

2021 Compliance Forum: “Risk Management: Corroborating Evidence is a Key to Success”

How CPAs can benefit from the 2021 Compliance Forum, available as an e-Seminar on applying risk management techniques and performing assurance engagements based on real-life examples



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Risks are all around us and managing them requires exceptional critical thinking skills. However, your brain may be playing tricks on you: Did you know your brain makes some decisions automatically? You may think you are in control, but neuroscience has proven otherwise. For example, a person may have texted their friend but no reply was received. A confident person might conclude that their friend was busy and been unable to respond. Alternatively, a less secure person may conclude their friend was ignoring them. Often, these thought processes occur without any cognitive effort on our part. Confirmation bias may be the culprit that contributes to different responses from the same set of facts.

Confirmation bias is the tendency to seek out and process information that is consistent with one's beliefs. This tendency to distort reality can have serious influence on decision-making. Auditors are required to **maintain objectivity** when performing professional engagements. However, studies have shown they often seek out information that supports their **original assessments** about a client, an account, or internal control – ignoring disconfirming evidence that could point to material fraud or misstatement.

Imagine visiting the doctor for an annual body check. You look good. You feel good. Your diagnostic tests are good, except for one. Your blood pressure is 180/120 mmHg (considered stroke level). What if the doctor ignored the disconfirming evidence and concluded you were fine because most of the information supported his original assessment that you looked good? Unfortunately, that decision might prove to be fatal because of that one piece of disconfirming information and the doctor's confirmation bias.

Think about this next time you are gathering evidence for an audit engagement and discover something that is contrary to previously gathered evidence or inconsistent with your expectations. To resolve the conflict, you can: a) revisit your understanding of the circumstances; b) consider whether corroborating evidence can be obtained; and/or c) gather *persuasive* evidence, not just more pieces of evidence. Remember, the survival of the company may depend on you.

The International Ethics Standards Board for Accountants recently amended the *Code of Ethics for Professional Accountants* to emphasize the influence of bias in decision-making, noting that objectivity may be compromised by bias. The revisions also call attention to bias when applying the *Conceptual Framework for Financial Reporting*, warning professional accountants that “conscious or unconscious bias affects the exercise of professional judgement” and give examples of the potential biases such as automation bias, groupthink and overconfidence bias, to look out for.

The code of ethics suggests the effects of bias may be managed by seeking advice from experts to obtain additional insight, consulting with others to ensure appropriate challenge, and receiving training about bias identification. Research shows that bias awareness is the first step towards bias mitigation.

Educating yourself about potential biases may help improve your objectivity but there are other engagement risks demanding your attention. They may arise during planning, evidence gathering, or finalizing an audit.

About the forum

“Risk Management: Corroborating Evidence is a Key to Success” was the theme of the 2021 Compliance Forum, which is now available as an e-Seminar. The forum provides a closer look at how to apply risk management techniques when performing assurance engagements. Real-life examples help demonstrate effective concepts and procedures that can be applied during different phases of the audit process.

Watch the recording to learn how to increase effectiveness during the planning stage of an audit by identifying high-risk areas or threats, and responding with appropriate audit procedures. Actual case scenarios are examined to demonstrate how to effectively audit acquisition transactions by clients and assess clients' available-for-sale investments. The speakers highlight points to consider as they share information about the cases. In closing, participants are reminded to “begin with the end in mind” to ensure that they have developed a robust plan that leads to an audit opinion, properly supported by persuasive evidence and documented accordingly.