7 Habits of Effective Auditors

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Effective Auditors

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AccountingTools®

Course Information

Course Title: 7 Habits of Effective Auditors

Learning Objectives:

- Recognize the differences between being effective and efficient.
- Specify the habits that can improve the performance of an auditor.
- Recognize the underlying reasons why client relations are so important for the auditor.

Subject Area: Personal Development

Prerequisites: None

Program Level: Overview

Program Content: The *7 Habits of Effective Auditors* course discusses the top seven tasks that an auditor should address in order to be as effective as possible. The suggestions cover a broad range of topics, including the need to revise the audit plan at regular intervals, why client relations management is so important, and how new auditors need to approach their work. The course also describes how an internal auditor can become more effective. The course is specifically designed for those auditors who want to improve their job performance.

Advance Preparation: None

Course Expiration Date: This course expires one year from the date of purchase.

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Recommended CPE Credit: 1 hour

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About the Author

Steven Bragg, CPA, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been a two-time president of the Colorado Mountain Club, and is an avid alpine skier, mountain biker, and certified master diver. Mr. Bragg resides in Centennial, Colorado. He has written more than 250 books and courses, including *New Controller Guidebook*, *GAAP Guidebook*, and *Payroll Management*.

Steven maintains the accountingtools.com web site, which contains continuing professional education courses, the Accounting Best Practices podcast, and thousands of articles on accounting subjects.

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7 Habits of Effective Auditors

Introduction

When hired, an auditor can diligently attend to each item listed in his or her job description, and yet fail in the job. The reason is that the most successful auditors have learned that several key habits are needed that are never stated on any job descriptions. The new auditor needs to understand what these habits are and why they are needed, in order to make the commitment to follow them at all times. In this course, we point out the seven most essential habits that an auditor needs; doing so greatly increases his or her chances of succeeding in the job, and turning in a really sterling performance that will be noticed.

How do we decide which aspects of the job are important? They must result in the auditor being as effective as possible. A highly effective auditor is one who always does the right thing. In essence, this means that the actions of the auditor are targeted at successfully completing the objectives associated with each audit. Very few auditors are entirely effective, since many of them are waylaid by insignificant issues, or incorrectly place a premium on being excessively efficient. Being *effective* means that a person has a strategic mindset, always ensuring that one is deploying resources correctly. Being *efficient* is more of a tactical issue, where the auditor is maximizing his or her productivity. The trouble with an excessive focus on efficiency is that the auditor may be highly efficient in completing the audit plan, but does not spot problems in a client's books, or does not work well with the client's accounting staff. Consequently, a strong focus on effectiveness results in a more successful auditor over the long term.

EXAMPLE

A new audit manager at Benjamin, Donelson & Associates is trying to be as efficient as possible, and so decides to exactly copy last year's audit plan for the upcoming audit of a client. He also manages to secure the services of the same group of auditors from last year. With these advantages, the audit manager is indeed able to complete the audit in record time. The problem, as pointed out by the engagement partner during his exit interview, was that the client's business changed in the past year, resulting in several new processes that the audit manager completely ignored – along with the material misstatements in the client's reported revenue.

A key part of the following recommendations is that each one is described as a *habit*. This means the auditor engages in the activity on a regular basis, to the extent that it is hard to give up. Ideally, the auditor gives these habits an extremely high priority, so they are always addressed before less critical activities. By maintaining a tight focus on the following seven recommendations, the auditor is maintaining a high level of effectiveness on a continuing basis.

Our recommendations begin with ones that are targeted primarily at new auditors, and conclude with several habits that could be quite useful to more senior personnel.

Habit #1 – Just Ask

A commonly cited metric for auditors is that 20% of new hires will leave their jobs within one year. Though this rate declines somewhat in later years, the volume of departures from audit firms is still astonishingly high. The problem appears to stem from two core issues, which are that the amount of audit training given in college is relatively low, and that new auditors are not ready for the real-world experience of actually being involved in an audit. Clearly, our first habit needs to be targeted at overcoming this training and experience problem, so that new auditors stick around long enough to be concerned about additional habits.

The essential first habit is that if you don't know – ask. This is a surprisingly difficult task for the new auditor, who has just been hired into a (presumably) prestigious audit firm and does not want to look like a complete idiot by asking "stupid" questions. The normal reaction for anyone is to keep quiet and hope that the issue at hand is never raised again.

