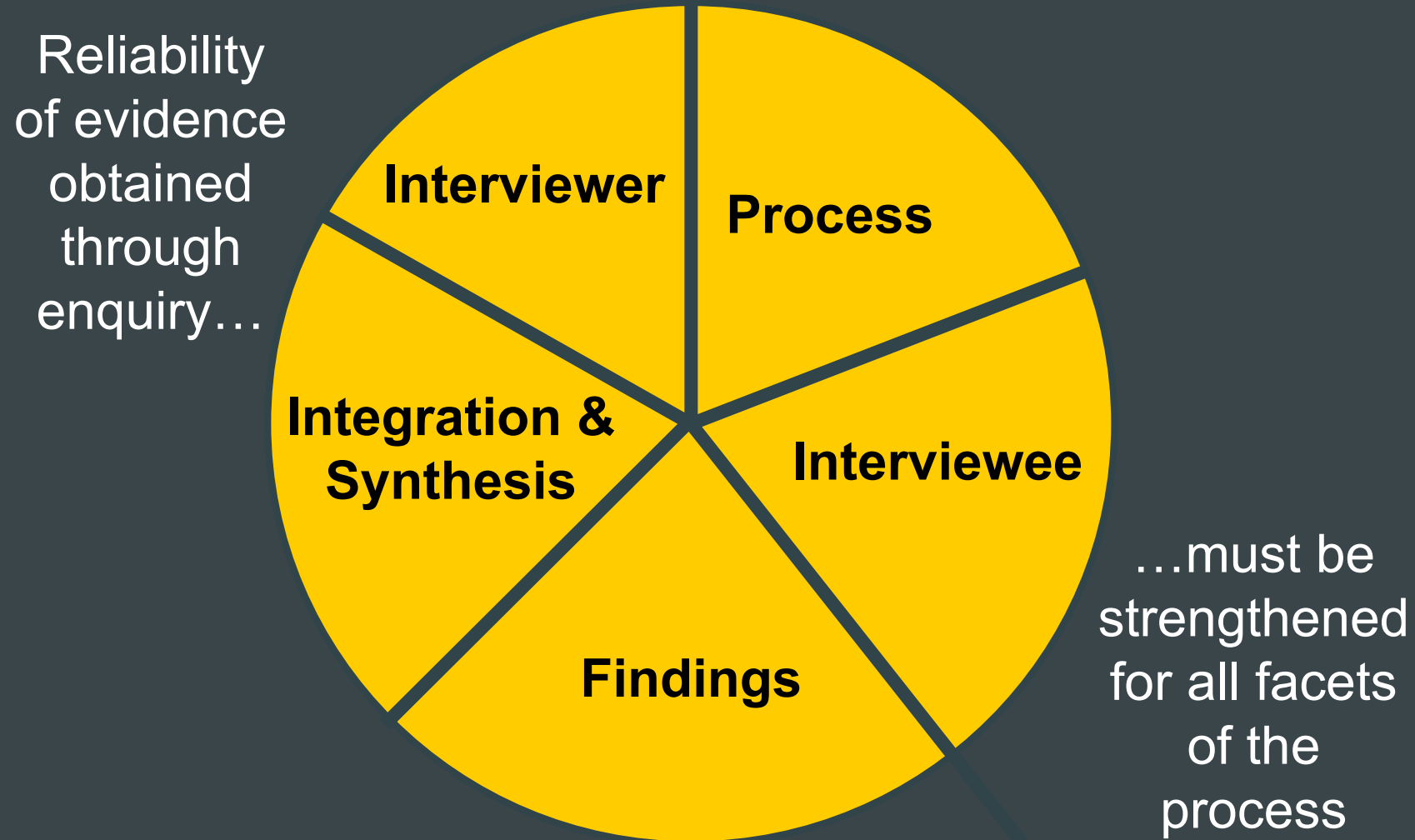
## **Research Report on “Audit Enquiry”**

*(released Summer 2000)*

“there is a need (in auditing) to consciously think about the five elements that work together to affect the reliability of evidence obtained through enquiry...”

