All Professional Accountants Need to Include Skepticism in their Mindset

Is skepticism a mindset for the workplace that should be applied by all accountants? Or is it a mindset that only needs to be applied by auditors? We believe the application of healthy, informed skepticism throughout the financial reporting preparation process promotes the production of financial information that is faithfully represented and relevant to users.

According to the IAESB Framework, a professional accountant's role can include, but is not limited to, the measurement, disclosure, or provision of assurance about financial information that helps managers, investors, tax authorities, and others make decisions about allocating resources. Financial reporting is the process of producing statements that disclose an organization's financial status to management, investors, regulators and governments. When an external audit is part of this financial reporting process, the auditor is one player amongst many who contributes to improving the faithful representation of financial information presented.

Financial reporting includes:

- gathering information;
- assembling and analyzing that information in the organization's financial statements;
- reviewing and approving statements by the CFO and CEO;
- assessing the appropriateness of the external auditors reporting and results; and
- the audit committee and board of directors' final review and approval of financial reports.

In a literature review of professional skepticism, Mark Nelson, the Anne and Elmer Lindseth Dean and Professor of Accounting at the Samuel Curtis Johnson Graduate School of Management Cornell University, quotes from the American Institute of CPAs' Statement on Auditing Standard No. 1 that professional skepticism is "an attitude that includes a questioning mind and a critical assessment of audit evidence" (see Auditing: A Journal of Practice & Theory). He notes that some "academic literature appears to take…the presumptive-doubt perspective, viewing auditors as exhibiting more [professional skepticism] when they consider it more likely that financial statements are materially misstated." That is, auditors assume some level of dishonesty unless data indicate otherwise.

It seems apparent that if professional skepticism has been diligently applied throughout the financial reporting process, the odds that purposeful or intended errors in the data are less likely to exist. There are many examples of where financial statements went bad when incorrect information was successfully entered at some point it in the statement preparation process.

The **Personal Perspectives** series presents IAESB members', technical advisors', and other stakeholders' visions on challenges affecting aspiring and current professional accountants' learning and development.

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There are two types of material errors that can affect the integrity of the financial information flowing from this process—errors from intentional misstatements to report results that impairs the faithful representation of the information and errors that result from the incorrect application of the appropriate accounting principles. It could be argued that intentional misstatements could arise from any level in the financial reporting process and that these errors have the potential to increase in importance as the commission of errors rises through the reporting process. For example, fraudulent expense reporting versus management of loss provisions in a financial institution.

Regardless of where errors occurred in the financial reporting process, and whether or not they were intentional, the financial reporting process benefits from a skeptical mindset by all those who take responsibility for ensuring that each step of the data gathering process is subjected to a review process that yields faithfully represented information. We believe that those who prepare financial information within an organization and those who review it, including internal auditors, are in a position to improve the quality of the information they process and review by applying professional skepticism.

The CEO, CFO, and members of the audit committee have the responsibility to fully understand the composition of all the line items in the financial statements to satisfy themselves that they trust the integrity of the organization's financial statements. Surely they, and the external auditor, would recognize that the risk of financial misstatement is lowered if skepticism is applied by each player in the financial statement preparation process.

Being more skeptical is not just an attitude change. Research has shown that a multitude of factors are at play that impact how effective an individual is at using skepticism to improve the quality of financial reporting. These include unconscious bias, innate skepticism, cultural influences, workplace independence, personal technical competence, tone and integrity within the organization, will-power and moral courage of the individual, and behavioral competence in dealing with non-financial data. Research has also shown that being skeptical is not just an innate skill, that it can be taught and improved through education and work experiences. Work experiences that develop these skills can be immensely instructive, particularly when a strong supervisor or mentor is an integral part of the individual's development.

Critical thinking is necessary for all people who have accounting responsibilities so that the financial reporting from their organization's books and records faithfully represent information. In other words, critical thinking is basic.

On the other hand, skepticism is a higher level of responsibility than critical thinking and should be part of all professional accountants' education and training, whether they are internal or external accountants and regardless of what role they play in the overall financial statement process.

Therefore, if skepticism needs to be applied by all professional accountants, it needs to be included in aspiring professional accountants' education as a part of their academic curriculum —not an add-on if resources, time, and qualified teachers are available. This requirement is noted in International Education Standard 4, Initial Professional Development – Professional Values, Ethics and Attitudes.

Accountancy is a profession, not a vocation. Part of being a professional means acquiring extensive training and developing special skills and knowledge, including how and when to apply skepticism. Being part of the financial statement preparation process to deliver relevant and faithfully represented financial information, on which users rely to make decisions, will improve if all players develop skepticism skills along with their other skills.

Efforts to improve these skills within organizations, including internal auditors, is enhanced when leadership organizations, such as the IAESB, continue efforts to understand how knowledge about applying skepticism can be enhanced for all professional accountants, and provide guidance. These organizations are in a position to encourage accounting organizations to embed skepticism skills and understanding into all accounting programs.

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