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Inside

VOLUME 1, ISSUE 2
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- 1 EFFECTIVE AUDIT ENQUIRIES
Conducting a Successful Interview
- 4 NOTICE TO READER
Fewer Words for Compilation Reports
- 5 TOWARDS HARMONIZATION
Adopting ISAs – The Big Picture

Effective Audit Enquiries

Conducting a Successful Interview

Making enquiries has always been a fundamental part of performing any assurance engagement. With the release of the new audit standards, the use of enquiry (as one of the three risk assessment procedures) will undoubtedly increase.



The audit standards recommend we make enquiries of employees who are not directly responsible for financial reporting, such as those in marketing, sales and production. We should also be talking with directors and audit committee members where applicable. The objective of these enquiries is to help us identify potential risk factors by obtaining a number of different perspectives on the entity.

The skill of enquiry involves:

- Taking the time to craft meaningful questions;
- Listening to what is being said; and
- Responding with appropriate supplementary questions.

It also involves the skill of picking up on other clues in an interview such as hesitation, nervousness and body language.

Learning to interview need not be a daunting task. The key factors are preparation, asking the right questions, listening to responses and evaluating the information obtained. In this article, we explore the four key steps that are the pillars of a successful interview.

Step 1 Preparation

Good preparation sets the tone for a purposeful and effective interview.

1. Establish objectives

Determine the objective of the interview, the information required and who can best provide it.

Some typical interview objectives include:

- Explore or obtain an understanding of how things work.
- Verify or corroborate information already obtained.
- Investigate a potential fraud, illegal act or other risk factor.
- Obtain answers to unexpected results or contradictory information.
- Seek a different perspective on a particular matter.
- Seek assistance in obtaining additional information.
- Obtain a management response to control weaknesses or identified misstatements in the financial statements.

2. Understand the entity and the interviewee

First consider the entity's culture and control environment. If these are strong, it may be possible to rely more on the information provided without needing to verify it with supporting evidence. However, a poor attitude to control will mean less reliability can be placed on the information and representations provided.

Also gather some information about the person you plan to interview. Consider the person's background, roles and responsibilities, skills, reputation and how his/her performance is measured and compensated. This will provide a basis for developing appropriately worded questions and understanding the type of information the interviewee can or should be able to provide.

3. Develop a strategy

Think through the interview and identify the most likely problems you might encounter. This is best done by putting yourself in the interviewee's shoes and thinking about how this person might react to your questions. Problems could range from lack of time by the interviewee, unexpected responses to questions, an inability to produce the required information or the provision of new information that will need to be followed up, such as a matter that indicates a fraud risk factor.

Develop an outline for the conduct of the interview. Ensure the progression through the interview is logical and straightforward.

Develop an introductory statement that explains the purpose of the interview so that when you arrive, you can set the correct tone. This is important as it will build rapport with the interviewee and set them at ease.

Then prepare open-ended questions that move from the general to the specific. Open-ended questions invite others to "tell their story" in their own words (e.g., who, why, how, what, tell me about). They cannot be answered with a simple yes or no. Yes/no answers are quick but may prevent you from learning about the person and the issues he/she faces and obtaining information that you may not otherwise have known about. You will learn a lot more about the subject matter when interviewees express their answers in their own words.

4. Prepare some basic questions

Be sure the questions are tailored for the particular interviewee and do not use terminology they are unlikely to understand. This preparation will help speed up the interview process and help ensure you obtain the desired information.

A good interviewer knows there is enormous power in a question. A well crafted question will often elicit information that the interviewee has not really planned to provide. A poorly crafted question has the opposite effect — it shows a lack of preparation. In this situation, the interviewee could feel empowered to provide less than complete information or even incorrect or misleading responses if so inclined.

While it may be tempting to use questions from a form or to write them out word-for-word, you can create a more relaxed atmosphere and natural conversation if you simply make a list of the key points/areas you hope to cover. Listing key points gives you flexibility to frame your questions naturally and pick up from previous responses. If your questions are verbatim, the interviewee will think you are simply going through the motions and filling in a form. It may be assumed that you are only interested in a quick, superficial response that allows you to move to the next question and hasten the end of the interview. If all you need is answers to boilerplate questions, it may be better to submit them to the interviewee in advance and then discuss the responses at the meeting.

Checklist for Interview Preparation

- ✓ Establish clear objectives.
- ✓ Do your homework — understand the entity and the interviewee.
- ✓ Develop a strategy. This includes determining the approach to take and how obstacles will be handled.
- ✓ Prepare to be flexible in your questioning.

Step 2 Conduct the Interview

Where possible, interviews should be conducted in private. Use a meeting room if necessary. When you first meet, use simple good manners to set a tone that is formal, friendly and non-threatening.

1. Get the interview off to a good start

Sometimes your introductory remarks can be the most challenging part of the interview. The goal is to create the proper impression, ask for cooperation, and explain the nature of the interview. If your interviewee feels uncomfortable, it will be more difficult to gather the facts. Be sure to smile, exchange greetings, shake hands and introduce yourself.

