

PROFESSIONAL SCEPTICISM: LOOKING BOTH WAYS ON A ONE WAY STREET

A CONVERSATION ABOUT PROFESSIONAL SCEPTICISM
WITH LEADERS OF THE AUDIT PROFESSION, PSYCHOLOGISTS
AND BEHAVIOURAL SCIENTISTS

JUNE 2014

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OVERVIEW

Professional scepticism is essential in almost any governance or professional role, this is particularly true for auditors. The capacity for an acutely questioning mind and all of the behaviours that this promotes has been raised globally as an area of focus for the auditing profession and its stakeholders.

Thinking and talking about professional scepticism, and how it can be done better, continues to be challenging given the often personal and subjective nature of mastering scepticism.

This brief summary document outlines some of the key insights and questions on scepticism that surfaced during recent exploratory panel discussions and interviews with senior representatives of the audit profession, standard-setters and regulators, together with experts in psychology and behavioural science.

The objective of these panel discussions and interviews was to explore, without predefined boundaries, what professional scepticism means in a practical and personal sense, and how auditors and others who must apply this set of skills could better do so.

CPA Australia is starting a conversation on professional scepticism to gather insights as widely as possible (see below for how you can join the conversation). The insights presented in this short paper reflect panel discussions and interviews and are not intended as defined answers or guidance, but rather are presented as prompts for further discussion and thought.

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Dianne Azoor Hughes, Partner, Pitcher Partners

Dr Damian Cotchett, Senior Consultant, Nous Group

Dr Noel Harding, Associate Professor, The University of New South Wales

Merran Kelsall, Chairman, Australian Auditing and Assurance Standards Board, Member, International Auditing and Assurance Standards Board

Brent Kennerley, National Director, Audit, Grant Thornton New Zealand

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Jeffrey Luckins, Director, William Buck

Doug Niven, Senior Executive Leader, Financial Reporting and Audit, Australian Securities and Investments Commission

David Searle, Audit Partner, Staples Rodway

Facilitated by **Amir Ghandar**, Policy Adviser – Auditing and Assurance, CPA Australia

The views expressed in this paper are a summary of discussions and interviews and do not necessarily represent the views of individual panellists.

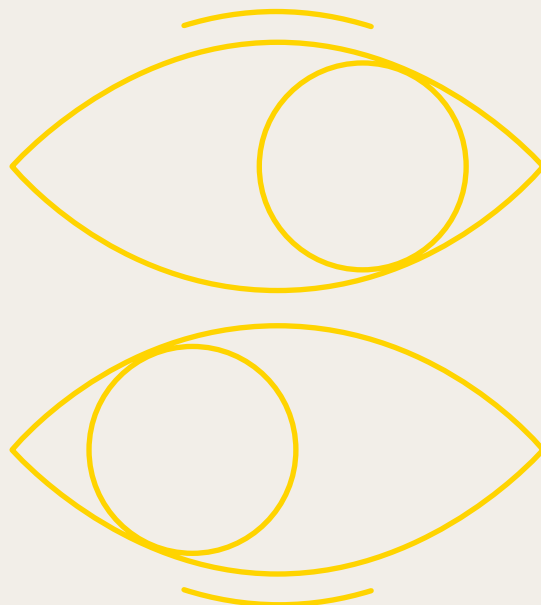
PROFESSIONAL COURAGE

- At the core of professional scepticism is professional courage.
- Adopting scepticism and helping teams of often young professionals to apply this critical approach is about setting the right environment to foster professional courage.
- You can't be sufficiently sceptical without sufficient confidence in your abilities, competence and position.
- To be sceptical, an auditor must have three things – the right attributes, the right mindset and the right actions.
- Mentorship and coaching, including regular face-to-face contact, from senior auditors to those starting out in the profession is crucial – it is often junior auditors who are in the best position to absorb critical information and perceptions about the client environment.



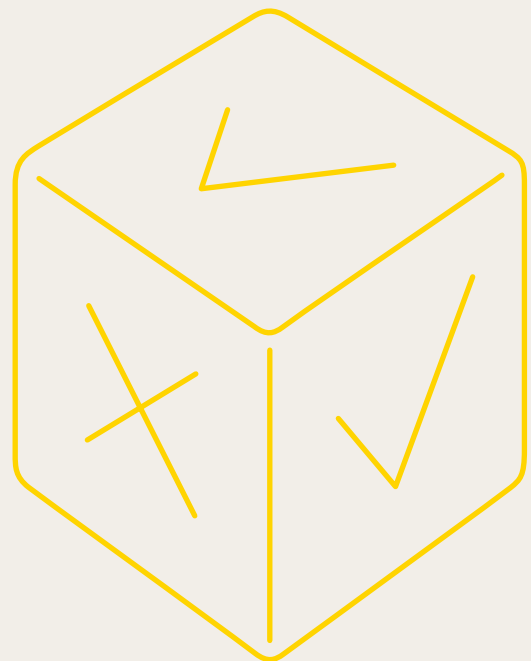
HOW MANY OF YOU LOOK BOTH WAYS?

