



QUESTIONS FOR INTERNAL AUDITORS

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Internal auditors rely heavily on personal interviews with managers and employees to obtain information. It is the primary means of verifying what is observed in the workplace or summarized in policy and procedure manuals. Audit interviews are often organized around lists of written questions designed to identify control weaknesses, operating inefficiencies, lack of compliance, or other matters. As a tool for obtaining information, the internal auditor's skill at interrogation is taken for granted. But, in fact, the ability to use questions effectively is a skill that is little understood and rarely addressed in the literature of internal auditing. Questions can do far more than glean information. Questions control personal communications. They have the power to focus attention on key issues and motivate immediate action. Questions can also be used to minimize conflicts, facilitate negotiation, and defuse emotional reactions. With the right questions, internal auditors can provide the means for auditees to persuade themselves of the soundness of internal audit recommendations.

The purpose of this research project is to identify practical ways that internal auditors can use questions to achieve specific audit objectives. This report is divided into four sections: 1) the prerequisites of effective communication, 2) the power of questions to minimize conflicts and misunderstandings, 3) questioning as a tool of persuasion and negotiation, and 4) the essential requirements of effective listening.

The Prerequisites of Effective Communication

Questions are most commonly used to gather information. The reliability of information, however, depends upon clear communication between internal auditors and auditees. Effective questions ultimately depend upon mutual understanding. Following are some suggestions for ensuring good communication.

Always ask for specifics. It is human nature to think and speak in general terms. For example, suppose an internal auditor asks about the feasibility of changing a control procedure and receives the following response: "Implementing that procedure would not be cost-effective." This response is easily grasped; yet its real meaning is anything but clear. To get specific information the internal auditor must ask specific questions: "What additional costs are involved?" "Are there alternatives that might be more cost-effective?" "How would you change the procedure to make it more effective?" Without detailed follow-up questions, general or non-specific responses are unproductive. They cannot help identify core problems or contribute to meaningful solutions.

Pay attention to what isn't said. Even the best-intentioned auditees may fail to disclose important information when questioned by an internal auditor. Some auditees may think it's impolite to waste the auditor's time with information that hasn't been requested. Others may omit information because it does not seem relevant to them at the time, or because they don't fully understand the purpose of the auditor's inquiry. For example, as part of an internal control questionnaire, an auditor asks: "Do you reconcile bank statements on a monthly basis?" The

auditee responds “no.” The auditor checks the “no” box indicating a control weakness. The auditee fails to mention that bank statements are received and reconciled on a *weekly* basis.

Using open-ended questions can help minimize this type of miscommunication. Open-ended questions cannot be answered with a simple “yes” or “no.” The internal auditor should have asked, “How often are bank statements reconciled?” Internal auditors should encourage auditees to provide full and complete responses to audit questions, and then allow sufficient time for auditees to respond. It may also be necessary to explain the context and purpose of some audit questions to help auditees evaluate the type of information that is important to an internal auditor.

Guard against unwarranted assumptions. This is a form of miscommunication that can easily go undetected. While assumptions help internal auditors make decisions more efficiently, incorrect assumptions are a major source of misunderstanding. Unwarranted assumptions are most likely to occur when an internal auditor is dealing with auditees who have provided accurate and reliable information in the past.

Suppose, for example, an internal auditor suggests a way to cut manufacturing costs by outsourcing the production of a certain component. The auditee likes the suggestion and agrees to investigate the feasibility of the auditor’s proposal. Later the auditee reports back that the idea cannot be implemented because it would violate the provisions of a union contract restricting employee layoffs. The internal auditor asks for a copy of the contract and verifies that the auditee’s statement is correct. For additional assurance, however, the internal auditor decides to ask the company’s legal counsel to review the contract. Only then is it discovered that a recent contract amendment allows dismissal of union employees provided the employer gives adequate notice and severance pay.

Pay attention to the meanings of words. Mortimer Adler, the University of Chicago scholar who helped launch the Great Books program, often emphasized the importance of understanding the key terms used by an author. Writers often assign special meanings to common words or expressions. For example, when the philosopher Aristotle used the term “elements” to describe the physical phenomena,” he was not referring to the elements studied in today’s chemistry classes. A reader unfamiliar with his meaning would fail to understand or appreciate Aristotle’s observations and arguments. This applies to conversations between individuals as well. Key terms such as “internal control,” for example, can easily cause misunderstanding and confusion unless the meaning is completely clear to the auditee.

Even simple words can create difficulty. For example, an internal auditor might ask a new employee: “Are reports of sales tax collections filed on a regular basis.” The auditee responds: “Yes, absolutely.” Later it comes to light that no reports were ever mailed to tax authorities. Instead, the required quarterly reports were neatly “filed” in the auditee’s desk drawer.

