Enlightened Professional Skepticism

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Agenda

- Speaker Qualifications
- Professional Skepticism Explored
- Tools for Increasing Thinking Skills
- Questions, Answers, Rants and Raves
W. Haskins-Hafer - [Redacted]

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It All Started Over Dinner
Professional Skepticism

Public Accounting

The Rest of the World

Critical Thinking
Critical Thinking Defined

• Open-minded approach to analyzing a situation or task for the development of supportable conclusions and conveying the assessed results in a logical manner.

  Adapted from Transforming Internal Audit Through Critical Thinking (KPMG 2014)

• It is based on universal intellectual values that transcend subject matter divisions: clarity, accuracy, precision, consistency, relevance, sound evidence, good reasons, depth, breadth, and fairness.

  Adapted from Michael Scriven & Richard Paul
  National Council for Excellence in Critical Thinking
Critical Thinking in Auditing

- The ability to
  - Break down information, evaluate it, and understand how one component affects another
  - Examine assumptions, discern hidden values, evaluate evidence and draw conclusions
- The foundation for every duty and responsibility that falls within the purview of an internal auditor’s job

*From “Putting Your Internal Audit Career on Track for Success” (IIA, 2012)*
## Top Sought-After Skill

### Table 3. Most Sought Audit Skills

<table>
<thead>
<tr>
<th>AUDIT SKILL</th>
<th>All Respondents</th>
<th>Fortune 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analytical/Critical Thinking</td>
<td>77%</td>
<td>76%</td>
</tr>
<tr>
<td>Communications Ability</td>
<td>58%</td>
<td>61%</td>
</tr>
<tr>
<td>Data Mining and Analytics</td>
<td>54%</td>
<td>52%</td>
</tr>
<tr>
<td>General Information Technology</td>
<td>44%</td>
<td>46%</td>
</tr>
<tr>
<td>Business Acumen</td>
<td>40%</td>
<td>46%</td>
</tr>
<tr>
<td>Industry-specific Knowledge</td>
<td>33%</td>
<td>28%</td>
</tr>
<tr>
<td>Accounting</td>
<td>30%</td>
<td>31%</td>
</tr>
<tr>
<td>Risk Management Assurance</td>
<td>30%</td>
<td>34%</td>
</tr>
</tbody>
</table>
## IIA Global Internal Audit Competency Framework

### Improvement and Innovation
- Internal Audit Delivery

### Personal Skills
- Communication
- Persuasion and Collaboration
- Critical Thinking

### Technical Expertise
- IPPF
- Governance, Risk and Control
- Business Acumen

### Internal Audit Management
- Professional Ethics
Pyramid of Audit Maturity

1. Auditing Skills
2. Process, Organization & System Knowledge
3. Industry Experience
4. Critical Thinking
5. Value Creation

Transforming Internal Audit Through Critical Thinking (KPMG 2014)
10 Universal Intellectual Values

- **Clarity**
  - Understandable, the meaning can be grasped

- **Accuracy**
  - Free from errors or distortion

- **Precision**
  - Exact to the necessary level of detail

- **Consistency**
  - Logical and lacking contradictions

- **Relevance**
  - Pertinent, focused on the critical few
Intellectual Values, continued

- **Sound Evidence**
  - Valid and trustworthy data
- **Good reasoning**
  - The evidence supports the conclusion
- **Depth**
  - Containing complexities and interrelationships
- **Breadth / Perspective**
  - Encompassing multiple viewpoints
- **Fairness**
  - Justifiable, unbiased
Let’s Add One for Auditing

Curiosity

Inquiry
Data Gathering
Interviewing
Interrogation
Analysis
Tell me more…
That’s Great, but...

