Enlightened Professional Skepticism

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Agenda

- Professional Skepticism Explored
- Tools for Increasing Thinking Skills
- Questions, Answers, Rants and Raves
It All Started Over Dinner
An attitude that includes a questioning mind and a critical assessment of audit evidence.

*PCAOB Standard AU230A.07*
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)
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>

*Pulse of the Profession: 2013: Time to Seize the Opportunity* (IIA Audit Executive Center Mar 2013)
IIA Global Internal Audit Competency Framework
Pyramid of Audit Maturity

Value Creation

Critical Thinking

Industry Experience

Process, Organization & System Knowledge

Auditing Skills

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

*Adapted from Michael Scriven & Richard Paul*
National Council for Excellence in Critical Thinking
Let’s Add One for Auditing

Curiosity

Inquiry
Interviewing
Interrogation
Analysis
How did…
Tell me more…
Anything else I should know…
That’s Great, but...

How can we translate intellectual values into actionable work?

Here come the tools!
Systematic: What are the facts? What don’t we know?
Reasoning: What does this mean? If A and B, then C?
Accuracy: Are these the right assumptions & inferences?
Clarity: What is this picture I’m looking at?
Causality: What would cause that? Why?
Relevance: How are these facts related? What do they mean?
Significance: What are the short and long term implications?
Perspective: What is the context?

Bernie McKay, Intuit Chief Public Policy Officer
<table>
<thead>
<tr>
<th>Attribute</th>
<th>Definition</th>
<th>Ask Yourself</th>
<th>Ask Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systematic</td>
<td>A coherent set of facts</td>
<td>What are the facts? What don’t we know?</td>
<td>How do you know? Are there gaps in the data?</td>
</tr>
<tr>
<td>Logic / Reasoning</td>
<td>The parts make sense together</td>
<td>What does this mean? If A and B, then C? Does the process make sense when reviewed end-to-end?</td>
<td>How does this piece relate to that one? What are the interfaces between this and that? Where do people, processes, and data intersect?</td>
</tr>
<tr>
<td>Accuracy</td>
<td>Free from errors or distortions; true</td>
<td>Are these the right assumptions and inferences?</td>
<td>How do you know? How could we test that?</td>
</tr>
<tr>
<td>Clarity</td>
<td>Understandable; the meaning can be grasped</td>
<td>What am I really looking at? Have I defined the problem or a symptom?</td>
<td>Tell me more. Could you give me an example? Could you show me?</td>
</tr>
<tr>
<td>Causality</td>
<td>Relationship between events or factors</td>
<td>What contributed to the result? What is the root cause? Why? (4x)</td>
<td>How could this happen? What would cause that? Why? (4x)</td>
</tr>
<tr>
<td>Relevance</td>
<td>Relating to the matter at hand</td>
<td>How are these facts related? What do they mean? Do these facts relate to the objective?</td>
<td>How does this connect with that? How does that relate to the question/process?</td>
</tr>
<tr>
<td>Significance</td>
<td>Focusing on the important; not trivial; Critical Few</td>
<td>What are the implications of this, short- and long-term? What is the risk? How big is the risk? Is the risk worth the time, cost and effort to remediate?</td>
<td></td>
</tr>
<tr>
<td>Perspective / Breadth</td>
<td>Encompassing multiple viewpoints / aspects</td>
<td>What is the bigger picture? What is the context? Are there other views we need to consider?</td>
<td>Do we need to look at this in other ways? What other perspectives should we consider?</td>
</tr>
<tr>
<td>Precision</td>
<td>Exact to the necessary level of detail</td>
<td>Do I have all the data I need? Are any details missing? Am I including more data than necessary to get my point across to the audience? Am I using the right words?</td>
<td>Could you be more specific? Can you give me more details? What exactly happens?</td>
</tr>
<tr>
<td>Depth</td>
<td>Containing complexities and multiple interrelationships</td>
<td>Do I understand how the function/process/data relates to other functions/processes/data?</td>
<td>What contributes to the problem? What are some of the difficulties you encounter? What makes this problem difficult?</td>
</tr>
<tr>
<td>Fairness</td>
<td>Justifiable, even-handed</td>
<td>Do I have a vested interest here? Am I being objective? Is my evidence one-sided? Are my words neutral or charged? Have I considered the views of others who will be affected by my conclusions?</td>
<td>Do I understand this correctly? Am I stating this in a way you can support?</td>
</tr>
</tbody>
</table>
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)*
Achievement Motivation Theory

- Developed by David McClelland in 1953
- People are motivated by three things:
  - Power
  - Affiliation
  - Achievement
Scenario Planning and SWOT Analysis Tool

Oliver Schlake, Ph.D.
Care of Tomorrow, LLC 2001
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.
A Picture is Worth 1000 Words

ALL WORK IS PART OF A PROCESS
Flowcharts
Swim Lanes
Data Flow Diagrams
Entity Level Diagrams
Unified Modeling Language Diagrams

1. Download trial
2. Select version to buy
3. Pay by credit card or PO?
   - CC
   - PO
4. Click checkout button
5. Submit PO
6. Enter order details
7. Receive invoice
8. Receive confirmation email
9. Register product
10. Done
Edward de Bono’s 6 Thinking Hats
Strategies for Avoiding Bias

**Confirmation**
The tendency to put more weight on information that is consistent with initial beliefs or preferences
- Make the opposing case and consider alternative explanations
- Consider potentially disconfirming or conflicting information

**Overconfidence**
The tendency to overestimate one's own ability to perform tasks or to make accurate assessments of risks or other judgments and decisions
- Challenge opinions and experts
- Challenge underlying assumptions

**Anchoring**
The tendency to make assessments by starting from an initial value and then adjusting insufficiently away from that initial value
- Solicit input from others
- Consider management bias, including the potential for fraud or material misstatements

**Availability**
The tendency to consider information that is easily retrievable or what's easily accessible as being more likely or more relevant
- Consider why something comes to mind
- Obtain and consider objective data
- Consult with others and make the opposing case
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…
What could go wrong here?
Thinking is the hardest work you’ll ever do, which is probably why so few engage in it.

*Henry Ford*
Any Questions?
Appendix

Resources
Resources

- Association of American Colleges and Universities, *Critical Thinking VALUE Rubric*
- Conway Management Company, Inc. [www.conwaymgmt.com](http://www.conwaymgmt.com)
  - Waste Chasers Pocket Companion & other data gathering tools
Resources, continued

- Kenneth Daly, *Honing Skepticism* (NACD Directorship, Jan/Feb 2013)
- Foundation for Critical Thinking [www.criticalthinking.org](http://www.criticalthinking.org)
  - Free online community with an interactive tool using a critical thinking cheat sheet
  - Critical thinking tools
- Edward de Bono, *Six Thinking Hats* (Back Bay Books, 1999)
- 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*
- KPMG, *Transforming Internal Audit Through Critical Thinking* (Mar 2014)