IAESB Task Force
Report on Professional Skepticism

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Purpose of Commissioned Research—

• To better understand the skills and competencies needed by aspiring and practicing professional accountants to be more skeptical.

• The scope of the research covers all professional accountants, including those who are engaged in, and those who are not engaged in, the audit profession.

• Professional skepticism is seen as the foundation of the accounting profession and has been recognized by regulators and standard setters worldwide as necessary for effective performance in accounting settings.

• It is hoped that informed by this research, the IAESB will be better positioned to address planned project activities and professional skepticism (PS) related matters.

NOTE: Skepticism has been described as “a provisional approach to claims” (Shermer, 2013), as distinguished from pyrrhonism or the radical skepticism sometimes advocated in medicine and cynicism, a negative attitude that assumes dishonesty without basis.
What Did We Learn?

- **Other Disciplines on Skepticism:** There are empirically proven approaches in other disciplines, including useful frameworks, models and tools (e.g., the observe-orient-decide-act or OODA loop in law enforcement and “pyrrhonism” or extreme skepticism in medicine).

- **AI and Analytics Innovation:** Going forward, artificial intelligence, and advances in big data analytics, will be able to tackle imperfect information challenges; consider potential use as decision aids.

- **Overcoming Bias:** Skepticism and unconscious bias start at an early age, but understanding and conscious awareness of these behaviors can lead to better decisions by accountants. Exploring “de-biasing” strategies is worthwhile.

- **Inherited Traits:** Individual differences in the exercise of skepticism can be traced to inherited traits and or learned experiences; skepticism as an attitude can be taught and learned, and performance improved.

- **Explicating Risk:** Contexts may differ but this explication of risk (“WCGW”) is essential to properly understand the benefits of skeptical attitudes and behaviors.

We have attempted to capture the highlights of our exploratory research review and findings and incorporate it into the modified Helson (1964) model presented later.
Exemplar Accountant Attributes

- Accountant should possess **Integrity/ Independence** as well as **Competence**
- But Technical and Behavioral Competence demand professional skepticism across several dimensions
- Baseline Knowledge
  - Substantive or Domain Expertise (Auditing)
  - Normative Expertise (Scientific Method)
- Personality Traits + Education + Experience
  - Situational Awareness (e.g., OODA loop)
  - Social Intelligence and Soft Skills*
  - High EQ, including Moral Courage/Fortitude*

* Elements of Skepticism; cf. Problems of Fact vs. Value
Key Elements of Helson (1964) Framework

General Equation from Psychology

\[ B = f(O, E) \]

“Behavior is a function of the organism and its environment”

- **B**: background factors
- **S**: stimulus factors
- **E**: environmental influences
- **SA and MC**: inherited (personality) traits
- **PS learned behaviors**, from education and experience
- **SA and MC**: enabling competencies

In 1964, psychologist Harry Helson introduced his “adaptation-level theory” featuring background factors, stimulus factors, and personality factors. We have adapted his framework and developed the modified Helson model to study professional skepticism.
Modified Helson 1964 model applied to professional skepticism

A myriad of traits and factors influence PS attitude and behavior

Subfigure 1A: Frame of Reference

PS Attitude           PS Behavior

Environment

Background

= stimulus

= background
Modified Helson 1964 model applied to professional skepticism

A myriad of traits and factors influence PS attitude and behavior

Subfigure 1B: Psychological traits such as skepticism and moral courage

PS Attitude

PS Behavior

Background

= moral courage

= lack of moral courage

= morally diffident

= morally confident

= trait (inherited)

= learned behavior (training, experience)

Groups of figures signifies a team
Research Recommendations...1

1. Global survey of curriculum for accounting majors

• How are critical thinking, professional skepticism, and/or ethics included in the accounting curriculum (stand-alone vs. integrated throughout)?
• Are specific competencies discussed and illustrated, such as
  • Critical Thinking (see http://www.criticalthinking.org/pages/defining-critical-thinking/766)
  • Situational Awareness (as done in the military and law enforcement)
  • Pyrrhonism (extreme skepticism as in medicine)
  • Moral courage (e.g., through discussion of whistleblowers in courses on ethics)
  • Soft skills, including emotional and social intelligence, negotiation skills, etc.

2. Research on how accountants understand the concept of professional skepticism—

• Case studies in problem solving, decision making esp. in ethics, whistleblowing
• Explicating what is the risk (WCGW) absent professional skepticism in a general way
• Business acumen as evidence of situational awareness
• Moral reasoning abilities (PS attitude as in ethical sensitivity)
• Moral courage/Fortitude (PS behavior as in ethical action)
Research Recommendations...2

3. Turning modified Helson (1964) framework into predictive model

- Treat modified Helson (1964) model as foundational for understanding PS
- Develop linkages from concept to operational definitions and applications
- Explicating “risk” or “what could go wrong” (WCGW) in a general way (see below)
- Going from desired PS attitude to desired PS behaviors, with examples
- Consider changes in IAESB standards re education of aspiring and practicing accountants, including provision of tools and methodologies, assessment and testing

4. Applications of PS across different aspects of accounting (after explicating “risk”)

- Financial Accounting
- Managerial Accounting
- Auditing
- Taxation
- Accounting Information Systems
- Forensic Accounting and Valuation
- Special situations, hybrid scenarios (PS behavior as in ethical action)
Practice Recommendations

1. We need a robust **working definition of skepticism**, akin to Shermer’s (2013): “a provisional approach to evaluating claims.” Explicating “risk” or WCGW in this context is critical. Enabling competencies such as situational awareness/moral courage/fortitude must be part of such a definition and enter professional literature.

2. Professional Skepticism is a core competency for accountants; as such, it must undergird everything that accountants do. **Perhaps professional standards for the practice of accountancy should also require a threshold level of professional skepticism.** Independence/Integrity and competence without professional skepticism may not mean much, just as mere knowledge of an ethical violation without appropriate follow up, reflecting moral courage and fortitude, doesn’t mean much.

3. **Guidance must be provided to measure professional skepticism** in a manner that the threshold level of competency in both attitude and behavior may be determined. College-level and continuing professional education in this area is important.

4. **Ethics case studies must be furnished to illustrate applications.** We see a future where “accounting ethics” will become a field unto itself to evaluate the professional practice of accounting, e.g., “Bioethics” (for doctors; in the practice of medicine) and “Legal ethics” (for lawyers; in the practice of law), that explore professional obligations to individuals and society. Consider Bosk’s (1979, 2003) work on “Managing medical failures” and discussion of “social definitions of error in medicine” utilizing technical, normative, and judgmental errors as a framework. Decision aids?
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