Keep the opening statement simple such as "I'm here today to ask some questions about the company's accounting policies and procedures." Keep the interviewee at ease and gain his/her cooperation with a simple, agreeable statement such as "Do you mind taking a few minutes to help me?"

2. Begin questioning

Structure the questions from the general ("tell me about...") to the specific ("who told you about..."), which will help you to build rapport. As the interviewee speaks, lean in slightly to show you're interested.

Begin with non-threatening questions — even if you already know the answer — before proceeding to more possibly contentious questions. Be sure to ask for the basis of any conclusions/assertions the interviewee expresses.

Professional scepticism requires us to be on alert for indications of deception intended to mislead us. As the questions become more focused, look for any changes in your interviewee's behaviour that may signal a suspicious or sensitive topic.

One strategy for detecting misleading answers is to compare them with information you were anticipating. Consider:

- Are the answers consistent with expectations?
- Are there anomalies?
- Are answers unnecessarily jargon-laced or full of unfamiliar terms?
- Does the answer address the question asked?
Is the interviewee providing lots of irrelevant information instead of a direct answer?

It is important to probe further if you sense the answers could be misleading. Consider what the

interviewee's motivations or ulterior motives might be and ask to see evidence of the representations made.

Some tips when asking questions:

Observe reactions

Look at how the interviewee is responding and listen with both your ears and your eyes. Are the answers truthful? Do verbal responses and body language conflict? Antifraud investigators call this process 'calibration' and it is vital when interviewing someone who could be inclined to withhold information or where honesty is an issue.

Use silence

Long periods of silence between questions creates a vacuum that interviewers are tempted to fill. Avoid that temptation. The tension of silence may provoke a subject to reveal information or provide cues that he or she is lying or withholding information. Quiet periods also give the interviewer an opportunity to assess the progress of the interview and change an upcoming question as needed.

Listen more than you talk

Remember that we have two ears and one mouth. The goal is to listen more than talk. Try not to be speaking more than a quarter of the time.

Stay on track

Keep your personal thoughts or suspicions to yourself unless expressing them is intentionally part of your interview plan. Above all, keep the interview on track.

3. Draw out details

Ask supplementary questions to draw out additional details and more detailed responses. Ask questions such as "and then what happens?" or "What caused that situation to occur?" "Could you give me an example of that?" "Could you show me the relevant documents", or "Who else should I be speaking to about this?" etc.

4. Document the answers

Develop a consistent pattern of note-taking throughout the interview. A sudden change in note-taking style during the interview may distract the interviewee and could even affect his/her answers. These notes should be legible and contain enough detail so that minutes of the meeting can be prepared later. If a lot of detailed information is going to be obtained, consider tape-recording the interview. But always obtain permission from the interviewee first.

5. Make a closing statement

At the end of the interview, confirm your understanding of points raised, reiterate key facts, agree on any information that the interviewee will supply and determine your next steps, if any. Also ask for suggestions about others to interview if more information is needed. Follow your pre-interview strategy and ensure you have met your objectives.

Checklist for Conducting Successful Interviews

- ✓ Set the right tone.
- ✓ Design your questions to move logically from the general to the specific.
- ✓ Observe any changes in your interviewee's behaviour.
- ✓ Don't speak more than a quarter of the time.
- ✓ Keep the interview on track.
- ✓ Get additional details by asking supplemental (probing) questions based on previous answers.
- ✓ Keep a consistent pattern of note-taking.
- ✓ Confirm key answers and information before you leave.

Step 3 Evaluate the Results

Once the interview is completed, write a memo to file, (as soon as possible), to document the findings. If the subject matter is contentious or subject to potential litigation, consider keeping your handwritten notes, to corroborate the formal memo to file.

Then spend a few minutes to reflect on the interview and the information obtained. Consider factors such as the following:

- Any surprises. This could be information that invalidates previously held assumptions or contradicts other evidence.

- Any themes, patterns or oddities that may indicate a potential risk. This could include weak internal controls, potential management override, possible fraudulent activities, or other risks of material misstatement.

Then consider whether your audit procedures should be expanded in the identified areas.

Step 4 Learn from Others

One way to improve your interview skills is to learn from others. For example, when you next watch or listen to an interview on radio or TV, focus on how the interviewer does his/her job. In particular, consider:

- How prepared was the interviewer (background knowledge of subject, etc.)?
- What did the interviewer do (if anything) to make his/her guest feel comfortable?
- Was the interviewer relaxed and interested in what was said by the guest or was he/she more concerned about getting through their questions in the time allowed?
- Did the interviewer ask appropriate supplementary questions? This would address both incomplete or foggy answers and deliberately deceptive and misleading responses.
- Did the interviewer pick up on verbal pauses and body language?