And yet, if you don't ask questions, you will never ramp up your knowledge about how the audit process *really* works and how a client's accounting systems function. Examples of these issues are:

- How does that feature in the auditing software work?
- Why is it so difficult to verify the client's inventory valuation?
- What are the rules for deriving physical inventory counts for liquids?
- How do the client's revenue recognition rules work?
- Is this sufficient audit evidence for customer confirmations?
- I can't figure out where some of the client's fixed assets are located.

And so on.

Consequently, the only choice is to ask – quite possibly a number of times a day, and especially during your first few months on the job. To keep from annoying the audit manager, it can make sense to write down your questions and then bring them up all at once, rather than dribbling them out every hour or two. Also, write down the answers in a log, and review them after hours; by doing so, you won't need to keep asking the same questions multiple times.

How is a person with an inquiring mindset reviewed by the audit managers during the annual staff review meeting? Quite well, because this approach will come across as being actively engaged in the daily tasks of the audit team.

In case this habit still does not seem right, just consider the reverse, of *never* asking questions. When that is the case, you will not be able to complete assigned tasks on time and so will repeatedly go over budget – which will certainly incur the wrath of the audit manager, who is responsible for the budget.

EXAMPLE

During a client's year-end physical count, Emily is asked to oversee a client's count of coal that is stored in an outdoor pile. She is not conversant in the calculations used to calculate coal tonnage based on the dimensions of the pile, and so accepts the client's calculations without question. When the audit manager reviews her preliminary notes, he realizes that the pile needs to be counted again. This requires a request to the client to send several of its personnel out into the yard for a recount, and also delays the count by several hours. Emily could have avoided this trouble if she had asked for help up front.

Habit #2 – Dig for Errors

A common error that the new auditor makes is racing through an assigned task in order to beat the budgeted number of hours and impress the audit manager. This is completely incorrect behavior, since the audit manager will not be impressed. Such rushed work invariably contains errors or other oversights, which will earn nothing more than a sad shake of the head, followed by numerous notes to make corrections to the work papers. Furthermore, the total time required to complete the work turns out to be *longer* than budgeted, because the audit manager has to review the auditor's work twice – the first time to make note of the many issues requiring correction, and a second time to ensure that the targeted items have been fixed.

A much better approach is to do an initial pass through a task and then set it aside for a cooling-off period. The amount of down time will depend on the person – it might be for an hour or perhaps overnight. The intent is to come back to the task and give it a fresh look after a sufficiently-long pause to improve the odds of finding problems. The audit manager will appreciate the cleaner outcome, and will not mind (or

notice) the delay in completing the work. In addition, the auditor will gain a reputation for clean, easily-reviewable output, which will certainly be noted during the annual performance review.

EXAMPLE

Shawn is assigned the task of issuing confirmations to a selection of a client's customers. The selection turns out to be for 102 invoices. Shawn conducts the work, but in the rush to complete this task, he fails to notice that two confirmations were never returned – which the audit manager spots right away during her review. It turns out that the two missing confirmations were not received for a very good reason, since they were fake invoices used to hide an in-house fraud scheme. In this case, Shawn failed to see one of the key points in auditing, which is that the exceptions require more work (not less), because they are most likely to be indicators of problems.

What about those cases in which the audit manager *does* notice that work output is being deliberately delayed? Your best bet is to explain your work method, noting that a short delay tends to reduce the number of errors in the work papers. If the manager still insists on getting the work done right away, then this prior explanation can be used as a valid excuse, where you point out that her review comments might have been remediated in advance, if only the manager had allowed you to wait for a short time and then conduct a review. If the manager still does not get the message, then there is nothing to be done, other than trying to switch to a different manager in the future (which can be a difficult task, given the minimal power that a staff assistant or senior auditor has).

Habit #3 – Move from Passive to Proactive

Who is on the partner track and who is not? In the early days of an auditor's career, audit managers are looking for *any* sign of who is worthy of promotion to audit senior, and from there to manager. Those who stand out are the auditors who are constantly asking for new assignments and volunteering for work – even the least glamorous work. For example, when an audit manager needs someone to assist with a late-night physical inventory count at a distant client location, the auditor who volunteers for the work will be remembered – and will likely be picked to return to the audit the next year. Similarly, continually asking for new work will not only increase the auditor's experience level, but will also improve his or her billable hours for the year – which is examined as part of the annual personnel review.