The power of questions to minimize conflicts and misunderstandings

Sooner or later every internal auditor encounters conflicts in dealing with auditees. Misunderstandings can arise whether the audit work is good or bad, the audit recommendations are far-reaching or modest, the internal auditor is accommodative or neutral. Since conflicts and misunderstandings are inevitable, it is important to know how to deal with them in ways that won't impair future communication or impede the implementation of audit recommendations.

When conflicts arise the internal auditor's attitude is critically important. A superior attitude or critical tone of voice can undermine even the most skillful auditor. To help ensure a proper attitude the internal auditor must remind himself that the concept of winning and losing is inappropriate in a conflict with an auditee. The only satisfactory outcome of a conflict is compromise and collaboration so that everyone feels their needs have been met. When an auditee is critical, uncooperative, or hostile, the internal auditor must stay focused on the common goals that unite auditor and auditee—the need to maintain a productive working relationship and contribute to the overall success of the organization. By focusing on goals rather than obstacles, the internal auditor can maintain a positive demeanor even when others are uncooperative or hostile. Above all, the internal auditor must avoid behaviors that contribute to personal estrangement, such as sarcasm, personal attacks, or verbal ultimatums. Just one careless or dismissive remark by the internal auditor can destroy credibility and convey a lack of respect for the auditee.

Conflicts over facts. Conflicts over facts are usually the easiest to resolve since facts are subject to independent verification. In these cases, the internal auditor's questions will concentrate on gathering the information needed to confirm or refute the facts. Once everyone is satisfied that the facts are correct, the conflict will be resolved. Conflicts that involve feelings, personalities, or values are more difficult to resolve. In these situations, internal auditors can use questions in a proactive way to defuse emotions and steer consultation into more productive channels.

Conflicts involving feelings and perceptions. It is the business of internal auditors to offer constructive suggestions and advice regarding ways to improve business processes and procedures. Unfortunately, the internal auditor's well-intentioned recommendations may sometimes be perceived as criticisms or even accusations. The natural human response to a perceived threat is "fight or flight." In other words, the auditee may respond by making accusations against the internal auditor, or by becoming defensive and making excuses. Either way, the skillful use of questions can help defuse emotionally charged situations.

If an auditee displays irritation or makes accusations against the internal auditor, the internal auditor must resist the temptation to respond with argument or debate. Instead the internal auditor should ask questions designed to get at the root of the auditee's remarks. Suppose, for example, that an auditee responds to a request for information by saying: "I'm not going to waste my time giving you more ammunition to use against our department. Why don't you internal auditors ever talk about the positive things we do rather than always pointing out our faults?" A natural response is to defend oneself by debating the purpose and value of internal

auditing. But in an emotionally charged setting, no argument or explanation will be convincing until the auditor clearly understands the basis for the auditee's remarks.

The best course of action in this situation is to ask questions. For example, the internal auditor might say: "It's clear I've done something to upset you and I want to correct that. Please help me understand how I've misused the information you've given me. Could you give me an example?" The goal of this question is to focus on the underlying issues rather than the anger. The question also represents an appeal to the auditee's sense of fairness. The internal auditor is acknowledging that he may have done something wrong and is asking for the auditee's help to understand and correct any mistakes.

The internal auditor must continue asking questions until he clearly understands the auditee's perceptions and the basis for his complaint. Sometimes, however, the auditee will offer a less-than-honest explanation for hostile or angry remarks. If the internal auditor is not getting a candid or sincere response, the conflict may stem from differences in personalities or personal values.

Conflicts involving personalities. Internal auditors are not trained as psychologists, but they are certainly equipped to observe the auditee's working style. Extensive research has demonstrated that most conflicts between individuals in the work place have more to do with working styles than personality differences. (See authors' article entitled "The Importance of Social Styles for Internal Auditors," *Internal Auditing*, September/October 2001.) Researchers have found that most differences in working styles result from differences in two basic characteristics: 1) assertiveness, and 2) task-oriented vs. people-oriented behavior. Without assuming that any particular working style is better or worse than any other, researchers have found that some working styles inherently conflict with others. For example, individuals who are very analytical and task-oriented will usually find it difficult to work with people who are more interested in keeping everyone happy than completing a task.

By observing auditee behavior and asking questions, internal auditors can identify the preferred working style of auditees and take positive steps to improve communication and working relationships. The bottom line is that familiarity with working styles should be included in every auditor's tool kit for conflict resolution. Through an understanding of working styles internal auditors can discover how to moderate their own style to accommodate the styles of others.

Conflicts involving values. If the root of a conflict involves differences in individual values, there may be no immediate resolution. Unlike differences involving perceptions or personalities, conflicts over values are generally not subject to negotiation or compromise. In fact, asking questions about fundamental values can actually be counter-productive. Such efforts may be viewed as offensive and may further strain cooperation between auditors and auditees. For example, if an auditee holds a strong belief that an organization must focus only on the positive to create positive outcomes, he may resist any attempt by an internal auditor to identify shortcomings or investigate deficiencies.