- When you cross a one-way street, how many of you look both ways? That is professional scepticism – being aware that things may not always be as they seem, or as they have normally been in the past.
- A mindset of professional scepticism is sometimes mistaken for suspicion or suspecting the worst. However, a suspicious mindset can create biases and be unhelpful in fostering effective scepticism. When you approach a situation suspecting the worst, cues that indicate otherwise – even if these are just normal, expected behaviours – can bias your impressions in the positive.
- Professional scepticism is a personal skill and as such is affected by human biases and pressures. It is arguable whether these biases can be fully overcome, but recognising that they exist is a significant first step.
- To what extent can professional scepticism be trained?



THE RIGHT ACTIONS

- Auditors must be sceptical throughout an entire audit – people need to stand back periodically and think about whether there is anything inconsistent or contradictory.
- Tone at the top – firms need to emphasise, train and reward integrity, judgement and an inquiring mind.
- Diplomacy, strong communication skills, the ability to build rapport and empathetic understanding are critical in effectively applying professional scepticism. In a time-pressured or tense situation, these skills can make all the difference in successfully achieving professional scepticism.
- Ask yourself – have you simply corroborated rather than challenged significant assertions from management?
- Lead the client toward understanding a gap, rather than a direct confrontation.
- Use open-ended questions.
- Recognising that auditors work under significant time pressure is an important factor in maintaining professional scepticism. With hindsight and time removed as a critical factor, judgements made under such time pressure are easy to criticise but to genuinely gain insight and improve capability, we have to distinguish time as a key factor.



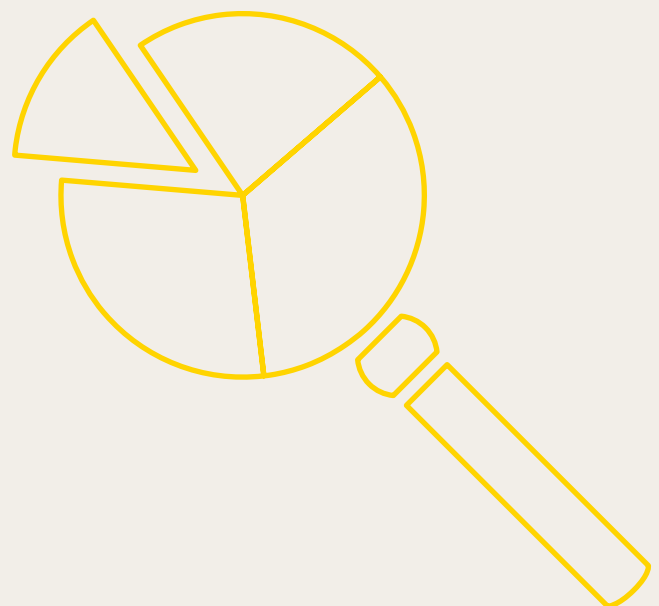
BETWEEN THE LINES

- Professional scepticism often happens in between the formal aspects of an audit – “reading between the lines” – documenting this can seem like “writing between the lines”.
- The informal dialogue and observations made while visiting a client or engaging in other areas can be equally important to, and sometimes more critical than, checking and documenting against the formalised components of a work program.
- Professional scepticism also exists in informal relationships, observations and happenings inside the auditor’s mind – documenting these invaluable aspects of an audit is a significant challenge, and essential given auditors’ professional scepticism is frequently judged on the basis of their files.
- Have you documented the whole journey involved on an issue – the beginning position, challenges raised and responses – or just the outcomes and conclusions?



BEING AWARE

- Professional scepticism is about being aware of possibilities – this includes for example the possibility of fraud, that evidence is contradictory and that new information may have a bearing on previous aspects, such as the reliability of documents or responses to enquiries.
- Question whether the evidence presented is appropriate, reliable, complete and consistent with other information obtained during the audit and prior years – also compare with experience gained from other audits.
- “Are you asking the right people?” - inquiries are often focused at a leadership level although sometimes critical insights can come from those deeper within an organisation’s operations.



THE BIG PICTURE

- “You can’t put professional scepticism in a checklist, but we need to make sure that our checklists stay out of the way of professional scepticism”.
- A “box-ticking” or checklist-driven approach has regularly been widely criticised as detrimental to effective auditing. While they are an important tool, the noise created by an inappropriately focused checklist, overly detailed and prescriptive set of requirements or mechanical response can distract from crucial higher level observations.
- Never conclude on an audit test or issue in isolation – need to always consider the big picture.



RESPONDING TO THIS PAPER

What are your thoughts on professional scepticism? Do you agree or disagree with the insights and questions posed in the conversations outlined here or have further views?

CPA Australia is starting a conversation on professional scepticism to gather insights as widely as possible in addition to ongoing research and development of education and training resources. To contribute, please provide your responses to the insights and questions outlined in this paper or further views by 30 September 2014 as detailed below.

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with subject line "scepticism discussion paper".

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