　　Compare this behavior to that of an auditor who approaches the job in a more passive manner. This person only works when asked to, and stops working when his or her assigned task has been completed. The audit manager has no particular reason to ask this auditor to return to the job the next year, and so might be more inclined to try someone else, in order to get a better result. Audit managers ask each other for advice about who to bring onto their jobs, and the passive auditor will not be mentioned. The result is a low billing rate, and probably not a long tenure at the audit firm.

EXAMPLE

Sarah had always done well at school, and her grades earned her an auditor position with a Big Four audit firm. During her first assignments, she competently completed all assigned tasks within the budgeted intervals, and with the usual number of audit manager comments that needed to be cleared. Once the busy season was over, she received her performance review, which placed her in the middle of the pack of new hires. She could not understand the reason for this mediocre score, and asked one of her most recent audit managers about it. The response was that this inquiry about her performance was the first proactive thing the audit manager had seen from her. None of the managers had seen her assist others on the audit team; instead, she had sat quietly when her work was done, so that several hours might pass before the audit manager noticed and assigned her additional work.

Habit #4 – Trace Everything Back to the Audit Objectives

An audit involves a long series of tasks pertaining to many parts of a client's accounting systems. For someone who is not thinking through the reasons for those tasks, an audit might appear to be a simple job of checking boxes – one for each task completed. This is an entirely incorrect way of looking at an audit, because those tasks were designed to meet an audit objective. The correct viewpoint is to consider the results obtained from each task, tracing them back to the audit objective. If the results of a test support the objective, then fine, the auditor can move along to the next task on the list. But if the results are not as expected, then the auditor needs to consider the impact on the audit objective, and quite possibly alter the audit plan to accommodate the change. This means that task completion is really an unending series of feedback loops, where tasks are continually being modified as the audit progresses. To make this feedback process work, the auditor needs to be constantly attentive to the reason(s) for each task, and carefully consider the impact of the results found on the audit objectives.

This habit relates to the preceding one, of being proactive rather than passive. The passive auditor does nothing to question how a task supports an audit objective, while a proactive one is constantly reassessing what is happening over the course of an audit, and making changes to the plan as needed.

EXAMPLE

Alex is assigned to watch the physical count of a client's inventory, which is comprised of expensive computer parts, such as motherboards and random access memory chips. At one point, he decides to conduct a sample count of a pallet load of motherboards, and finds that the count is too high, because several dozen boxes are missing from the center of the pallet. He could classify this as a counting mistake and continue with his assigned tasks – which would be a mistake, because he is not thinking through the ramifications of what he has seen. The correct action is to view the situation as a deliberate attempt to either hide the fact that inventory is missing, or to overstate the reported inventory valuation; accordingly, he should immediately refer the issue to the audit manager, who will need to reconsider the risk of fraud (either of asset theft or financial statement manipulation) and revise the audit plan accordingly.

A necessary outcome of this habit is that the auditor needs to be in near-constant communication with the audit manager, since the outcome of virtually any audit task might result in a revision of the audit plan. Thus, an effective way to conduct a feedback loop to the audit plan is for the auditor to present the audit manager with a brief summary of his or her results as soon as the task is complete, and discuss the impact of these results on the audit objectives. This may trigger an immediate change in the auditor's assigned tasks, such as using an increased sample size for payables confirmations because the results from the first round of testing were not as expected. A side benefit of this interaction is that the auditor is perceived as being more proactive in dealing with issues as soon as they arise.

Habit #5 – Match Activities to Availability

This habit relates to the preceding one, of which a component is adjusting the audit plan as the audit progresses. However, in this case we are not making adjustments to the plan based on the outcome of tasks, but rather adjusting the audit plan based on the availability of either client personnel or audit evidence. For example, if the client has not yet prepared its bank reconciliations, the auditor needs to be adaptable enough to set aside the related audit tasks and shift into a different area for which the client has completed the necessary work or documentation. Similarly, if the client's controller is not available due to meetings or being off-site, then the plan needs to be adjusted to accommodate that person's lack of availability.