# *Strengthening 360° Reliability*

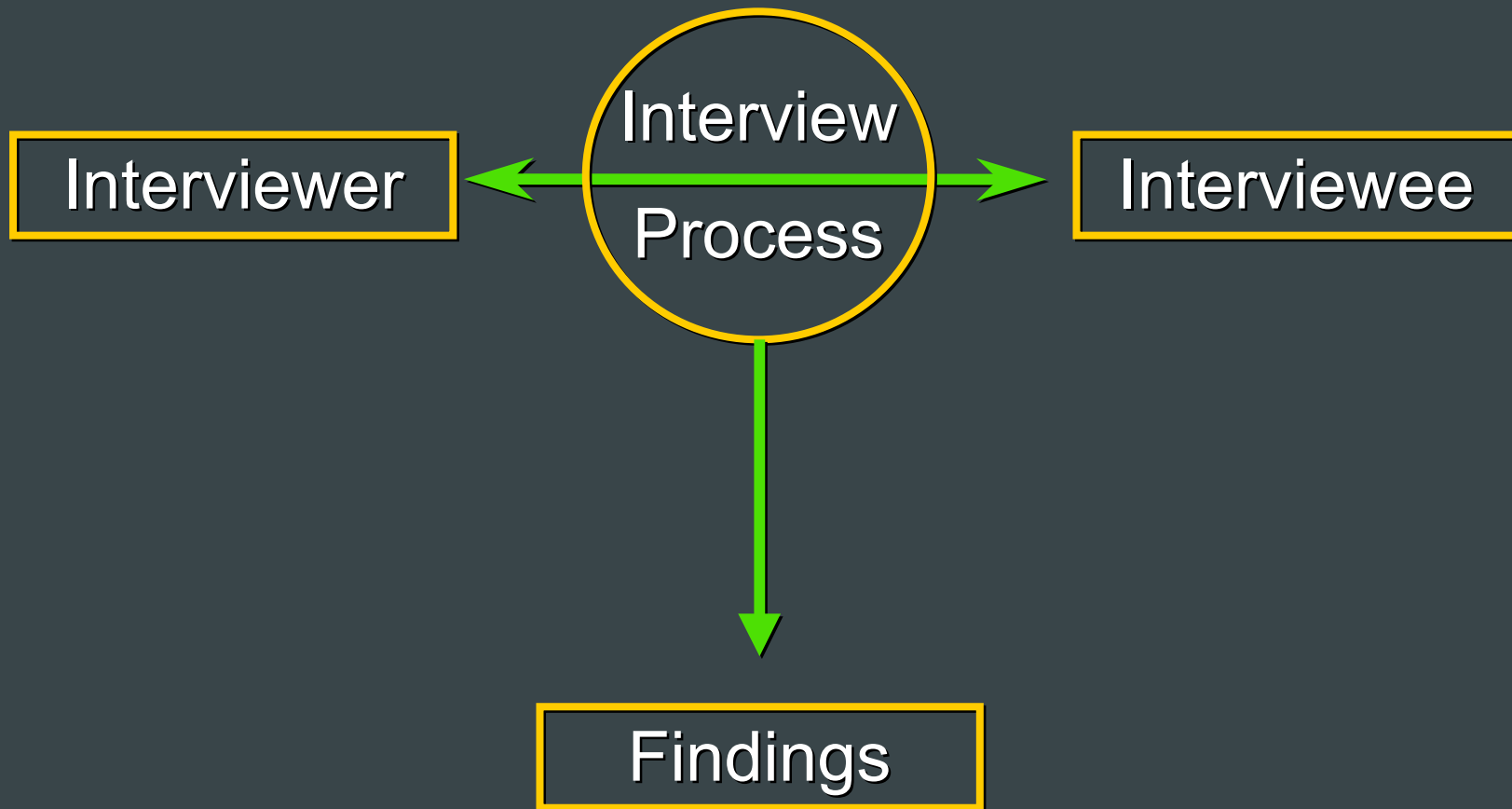
