

SECOND OPINIONS: CAN PROFESSIONAL SCEPTICISM BE TAUGHT?



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In recent years, considerably more research has been published on professional scepticism. This has helped facilitate in-depth discussions among standard setters, regulators, audit firms and professional bodies. The primary driver for this research has been the continual failure by auditors to exercise an appropriate level of professional scepticism, as reported by global audit regulators. While the extent of such deficiencies can be debated, there are undoubtedly issues that need to be addressed.

I am a great believer that professional scepticism can be taught. In order to best facilitate this, case studies of real-life scenarios (or based on such) are required. These should illustrate where professional scepticism has, and where it has not, been appropriately applied. The need to learn how to have a questioning mind, apply professional judgement, think critically and be aware of bias are key. Additionally, understanding the level of judgement and subjectivity in a set of financial statements is also important. Behavioural and cultural factors also play an essential role. Audit firms must create and maintain a culture where the exercise of professional scepticism is supported and encouraged.

For undergraduate students, I commonly write “101” on the screen and ask the audience what they see. Most students respond with the decimal number 101 or 5 in binary. The impact of bias can also be further illustrated with the commonly used example of the purchase of two items with a total cost of £1.10. If one item costs £1 more than the other what is the cost of the more expensive item? Many students instinctively respond with £1. Those that take the time to stand back and “think” usually respond with the correct answer. That is why I appreciate the moves by the International Auditing and Assurance Standards Board to better promote the use of stand back procedures in the International Standards on Auditing. This valuable reflective can help promote professional scepticism. As they progress, students obviously need to be introduced to the more complex real-life audit examples mentioned earlier.

Professional scepticism is undoubtedly a multifaceted concept, and we will continue to learn how best to embed this into the auditor’s psyche. However, if an auditor is able to combine the substance of the ICAS motto “*Quaere Verum*” (seek the truth) and “Moral Courage” (the ability to stand one’s ground and challenge appropriately) then, I have little doubt that professional scepticism will be properly exercised on any audit.

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Auditors are expected to maintain professional scepticism throughout all stages of the audit process. This continuous practice inherently conditions auditors to improve their scepticism skills. R. Kathy Hurtt shared relevant studies about scepticism in her 2010 article entitled *Development of a Scale to Measure Professional Scepticism*, identifying six characteristics as influencers of professional scepticism – a questioning mind, suspension of judgement, search for knowledge, interpersonal understanding, self-esteem and autonomy. When the ambiguous concept is broken down into identifiable characteristics, improvement becomes more manageable.

One component of a questioning mind is critical thinking. In a previous enforcement matter, an auditor was alerted to a couple of material transactions for which there were no source documents or explanations. Although they were identified by a component auditor for follow up, the group auditor ignored potential risks associated with these questionable transactions. Further investigation revealed the transactions were part of an elaborate fraud. It's impossible to prove that a questioning mindset would have pointed the auditor to the fraud but further audit procedures would have been expected under the circumstances.

Auditors are best served when evaluating information from a “presumptive doubt” mindset which invites questions such as: “What is the economic reality of this transaction?” “Does the appropriate accounting treatment require judgement?” “Would an alternative accounting treatment be more appropriate but less favourable for the client?” If the answer to any of these questions is “it depends”, the auditor may want to further assess the situation before drawing a conclusion.

Lapses in scepticism have also resulted from auditors' unconscious bias towards management explanations. This bias may cause them to ignore conflicting information that supports a less favourable accounting treatment. Auditors must recognize this natural tendency and focus on objectively examining all relevant information before deciding how to proceed.

When taking a stance that is contrary to their client's preferred accounting treatment, moral courage is required. Firm leaders should engage in coaching exercises with staff to help them develop the courage needed to ask the right questions and do the right thing. Although partners may feel they don't have time for coaching activities, it is much less time consuming than defending a complaint, a lawsuit or the firm's reputation.

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Yes, but it is not easy.

It's not a matter of time to be invested for training or a matter of the person's intelligence. Professional scepticism is all about having a questioning mind throughout the assurance or professional engagements. So, the question is how to teach or enhance one's questioning mind.

Consider honesty or integrity, which are intrinsic ethical values that we expect most people to be equipped with. We are born with innate values geared towards determining good or bad and right or wrong, but these values are also affected by how we are nurtured and who by, as well as when and where we are situated in. Professional scepticism is also influenced by intrinsic values and one's experiences.

At university, professional scepticism is one of the key concepts highlighted in the accounting curriculum. The course on auditing, say, is one of those that emphasizes the element considered and implemented throughout professional practices. To a large extent, professional scepticism is an important ethical value that we, as educators, wish to instil in the professional accountants-to-be under our tutelage. We are not asking our future accountants to perceive all preparers or clients as “suspects,” but we are asking them to not easily rule out a possibility that there may be something wrong.

Striking such a balance is obviously not easy, and thus we devise our course delivery in ways of not only including theoretical explanations or a standardized way of interpreting the concept of professional scepticism, but we also introduce a variety of teaching methods to help students understand, appreciate, and apply professional scepticism in different practical scenarios. For example, practical cases (regardless of make-up cases or real business cases) are discussed inside classrooms, and students are asked to analyse and present the case facts as well as (sometimes) to lead discussions with the whole class. Debates and role plays are also other effective tools to engage students to think from the real perspectives. Practical exposure is necessary!

Although some students may not have takeaways immediately after those class activities, varied styles of teaching and learning deliver professional concepts, especially those relevant to ethical determination.

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