This may seem like an obvious habit, but the concept really involves more forward planning than might initially be apparent. It makes little sense to start in on an audit task and then find halfway through that availability will be an issue, and have to pause the work and return to it later. This is always inefficient, since the auditor will need to document the state of the task at the point when work was suspended, and waste additional hours later, refamiliarizing with the issues once the work can begin again. When handled

properly, this habit involves spending time at the beginning of each task to make inquiries about availability. If there is a problem, then the task is immediately set aside and rescheduled for a later date, with notes about the specific availability issues encountered and when they should be resolved by the client. The auditor can then move immediately to the next task on the list, and also has a schedule in hand that describes projected availability dates – which makes ongoing audit planning easier. Thus, proper matching of one's activities to availability makes for a more even work flow throughout an audit.

EXAMPLE

Anna is assigned the task of reviewing a selection of the lease agreements for a client that is a large restaurant chain. She selects 80 leases for review, and sends her list to the client's controller. He immediately sends over a dozen lease agreements, and states that he needs to access the remaining leases from a remote storage location. Anna reviews the agreements she has been given, and then waits around for a half-day for the remaining leases, which do not arrive for three more business days. A better choice would have been to discuss the availability of the leases with the controller up-front, and delay her review work until all of the documents had been delivered.

An enhancement of this habit is to use the notes about availability issues to periodically remind the client about work that has not yet been completed. Doing so can be useful for spotlighting those availability issues that appear to be falling behind schedule, and which may require the assistance of the audit manager or engagement partner to politely get the client to attend to the matter. This is a better approach than only asking about availability on the client's due date and then finding out that a more extended delay will be in store.

Habit #6 – Track Work Improvement Ideas

A typical audit plan includes a task near the very bottom of the list, which is to document all improvement suggestions learned during the audit that could be applied to the next year's audit. While useful, the problem is that no one has thought out what these issues might be during the audit, so the result is more likely to be a few off-hand comments jotted down just as the workpapers for the audit are being finalized. A better approach is to continually monitor audit activities for improvement ideas. This questioning attitude can be built into the work day, so that it is routinely brought up in conversations with other members of the audit team, with any suggestions being written down immediately. While this habit might seem to take up a modest amount of additional time during an audit, the long-term effect is that the overall time required to complete an audit is reduced, due to ongoing incremental improvements caused by the suggestions.

EXAMPLE

In the prior year's review of a client audit by the engagement partner, George (as the audit manager) was lambasted for not offering a single work improvement idea. This year, George vows to try a different approach. This time, he includes a "best practices idea" task on his daily worklist as a reminder, and follows up on it by plugging everyone on his team, every day for ideas. He even asks the client's controller and CFO for their thoughts, which elicits several additional comments. He keeps a running tally of these suggestions, and eventually forwards 27 ideas to the engagement partner, who appears mollified.

This habit can be considered an advanced skill for the audit manager, since the engagement partner expects the manager to take a considerable interest in the economics of each audit, to ensure that the firm earns a profit on each one. Providing actionable improvement suggestions for every audit is a great way to show to the firm's partners that you have an interest in the overall success of the firm, which represents great positioning for a further promotion.

Tip: Taking this habit to its logical conclusion, the audit manager could volunteer to manage a firm-wide database of work improvement ideas. This would involve creating a system for collecting suggestions from the other audit managers, aggregating the results, and making them available to everyone in the firm. Not only does this position the manager as an audit efficiency expert, but also makes him or her the most knowledgeable person in the firm for managing highly efficient audits – which will attract the attention of the firm's partners.

Habit #7 – Enhance Client Relations

As part of their training, auditors are taught to be skeptical. This is certainly an important part of maintaining an independent mindset, and likely contributes to the discovery of client errors and fraudulent transactions. However, it also tends to contribute to an adversarial relationship, where the client's staff view the auditors as oppressors who are critiquing their work – which is the reason why so many clients throw a party for their accounting departments after the auditors have left, and to which the auditors are not invited.

An important habit for the auditor, and especially for the more senior auditors who are dealing with client management, is to lessen the overtness of their skepticism. This involves spending extra time with client personnel to see the situation from their viewpoint. It also involves taking the time to politely inquire about the reasons why transactions were accounted for in a certain way, without appearing to be confrontational or condescending. The outcome of this approach will still be the same auditor recommendations, since the intent is not to water down one's documented issues, but rather to make audit activities more palatable for the client.