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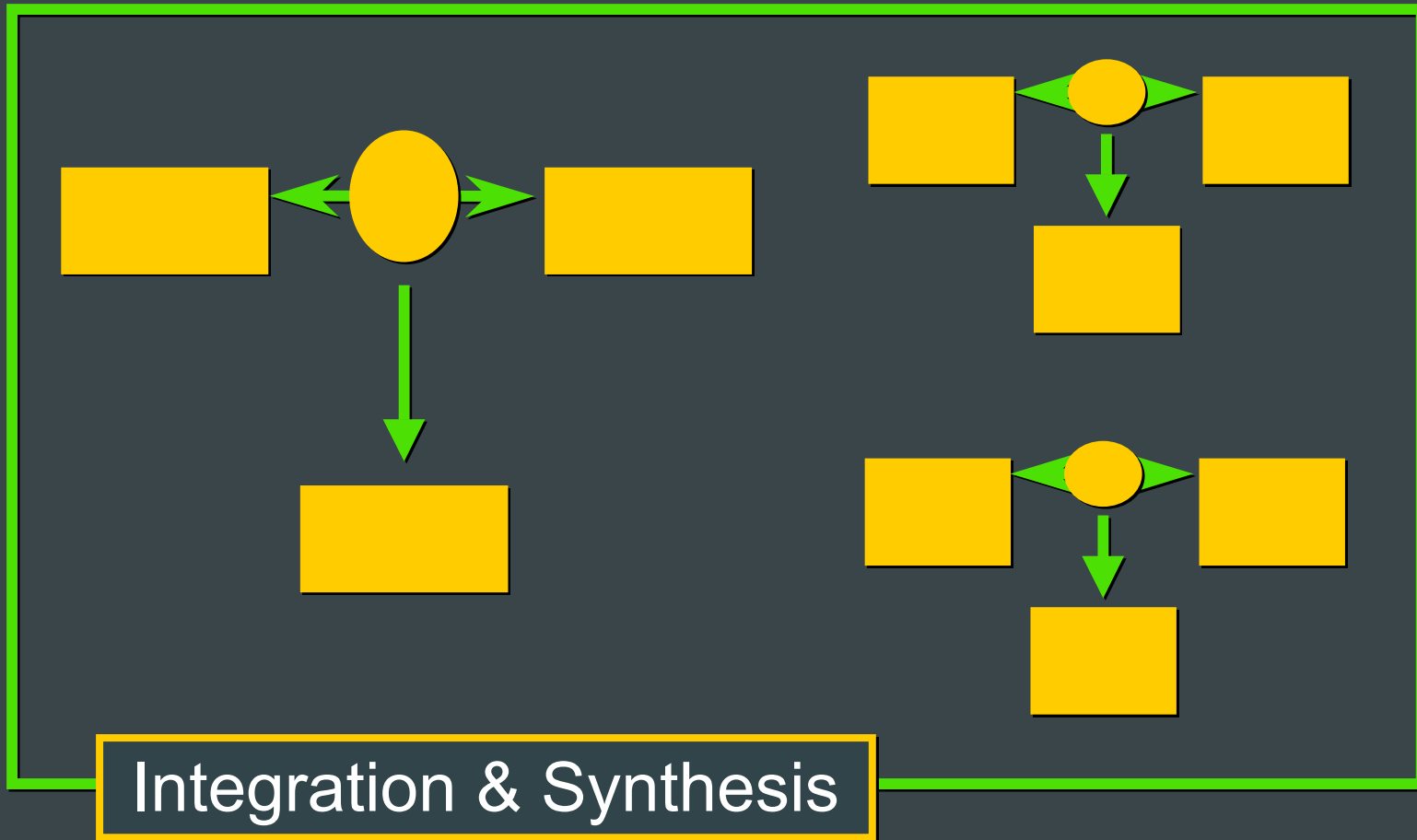
*October 26, 2001*