*How can we translate intellectual values into actionable auditing?*

*Here come the tools!*
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Systematic</td>
<td>What are the facts? What don’t we know?</td>
</tr>
<tr>
<td>Reasoning</td>
<td>What does this mean? If A and B, then C?</td>
</tr>
<tr>
<td>Accuracy</td>
<td>Are these the right assumptions &amp; inferences?</td>
</tr>
<tr>
<td>Clarity</td>
<td>What is this picture I’m looking at?</td>
</tr>
<tr>
<td>Causality</td>
<td>What would cause that?  <strong>Why?</strong></td>
</tr>
<tr>
<td>Relevance</td>
<td>How are these facts related? What do they mean?</td>
</tr>
<tr>
<td>Significance</td>
<td>What are the short and long term implications?</td>
</tr>
<tr>
<td>Perspective</td>
<td>What is the context?</td>
</tr>
<tr>
<td>Attribute</td>
<td>Definition</td>
</tr>
<tr>
<td>---------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Systematic</td>
<td>A coherent set of facts</td>
</tr>
<tr>
<td>Logic / Reasoning</td>
<td>The parts make sense together</td>
</tr>
<tr>
<td>Accuracy</td>
<td>Free from errors or distortions; true</td>
</tr>
<tr>
<td>Clarity</td>
<td>Understandable; the meaning can be grasped</td>
</tr>
<tr>
<td>Causality</td>
<td>Relationship between events or factors</td>
</tr>
<tr>
<td>Relevance</td>
<td>Relating to the matter at hand</td>
</tr>
<tr>
<td>Significance</td>
<td>Focusing on the important; not trivial; Critical Few</td>
</tr>
<tr>
<td>Perspective / Breadth</td>
<td>Encompassing multiple viewpoints / aspects</td>
</tr>
<tr>
<td>Precision</td>
<td>Exact to the necessary level of detail</td>
</tr>
<tr>
<td>Depth</td>
<td>Containing complexities and multiple interrelationships</td>
</tr>
<tr>
<td>Fairness</td>
<td>Justifiable, even-handed</td>
</tr>
</tbody>
</table>

**Internal Audit Critical Thinking Matrix**
One Readable Row...

- Attribute: CAUSALITY
- Definition
  - *Relationship between events or factors*
- Ask Yourself
  - *What contributed to the result?*
  - *What is the root cause?*
  - *Why? (5x)*
- Ask Others
  - *How could this happen?*
  - *What contributed to this result?*
  - *Why? (5x)*
Critical Thinking VALUE Rubric

- Published by the Association of American Colleges and Universities
- value@aacu.org
- Can be used to evaluate individuals, audits, department
- Vocabulary
  - Rubric = Matrix, chart
  - Exemplar = work sample
  - Domain = area of knowledge
<table>
<thead>
<tr>
<th>Evaluators are encouraged to assign a zero to any work sample or collection of work that does not meet benchmark (column) level performance.</th>
<th>Capstone</th>
<th>Milestones</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquiring Competencies</strong>&lt;br&gt;This step refers to acquiring strategies and skills within a particular domain.</td>
<td>Reflect: Evaluates creative process and product using domain-appropriate criteria.</td>
<td>Create: Generates an entirely new object, solution or idea that is appropriate to the domain.</td>
<td>Adapt: Successfully adapts an appropriate exemplar to his/her own specifications.</td>
</tr>
<tr>
<td><strong>Taking Risks</strong>&lt;br&gt;May include personal risk (fear of embarrassment or rejection) or risk of failure in successfully completing assignment, i.e. going beyond original parameters of assignment, introducing new materials and forms, tackling controversial topics, advocating unpopular ideas or solutions.</td>
<td>Actively seeks out and follows through on untested and potentially risky directions or approaches to the assignment in the final product.</td>
<td>Incorporates new directions or approaches to the assignment in the final product.</td>
<td>Considers new directions or approaches without going beyond the guidelines of the assignment.</td>
</tr>
<tr>
<td><strong>Solving Problems</strong></td>
<td>Not only develops a logical, consistent plan to solve problem, but recognizes consequences of solution and can articulate reason for choosing solution.</td>
<td>Having selected from among alternatives, develops a logical, consistent plan to solve the problem.</td>
<td>Considers and rejects less acceptable approaches to solving problem.</td>
</tr>
<tr>
<td><strong>Embracing Contradictions</strong>&lt;br&gt;Integrates alternate, divergent, or contradictory perspectives or ideas fully.</td>
<td>Incorporates alternate, divergent, or contradictory perspectives or ideas in an exploratory way.</td>
<td>Includes (recognizes the value of) alternate, divergent, or contradictory perspectives or ideas in a small way.</td>
<td>Acknowledges (mentions in passing) alternate, divergent, or contradictory perspectives or ideas.</td>
</tr>
<tr>
<td><strong>Innovative Thinking</strong>&lt;br&gt;Novelty or uniqueness (of idea, claim, question, form, etc.)</td>
<td>Extends a novel or unique idea, question, format, or product to create new knowledge or knowledge that crosses boundaries.</td>
<td>Creates a novel or unique idea, question, format, or product.</td>
<td>Experiments with creating a novel or unique idea, question, format, or product.</td>
</tr>
<tr>
<td><strong>Connecting, Synthesizing, Transforming</strong>&lt;br&gt;Transforms ideas or solutions into entirely new forms.</td>
<td>Synthesizes ideas or solutions into a coherent whole.</td>
<td>Connects ideas or solutions in novel ways.</td>
<td>Recognizes existing connections among ideas or solutions.</td>
</tr>
</tbody>
</table>
Solving Problems