This can be quite a difficult skill to learn, since it requires one to recognize and work with a variety of personality styles at a client, requiring different approaches for discussions with introverts, extroverts, counselors, visionaries, risk-takers, nurturers, activists, and so forth. Nonetheless, it is an important one for the enhancement of long-term client relations. Those who adopt this habit are more likely to be invited back by appreciative clients, and to eventually be promoted to partner based on the positive reviews they receive from clients.

Note: Another way of looking at this habit is to view it as having a high degree of emotional intelligence, which is defined as the capacity to be aware of, control, and express one's emotions, and to handle interpersonal relationships judiciously and empathetically.

EXAMPLE

Terry is the partner on an engagement with a client that develops and sells software. Early on, he realizes that the client is recognizing the associated revenue incorrectly, and that the correction will cost the client several million dollars in sales for the current year. The client's CFO has a well-earned reputation for being irascible, and so will probably not take kindly to an auditor mandate to make the necessary changes. Rather than immediately getting into a fight with the CFO, he instead spends a few days getting to know her, and learns the name of her favorite accounting professor from college, who lives in the neighborhood. He explains the situation to the professor, who volunteers to attend a luncheon at the CFO's favorite French restaurant. The professor breaks the bad news while Terry takes on the role of an attentive listener – and the CFO is mollified – though perhaps the crusty French bread helped, too.

For someone who wants to be an audit partner, this habit is absolutely essential, because it lies at the core of successful networking. To be an audit partner, the auditor is ultimately judged based on his or her ability to both retain existing clients and attract new ones, and a high degree of empathy is essential for doing so. Conversely, an auditor who has a hard time relating to clients will likely come across as brusque, which might lead them to look around for a different audit firm.

Bonus Habit – Support the Boss

An auditor working at any level of an audit firm (other than the partner) is much more likely to succeed in the job by attending closely to the needs of his or her supervisor. In many respects, any auditor, from a staff assistant right up to the most senior audit manager, exists solely to ease the work burden of the boss. This means being watchful for any hint by one's superior that extra work is needed, and immediately volunteering to take care of it. Further, the ideal auditor only needs to be trained once, taking notes and then figuring out answers on their own if there is a problem. From the supervisor's perspective, it appears that every problem is handed off and then disappears.

Supervisors are inordinately grateful to their subordinates when they shoulder a burden in this manner, which is usually repaid over a long period of time, and in many ways. There can be several results from such attentive behavior, such as:

- The boss is more likely to view the auditor as a trusted assistant, and so immediately turns to him or her for support when other issues come up – some of which may be choice assignments.
- The boss is more likely to view a supportive subordinate as someone who is deserving of early advancement to the next higher audit position, since the person is clearly capable in his or her current job.
- The boss is more likely to favor the subordinate with advice, coaching, or even one-on-one mentoring.

Showering assistance on a favored subordinate is not just a simple repayment for work done in the clutch for the boss. It is also a straightforward business calculation, that such a proactive person needs to be retained by the firm, for which the supervisor can improve the odds by providing career support.

Providing the boss with assistance can have its downsides, however. In particular, it can involve dropping one's personal plans with minimal notice in order to take care of any rush item that is afflicting the boss. For example, if a client wants the auditor's report by Monday morning and it is now Friday evening, then the auditor may need to provide assistance right through the weekend. However, this is also the nature of *any* services job, where the client gets what the client wants, no matter what time or day it may be.

Note: A useful Accounting Best Practices podcast episode that pertains to this topic is Episode 176, *Expectations for a Staff Accountant*. It is available at **www.accountingtools.com/podcasts**, as well as **iTunes**.

A Comment on Working Hours

Some of the preceding habits will require the auditor to work more hours. For example, being proactive will likely result in additional hours after the normal working day has ended, as will enhancing client relations (which probably involves the occasional dinner after work) and our bonus habit of doing whatever it takes to support the boss. These extra hours contravene what many audit firms are putting on their websites, which is statements about humane working hours and minimal overtime. In reality, auditing is a somewhat seasonal business, so the work load can be intense at certain times of the year. Consequently, the auditor who follows our recommended habits will find that the reality of audit work will sometimes require longer hours than one might expect. Further, as the auditor becomes more senior, the need to work ever-longer hours will increase, as the span of the job and its attendant responsibilities increase. Consequently, keep in mind that the auditor who truly wants to succeed in the job, be promoted multiple times and have a reasonable chance of making it into the partner position will have to work long hours – and some of our suggested habits will extend those hours. Or, stated another way, success in the auditing profession is tied, to some extent, to hours worked.