Presentation to CEAA Annual Conference

# *Audit Enquiry Process*



# *Audit Enquiry Process*



# *1. Interviewer effectiveness*

- Knowledge of the entity's business
- Attitude and demeanor
- Sensitivity to context
- Self-reflection

## *2. Value of Interviewee Input*

- Honest? Competent?
- What is their Perspective?
  - position in organization
  - relationships with others – internal and external
  - background and experience
  - corporate culture



### ***3. Process Effectiveness***

- Framing questions
  - protocols
- Setting / timing
  - sequencing, scheduling, location
- Relationship matching
  - levels and personalities
- Briefing / Debriefing

## 4. *Credibility of Findings*

- Related documentation
- Verbal answers
- Non-verbal behaviour

## 5. *Integration and Synthesis*

- Process for aggregation & assessment
  - feedback loops; process adjustment
- Corroboration
  - other evidence
  - intra-team communication
- Red flags
  - intuition and experience
  - knowledge of client

# *Enquiry in the Audit Process*

- Deciding to accept or retain client
- Obtaining knowledge of the business
- Planning the audit / making risk assessments
- Gathering evidence by interview
- Corroborating evidence gathered by other means
- Analyzing, synthesizing, interpreting and integrating evidence
- Obtaining info → spin-off benefits

# *Implications for auditors*

- Competence:
  - Knowledge, Skills, Experience, Attributes
- Attributes: CEAA Requirements
- Inherent Skills
- Learned Skills

# *CEAA Specified Attributes*

- Interpersonal skills .... Such as diplomacy, tact, and ability to listen
- Sound judgment, analytical skills and tenacity
- Ability to perceive situations in a realistic way
- “Effective oral communication skills in meetings and informal settings” (Lead)
- Constant evaluation of effects of audit observations and personal interactions...
- Sensitivity to conventions and culture...



# *Inherent Skills*

- Flow from the auditor's personality
- Include interpersonal traits: good communicator, natural curiosity, flexibility, tenacity
- Physical attributes: energy and stamina
- But: research has shown.....



# *Learned Skills*

- Skills and attributes can be developed over time through learning and experience....
- Auditors need to develop abilities to:
  - Interview people effectively
  - Work well under pressure
  - Respond professionally to adversity
  - Rely on common sense and intuition
  - Have a goal-oriented / audit-objective focus
  - Employ a non-judgmental approach

# *Making Enquiry More Effective*

## TWO LEVELS:

- Improving Skills as an Audit Practitioner
- Better Audit Planning and Execution

# *Improving Relevant Audit Skills*

- Get lots of practice
- Understand oneself as an interviewer
- Learn to ask the right questions
- Learn to listen and read your interviewee
- Take notes, and figure out how to do so easily

# *Improving Relevant Audit Skills*

- Interpret answers with due care:
  - Professional skepticism
  - Know the control environment
  - Non-verbal clues
- Integrate and synthesize evidence from multiple sources
  - step back from the details
- Manage the “trust factor” with client and auditee personnel

# *Planning and Conducting Audits*

- Understand the importance of enquiry
- Ensure audit documentation is appropriate and sufficient
- Deploy the audit team effectively
- Recognize the existence of multiple perspectives
  - What are consistency and corroboration needs?
- Employ a structured assessment and synthesis of findings

# *Planning and Conducting Audits*

- Use adaptive audit processes based on findings and professional intuition → more effective use of audit time.
- Use systems models to:
  - understand complex situations
  - frame the audit approach
  - evaluate and assess evidence (e.g. validate reliance on group processes)
- Be cognizant of relevant ex-criteria, ex-objectives findings that are valuable to client / auditee

*Questions?*

**Thank you!**

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