- Benchmark (1 point)
  - Only a single approach is considered and used to solve the problem
- Milestone 1 (2 points)
  - Considers and rejects less acceptable approaches to solving the problem
- Milestone 2 (3 points)
  - Having selected from among alternatives, develops a logical, consistent plan to solve the problem
- Capstone (4 points)
  - Develops a logical, consistent plan to solve the problem
  - Recognizes consequences of solution
  - Can articulate reason for choosing the solution
Bloom’s Taxonomy (Revised, 2001)

Creating
Evaluating
Analyzing
Applying
Understanding
Remembering

Anderson, L. W., & Krathwohl, D. R. (Editors)
A taxonomy for learning, teaching and assessing: A revision of Bloom's Taxonomy of educational objectives (2001)
Verbs for Bloom’s Terms

- **Remembering**
  - Define, List, Recall, Repeat, State

- **Understanding**
  - Classify, Describe, Explain, Identify, Paraphrase, Discuss

- **Applying**
  - Choose, Use, Illustrate, Interpret, Sketch, Write
Bloom’s Verbs, continued

- **Analyzing**
  - Distinguish, Differentiate, Test, Examine, Appraise, Compare, Contrast

- **Evaluating**
  - Appraise, Defend, Support, Evaluate

- **Creating**
  - Assemble, Construct, Design, Formulate, Develop
Bloom's Rose
K. Aainsqatsi
May 2008
Scenario Planning and SWOT Analysis Tool

*Care of Tomorrow, LLC 2001
Oliver Schlake, Ph.D.*
4 Key Questions about Process

- What are we doing?
- How do we know?
- Who cares?
- How can we do it better?

Adapted from William Conway
Conway Management Company, Inc.
Expanded Ishikawa Chart

- People
- Materials
- Information
- Methods
- Machines
- Environment

Problem Statement
Statistical Process Control

ALL WORK IS PART OF A PROCESS
Edward de Bono’s 6 Thinking Hats
Tell a Story (Story Spine)

- Set the scene
  - *Once upon a time*...

- Establish the problem
  - *And every day*...

- Show the solution
  - *Until suddenly*...

- Describe how it changes the scene
  - *And that meant*...

- Show what the world is like after
  - *And happily ever after*...
Practiced Critical Thinkers...

- Raise vital questions and problems
- Formulate them clearly and precisely
- Gather and assess relevant information
- Interpret information effectively
- Reach well-reasoned conclusions and solutions
- Test them against relevant criteria and standards
- Listen and think open-mindedly
- Recognize and assess assumptions, implications and practical consequences
- Communicate effectively in finding solutions to complex problems

*Based on Linda Rosen & Richard Paul’s work*

Directors of the Foundation for Critical Thinking
According to my reading, this is a week to focus on rational thought and critical thinking and not giving in to superstition.
Appendix

Resources
Resources

- Foundation for Critical Thinking  www.criticalthinking.org
  - Free online community with an interactive tool using the cheat sheet
  - Great critical thinking tools
- Conway Management Company, Inc.  www.conwaymgmt.com
  - Waste Chasers Pocket Companion & other data gathering tools
- Edward de Bono, *Six Thinking Hats* (Back Bay Books, 1999)
- Association of American Colleges and Universities, *Critical Thinking VALUE Rubric*
- Institute of Internal Auditors
  - *Putting Your Internal Audit Career on Track for Success* (2012)
  - *Pulse of the Profession: 2013: Time to Seize the Opportunity* (IIA Audit Executive Center Mar 2013)
  - *IIA Global Internal Audit Competency Framework*
Internal Audit Value Pyramid

- ACE the BASICS
  - ACE = Accurate, Complete & Efficient audits and findings
  - Uses critical thinking
  - Tends to details, quality, relentless follow up & execution

- BUILD RELATIONSHIPS
  - Knows partner’s style
  - Builds trust through transparency, integrity & advocacy
  - Anticipates needs

- UNDERSTAND DEEPLY
  - Knows partner’s business
  - Craves knowledge
  - Asks deep questions

- DELIVER INSIGHT
  - Shows biz acumen and strategic thinking
  - Links strategy & operations
  - Presents relevant & timely facts, analysis, and insights

- EXERCISE INFLUENCE
  - Has informed points of view & reasoned recommendations
  - Courageously speaks the truth & challenges decisions
  - Is accretive to larger team

- BUILD TRUST

- ENABLE GROWTH

- IA NIRVANA