Audit firms try to set expectations with their new hires that long hours are *not* the case, and they may even try to over-staff jobs in order to minimize overtime. Nonetheless, extra hours *are* part of the auditing profession, and layering on our suggested habits will expand the work requirement.

The auditor who wants to leave work at a reasonable hour every day will likely find that this becomes an increasingly difficult goal to achieve, especially after one or two promotions. There will come a time, probably shortly after being promoted to audit manager, when the auditor will need to decide whether it is worthwhile to continue in this profession or to shift away to an accounting or tax job in a corporation or government entity where the hours are not so taxing.

Comparison of the 7 Habits to the Auditor Job Description

We have just described seven essential activities (and a bonus item) in which an auditor should be engaged. How do these items compare to the standard job description of an auditor? To answer that question, we have compiled an auditor job description (for all levels of auditor) that was sourced from a number of on-line job search web sites. According to these sites, the auditor job description should include the following activities:

Staff Assistant

- Develop an understanding of the audit firm's auditing methodology and tools
- Perform reviews of audit documents
- Validate data and analyze for accuracy and relevance
- Identify accounting and auditing issues and conduct research to resolve those issues
- Apply concepts of risk assessment
- Perform tests of internal controls
- Prepare audit workpapers to document findings

Senior Auditor

- Supervise field engagements
- Design approach to audit engagements
- Supervise staff
- Perform audit procedures of complex accounting areas
- Interact with clients to discuss field audit issues

Audit Manager

- Lead the daily operations of multiple engagements
- Involved with regulatory and accounting issues that arise during audit engagements
- Responsible for the supervision of staff
- Responsible for the management of services to clients
- Develop deep expertise in a targeted industry or service line

Partner

- Oversee the quality of services
- Lead, coach, and develop professionals within the practice
- Responsible for engagement profitability
- Understand client industries and business practices
- Develop in-depth relationships with client executives and board members

While the tasks described in the preceding bullet points are certainly correct, they only state *what* is to be done and not *how* to do them. How to do so should be handled by the in-house training staff of any audit firm, but their focus tends to be on the policies and procedures to be followed, such as the audit methodology and audit software on which the firm is standardized. Consequently, the aspiring auditor is more likely to

pick up these habits informally, either by watching successful auditors on the job, or from the occasional coaching tips of their supervisors. Unfortunately, many auditors do not pick up on these clues, and so see their careers stall for no apparent reason.

Habits for the Internal Auditor

Thus far, we have discussed recommended habits for the *external* auditor. What about the *internal* auditor? The perspective changes for an internal auditor, who wants to make recommendations that will have a practical value for the business. This means that the main habit is to focus on scheduling work on the right topic that someone actually wants to implement. If you listen to the external auditors, the only role for the internal audit staff is to monitor a company's system of internal controls, since this is what they need to conduct *their* annual audit. Does that mean that the internal auditor is adding value by reviewing controls? Well, if doing so reduces the workload of the external auditors and that reduces their fees, then yes – monitoring controls *does* add value. However, that is hardly a full-time, year-round job. What does the internal auditor do the rest of the time?

There are a few ways to provide value when not doing work for the external auditors. One involves taking a different view of controls auditing. Rather than trying to create a robust system of controls, what about creating a streamlined system instead? In this case, the trick is to not overload the company with too many controls. This is not easy, since you have to judge the risk of eliminating a control. But, think of what that means to the concept of adding value. It means that the internal audit staff looks at the whole company not as a system of controls, but instead as a system of business processes that should be streamlined as much as possible.

Streamlining does not always mean *eliminating* controls. It could mean shifting them around or automating them so that they are less intrusive. And think of how easy it is to implement a *streamlining* suggestion. Of course it will be installed, and probably quite quickly, with the full backing of every department manager in the company. This is an ideal way to add value.