A well-conducted interview will provide valuable information for the audit. The ability to interview is a skill that we should all be developing to conduct effective audit and review engagements.

Notice to Reader

Fewer Words for Compilation Reports

The Auditing and Assurance Standards Board (AASB) has proposed some revised wording for the Notice to Reader and Section 9200 of the *CICA Handbook – Assurance*.

The objectives for these changes are to:

- Better reflect the work effort involved; and
- Reduce the scope of Section 9200.

Better Reflect the Work Effort Involved

The proposal is to remove the phrase “not ... otherwise attempted to verify the accuracy or completeness” from the wording of the Notice to Reader. It was felt that this wording did not reflect the actual amount of work involved to ensure the information was not false or misleading. It was also

felt that the Rules of Professional Conduct requiring disclosure of lack of independence was potentially confusing to readers when the previous paragraph states no attempt was made to verify the accuracy or completeness of the financial information.

The revised wording is as follows:

Notice to Reader

I have compiled the balance sheet of Client Limited as at _____, 20X1 and the statements of income, retained earnings and cash flows for the (period) then ended from information provided by management (the proprietor).

I have not performed an audit or a review engagement on these financial statements and, accordingly, I express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

City _____
(printed or signed) _____

Chartered Accountant

Date _____

The AASB does not intend for the change in the wording of the Notice to Reader to imply a change in work effort.

Reduce the Scope of Section 9200

The Section 9200 requirements with respect to financial information prepared on government-prescribed forms solely for inclusion with corporate, trust and personal income tax filings have been removed. The AASB believes that the requirements of Section 5020 of the *CICA Handbook – Assurance* (that require communication of the public accountant’s association with financial information) can be achieved using the standard disclaimer such as “prepared solely for income tax purposes without audit or review from information provided by the taxpayer.”

Initially, the AASB had proposed to bring Section 9200 in line with international standards; however, this has been put on hold until the AcSB completes its research into reporting models for non-publicly accountable enterprises.

For background, visit the CICA website www.cica.ca >Standards>Auditing and Assurance > Projects.

Towards Harmonization

Adopting ISAs – The Big Picture

The following article first appeared in *AASB.ca*, an e-newsletter designed to keep practitioners informed about the adoption of International Standards on Auditing (ISAs) during the transition period.

During consultations with stakeholders across Canada earlier this year, the AASB heard positive support for its proposal to adopt ISAs. Some of the key points from these sessions were:

- The need for practitioners to be informed of detailed plans;
- Avoid any possible surprises; and
- Have adequate lead time to prepare for change.

Compelling Case for Change

At its June 2006 meeting, the AASB considered all the feedback received on its proposals and decided to “go international,” i.e., to adopt International Standards on Auditing (ISAs). Many have asked why this move is necessary and why they should believe in this new



direction. As the reasons below illustrate, there is a compelling case for adopting ISAs.

The top reasons to adopt ISAs include:

- The “made-in-Canada” approach is untenable in today’s environment.

- A single set of high-quality global standards is a common objective shared by many national standard setters.
- The American Institute of Certified Public Accountants (AICPA) is converging its standards with international standards.
- Global acceptance of ISAs has increased (now adopted by 99 countries, including the EU, Japan and China).
- There are few significant differences between Canadian standards and ISAs.
- CICA was a founding member of the IAASB and strong influencer of international standards.

The AASB believes the best way to meet its responsibility to the Canadian public is to become more involved in the development of high-quality ISAs that are suitable for the Canadian market. Adopting international auditing standards is our future. It is happening. We realize that it will present some challenges. However, the sooner practitioners start to think about and familiarize themselves with the new standards, the easier the transition will be.

How Easy is This Going to be?

The AASB is working hard to make the transition as easy as possible. A comparison of existing Canadian auditing standards and ISAs (available on the AASB's website) shows that there are few significant differences between them. The key to easing the transition to ISAs is understanding and implementing existing Canadian auditing standards that deal with funda-

mental areas like audit risk, fraud, planning, audit evidence and documentation. These Canadian standards are already very similar to the equivalent ISAs.

To further ease the transition, the AASB intends to issue the new Canadian standards with a delayed effective date. This is to allow users of Canadian auditing standards the time to make any adjustments to their methodologies, policies, and training or teaching materials. The period of the delay will reflect the assumption that existing standards have already been implemented.

What's Next?

The AASB's website will be the primary means of communicating its progress on adopting International Standards on Auditing. Staff will also issue *AASB.ca* e-letters periodically, to communicate matters of interest proactively. Future communications will address matters such as:

- The planned schedule for issuing revised standards;
- Questions and answers (Q&As) on the adoption of ISAs;
- Changes in the structure of the *CICA Handbook – Assurance*;
- Changes in the style and presentation of Handbook Sections;
- Monitoring and providing input to the development of ISAs; and
- Modifications to ISAs when issuing them as Canadian standards.

Feedback

We encourage your feedback!

Send your comments or suggestions for future issues to one of the contacts listed below.

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