Nevertheless, differences in values need not result in gridlock. All of us deal every day with other people whose beliefs and values differ greatly from our own. Differences in values do not necessarily preclude productive working relationships. Individuals can simply agree to disagree on core values. The goal of the internal auditor is to recognize and respect these differences. It is also helpful to cultivate a philosophical attitude. An individual's family, culture, and life experience all help to shape personal values. There is nothing in the training of an internal auditor that qualifies him to pass judgment or assume a superior position in regard to the personal values of others.

Questioning as a tool of persuasion and negotiation

New teachers quickly learn that skillful questioning is a far more effective means of engaging a student's attention than providing quick answers or handouts of solutions. In fact, answers that are easily obtained are often dismissed as obvious or "common sense." Students may glance through the teacher's solution and imagine that they would have easily come up with the same answer. If students don't struggle to solve a problem on their own, they remain unaware of the mistakes they might have made.

In the same way, auditees may dismiss or underestimate the value of the internal auditor's recommendations when the auditor simply "tells" the auditee how to resolve a problem or correct a deficiency. Although it may be more difficult to do, asking questions is a far more effective means of persuasion than simply lecturing auditees on best practices. The best way to persuade auditees that a particular audit recommendation is useful or valuable is to allow them to persuade themselves. Internal auditors can do that by asking questions that lead auditees in the right direction. Ideally, auditees should feel as if they developed the audit recommendations themselves.

The internal auditor as salesperson. Everyone has encountered bad salesmen. They make claims that aren't true and try to convince you that their product will address your needs, even if you haven't expressed a need. This is not persuasion but an attempt to coerce customers into buying something they don't really want. The prerequisite of genuine persuasion is a trusting relationship in which legitimate needs and concerns can be identified and freely discussed. The most effective way to begin this discovery process is through broad, open-ended questions. For example, an internal auditor launching an operational audit might ask, "What are the greatest challenges facing your department right now?"

The internal auditor might follow this type of question with more detailed questions designed to explore the specific implications of the auditee's response. This line of questioning should continue until the internal auditor clearly understands the needs of the auditee. At this point, the internal auditor can begin asking questions designed to help auditees persuade themselves of needed changes.

For example, the internal auditor might ask the auditee to describe the benefits that could be achieved if the work process were re-designed to better meet the needs of the auditee. By asking the auditee to identify the benefits, the internal auditor provides an opportunity for auditees to persuade themselves that existing processes can be improved and, in fact, *need* to be

improved. It also provides an opportunity for internal auditors to propose recommendations *that the auditee has already acknowledged as beneficial*. The only step remaining for the internal auditor is to explain how the proposed audit recommendations address specific problem areas and provide the desired benefits.

Internal auditors as negotiators. Using questions to foster self-persuasion is a valuable audit tool in organizations that are united in pursuit of a common goal. In some organizations, however, the internal auditor is faced with departmental managers and employees who are competing with each other or with top management to achieve their own objectives. In these situations, internal auditors may find it much more difficult to win the trust of auditees or discover their true needs and concerns. Such organizations often regard information as a source of power or authority. They guard against sharing information with anyone outside their own department (including internal auditors).

In these situations the internal auditor may be able to influence auditees by using questions as a tool of negotiation as well as persuasion. Negotiation requires internal auditors to discover the limitations and sensitivities of auditees. The first step in successful negotiation is to learn as much as possible about the needs of the other party. Once again, the internal auditor can begin with broad, open-ended questions. As a rule, the internal auditor should start with questions that confirm well-known and accepted practices within the organization. It may be better for the internal auditor to “play dumb” by asking questions that the auditee can easily affirm than to jeopardize candor and cooperation by immediately asking for information that the auditee regards as privileged. The challenge for the internal auditor is to maintain ongoing communication so that sensitive topics can be identified before moving on to more detailed discussions.

The initial purpose of questioning in this type of audit environment is to gain as much information as possible without any hint of pre-judgment. The mere suggestion of changes or improvements could label the auditor as a representative of top management or an ally of competing divisions within the organization. The internal auditor should not proceed to detailed questions until he has identified 1) the types of information that the auditee regards as privileged, and 2) the issues that the auditee feels obliged to protect or defend. Against this background, the internal auditor can begin to develop questions that are essentially bargaining chips—i.e., questions designed to assure the auditee that the information they provide will, in fact, protect the auditee’s best interests without jeopardizing the auditee’s need for confidentiality.