Another way to add value is to assign each internal auditor to be a liaison with a department manager. If you are an internal auditor and a liaison, that means setting up a meeting on a regular basis to meet with the assigned manager. Your job in that meeting is to listen to the manager and find out what kinds of problems there might be that the internal audit staff can help with. By doing this, you reorient the concept of the internal audit function. Instead of turning up unexpectedly and rooting around for problems, you are asked to come in and help with a specific issue. Of course, there will be times when you *do* show up unexpectedly, especially if you're investigating a report of fraud. But the rest of the time, with this approach, adding value is easy.

Having a liaison structure does not mean that the internal audit department turns into a public service function. There are some areas where there is risk, and you need to examine those areas from time to time. Thus, the concept of adding value to internal audits – to some extent – becomes a scheduling issue. There should be a mix of high-risk areas to review, fraud investigations, and work requests from managers being funneled back through the liaisons.

A key benefit of this approach is that the more work the internal audit staff does that's being requested by the various department heads, the more it gains their confidence, and therefore the more requests they make, resulting in a feedback loop that keeps increasing the types of projects that add value. But again, the internal audit staff needs to do the other types of work, too. This is where some marketing comes in handy. It might be useful to have an internal audit newsletter that goes out to the rest of the company, which is used to talk about the ways in which the department has been providing assistance, summarizing the projects already completed and the results achieved. This means that you are making the company disproportionately aware of the internal audit department's role in certain activities, while still working quietly on other projects, too.

So far, we have talked about adding value through the carrot approach – which is to make the rest of the company like you more. There is also the stick approach, where you tell senior management which departments have *not* been implementing your recommendations, and ask to have them follow up with the

offending people. If you follow this path, then there need to be follow-up audits to see if the initial recommendations were implemented. The stick approach is not popular, but it *is* still needed. There will be times when you make an unpopular recommendation, probably to mitigate a risk, and it causes extra work for employees. Still, it has to be done, and knowing that the auditors will come back later to check on the situation is important.

Does this carrot approach of streamlining controls and helping departments essentially turn the internal auditing department into an internal consulting department? To an extent, yes. But it is just a matter of emphasis. The overall mission of the department remains the same, but it is easier to add value to the work being performed. And keep in mind that you need to mix in the stick approach too, to make sure that the tougher recommendations are also implemented.

In short, our main habit for the internal auditor is to focus on providing practical value to the business, which can be done both by emphasizing a streamlined system of controls and by working with the management team in the role of an internal consulting group to provide assistance wherever it is needed.

Summary

In this course, we have focused on the key underlying aspects of the auditing job, with a particular emphasis on the early years of a person's career. In short, a new auditor should be forthright in making inquiries about any areas of weakness (rather than hiding them), use a methodical approach to completing work, and be persistent in acquiring additional tasks. A senior auditor should be cognizant of the audit objectives that the audit plan is intended to fulfill, and be willing to change the plan repeatedly in order to do so. This person should also be willing to rejigger the audit schedule based on the availability of client resources. And finally, the audit manager and partner must be highly aware of the needs and viewpoints of clients, in order to engage with them in a non-confrontational manner.

We close with a reiteration of the seven habits for the external auditor, which are as follows:

1. If you don't know – ask
2. Spend extra time searching for errors in your audit work
3. Be proactive in asking for more work
4. Trace all tasks back to the audit objectives
5. Schedule audit tasks based on the availability of client resources
6. Search for and document work improvement ideas on a daily basis
7. Enhance your emotional intelligence to improve client relations

Bonus habit – Support the boss

Review Questions

1. The following is a recommended habit specifically targeted at audit managers and partners:
   a. Dig for errors
   b. Be more proactive
   c. Match activities to availability
   d. Enhance client relations

2. A classic example of being effective is:
   a. Routinely setting up off-site gatherings for the audit team
   b. Completing an assigned task as fast as possible
   c. Revising the audit plan continually, depending on the results of audit tasks
   d. Insisting on loading all audit notes into the audit software by the end of each day

3. The following is a job description task normally associated with senior auditors:
   a. Perform audit procedures on complex accounting areas
   b. Develop an understanding of the audit firm's auditing tools
   c. Involved with regulatory issues
   d. Responsible for engagement profitability

