Professional Skepticism—Considerations for Standard Setters

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Fundamental nature of the problem—maintaining questioning mindset and behavior despite:

- rivers of experience where few problems arise
- where the majority of companies and managements are “just trying to do a good job”
- where human nature makes one want to be agreeable with the people with whom one works
- where incentives on the part of the agents (staff) are usually NOT well aligned with those of the principal (audit firm owners)
- all in the presence of a powerful human tendency toward confirmation bias.
Difficult Two-Way Hindsight Problem…

• Regulators are always likely to cite lack of PS when a problem is identified post-audit

• Auditors are not likely to be rewarded when they do extra work and find nothing

Solutions? At broadest level:

• Elicit appropriately skeptical mindset

• Incentivize appropriately skeptical behaviors

• Develop effective ways of documenting skeptical mindset and behaviors
In terms of incentives:

- Tone at the top (all the way to the “top”)
- Evaluations and rewards based on appropriate exercise of skeptical behaviors (even when nothing found)
- Less emphasis on meeting time budgets, deadlines
- Better management of busy season pressures
- Alignment of goals/incentives of principals and agents (partners/staff)

In terms of mindset:

- Shared conceptual framework, common terminology around professional judgment and professional skepticism (2-way street)
- Emphasize understanding of purposes/objectives
- Encourage appropriate mindset (e.g., avoid confirmatory language—“concurring partner”)
- Encourage auditors to “make the opposing case”
• Write standards so that the focus is not on compliance with the standards but on the exercise of PS in the application of PJ!
• Develop guidance/conventions for documenting appropriate exercise of PS
• Beware of pressures toward less judgment in auditing—appropriate exercise of PS is harder to document than is compliance with a procedure!