For example, the internal auditor might preface a question about a sensitive topic as follows: “It’s clear from what you’ve told me that you want to keep the authority for pricing decisions right here in your own department. You probably know that top management is looking at software that will price services company-wide based on a variety of inputs. I would like to help you identify the advantages of keeping pricing decisions right here in your own department. Can you tell me about the factors that go into your pricing decisions?” With patience and a nonjudgmental attitude the internal auditor can learn enough about an auditee organization to recognize those areas that the auditee regards as proprietary. The auditor can then use this knowledge to align himself with the auditee’s interests.

Even if the auditee regards the internal auditor as an adversary, he is more likely to cooperate and share information if he sees such actions as a way to use the internal auditor to his own advantage. Through the skillful use of questioning, the internal auditor can turn the auditee's suspicion and lack of trust into leverage for increased cooperation and disclosure. To serve as a tool for negotiation, the internal auditor's questions must show the auditee that cooperation and communication lead to a "win-win" outcomes.

Essential requirements of effective listening

Syndicated talk-show host Larry King has made a career of asking questions and listening to what others have to say. In a book on that subject he states: "My first rule of conversation is this: I never learn a thing while I'm talking. I realize every morning that nothing *I* say today will teach me anything, so if I'm going to learn a lot today, I'll have to do it by listening." (Larry King, *How to Talk to Anyone, Anytime, Anywhere*, Crown Publishers, New York, 1994, page 40.) Anyone whose job involves asking questions should recognize the importance of this rule. Questions are useless if the questioner does not listen effectively.

Hearing the words of another is not necessarily listening. Listening implies a sincere effort to understand the meaning and significance of the speaker's words. This requires effort and undivided attention. Once an internal auditor begins asking questions, he must demonstrate his appreciation for the answers he receives by being alert, undistracted, and completely attentive.

Nonverbal behavior. The primary way an internal auditor can demonstrate undivided attention while an auditee is speaking is through nonverbal behavior. The internal auditor should maintain comfortable eye contact and assume a posture of involvement by facing the auditee and perhaps leaning in his direction. Sitting back in one's chair with arms or legs crossed signals disinterest or even resistance to what the speaker has to say. The auditor must be especially careful not to be distracted by external events such as ringing telephones, coworker conversations, or other activities in the workplace. An internal auditor who is easily distracted or who looks through his notes while the auditee is speaking is sending a message that the auditee's responses do not merit the attention of the auditor.

Listen for feelings as well as facts. When people speak they usually reveal feelings as well as facts. The auditee's tone of voice, his choice of words, and his frame of mind can be just as important as the information he provides. An internal auditor should strive to be a noncritical and nonjudgmental sounding board for the feelings of the auditee. Listening for feelings can help the internal auditor distinguish between major problems and minor issues. For example, an auditee who repeatedly displays resentment or irritation about a minor matter such a monthly report to management may actually be signaling a much more significant problem related to the content of that report.

Learn to listen reflectively. A good way to test whether you are a good listener is to summarize what the speaker has said and ask if you have understood the speaker's meaning correctly. This is sometimes called "reflective" listening. Reflective listening is widely used in clinical psychology to improve self-understanding. When properly applied, it can be a valuable

tool for internal auditors. It can help internal auditors clarify key terms, identify unwarranted assumptions, and uncover important information that auditees may have omitted in their initial response.

Reflective listening is not simply repeating or parroting the words of the auditee, it is an attempt to verify the speaker's meaning by expressing the auditee's thoughts and feelings in the auditor's own words. By paraphrasing the views of the auditee, the internal auditor can demonstrate that he understands what an auditee is saying and how the auditee feels about a subject. Of course, reflective listening is not appropriate for every response an auditee gives. It is intended for responses involving important audit issues or responses that are emotionally charged. Paraphrasing gives the auditee a chance to think about what they've just said and to change or revise it based on the internal auditor's feedback.

Listen with an open mind. Perhaps the most important quality of a good listener is an open mind. Listening with preconceived ideas tends to selectively focus attention on information that supports one's expectations. Other ideas are filtered out. An internal auditor who listens to an auditee with preconceived ideas may behave like a potential car buyer who looks through a magazine and notices only the car ads. Other advertisements are ignored. Consciously or unconsciously, auditees will recognize that the internal auditor is more responsive to certain kinds of information and will adjust their answers accordingly. As a result, auditees may limit, distort, or even suppress important audit information.

Summary and Conclusions

Training programs for internal auditors seldom address the auditor's ability to use questions effectively. Many internal auditors regard questions merely as a vehicle for obtaining information when, in fact, questions represent the driving force that determines the content, tone, and direction of most audit interviews. Questions can engender cooperation, build trust, resolve conflicts, and demonstrate respect and support for the auditee organization. In organizations characterized by internal competition and secrecy, questions can be used as negotiating tools to obtain information. Questions can also be used to help auditees persuade themselves of the value of the internal auditor's recommendations. This research project provides practical suggestions for improving communication with auditees through the development of effective questioning skills.