Answers to Review Questions

1. The following is a recommended habit specifically targeted at audit managers and partners:
   a. Dig for errors
   b. Be more proactive
   c. Match activities to availability
   d. Enhance client relations

   a. Incorrect. Taking more time to review audit work is a fundamental habit that is of most use to new auditors.
   b. Incorrect. Being more proactive is a useful habit for everyone, but in the course, we especially recommend it for the newer staff.
   c. Incorrect. Scheduling tasks based on the availability of client resources is most useful for audit personnel below the audit manager.
   d. **Correct. Enhancing client relations is definitely a senior skill, and is most heavily used by audit managers and partners.**

2. A classic example of being effective is:
   a. Routinely setting up off-site gatherings for the audit team
   b. Completing an assigned task as fast as possible
   c. Revising the audit plan continually, depending on the results of audit tasks
   d. Insisting on loading all audit notes into the audit software by the end of each day

   a. Incorrect. The use of scheduled parties for the audit team is great for interpersonal relations, but has no particular impact on the effectiveness of the group.
   b. Incorrect. Completing a task quickly is not effective or efficient, since the work might be done poorly.
   c. **Correct. Constant audit plan revisions are quite effective, since it keeps the audit plan properly aligned with the audit objectives.**
   d. Incorrect. Loading information into the audit software is an organizationally robust way to run an audit team, since all information is centralized, but it does not have a demonstrable effect on the effectiveness of the group.

3. The following is a job description task normally associated with senior auditors:
   a. Perform audit procedures on complex accounting areas
   b. Develop an understanding of the audit firm's auditing tools
   c. Involved with regulatory issues
   d. Responsible for engagement profitability

   a. **Correct. The senior auditor is normally assigned to the more complex accounting areas, since they are beyond the skills of the staff assistant.**
   b. Incorrect. Developing an understanding of the audit firm's auditing methodology and tools is a task assigned to staff assistants. All other personnel should be experts in this area.
   c. Incorrect. The audit manager is most likely to be involved with the regulatory and accounting issues that may arise during an audit.
   d. The engagement partner is responsible for engagement profitability, with input from the audit manager.

Glossary

_A_

Auditor. An individual who examines the accuracy of recorded business transactions. Auditors are needed in order to verify that processes are functioning as planned, and that the financial statements produced by an organization fairly reflect its operational and financial results.

_E_

Effective. To do the right thing or produce the desired result.

Efficient. The maximization of productivity.

Emotional intelligence. The capacity to be aware of, control, and express one's emotions, and to handle interpersonal relationships judiciously and empathetically.

_H_

Habit. Engaging in an activity on a regular basis, to the extent that it is hard to give up.

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Final Examination

The final examination for this course is provided below. Feel free to circle your choice for the best answer to each question. To enter your answers online and receive an immediate grade and completion certificate, follow these steps:

1. Go to www.accountingtools.com/cpe
2. Click on the "Access the Training Module | Complete a Test" button near the top of the page.
3. Login with your user name and password.
4. Select the **Take a Test** option and then select the **Programs** option. Click on the program that you want to take.
5. Take the test. You can stop and restart the test at any time.

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1. The difference between being efficient and effective is:
   a. That effectiveness involves the maximization of one's productivity
   b. That effectiveness involves the correct deployment of resources
   c. That efficiency involves a strategic mindset
   d. That effectiveness involves a tactical mindset

2. Asking the audit manager questions can be made less annoying by:
   a. Asking the client for answers
   b. Resolving them on your own
   c. Talking to the audit senior instead
   d. Saving them up for one visit

3. Racing straight through an assigned task takes longer to complete, because:
   a. The auditor is too junior, and needs to keep asking questions
   b. The work tends to span two or more working days
   c. The audit manager usually has to review the work twice, because of all the errors
   d. The audit manager usually asks someone else to check the work

4. The most advanced form of work improvement ideas is to:
   a. Create a firm-wide database of work improvement ideas
   b. Implement a policy mandating a minimum number of ideas from each audit team
   c. Compile a list at the end of each audit
   d. Keep a daily log of ideas

5. ___ tends to contribute to an adversarial mindset between auditors and their clients.
   a. The significant difference in education between the groups
   b. The skeptical nature of auditors
   c. The natural reserve of auditors with their clients, from whom they are supposed to be independent
   d. The questioning attitude of clients toward the work of the auditors