

Linda Biek

E-learning course on professional scepticism

Linda Biek explains how professional scepticism impacts audit quality, and shares information about initiatives designed to help auditors foster a more questioning mindset



Linda Biek, the Hong Kong Institute of CPAs' Director of Compliance, leads the department responsible for handling complaints about the conduct of Institute members and member firms. She is a CPA with more than 20 years of international regulatory experience. The case handlers participating in the e-Learning course have extensive experience in the profession and regulatory matters.

Exercising professional scepticism is crucial to the audit process, requiring continuous application of a questioning mind to client conversations and documents. Auditors need to be alert to signs of possible errors or irregularities and prepared to probe into them until concerns are reduced to an acceptable level. An inadequate level of professional scepticism in an audit could lead to important evidence being overlooked and material errors remaining undetected. The results could be serious for both client and auditor, as well as other stakeholders.

Lapses in professional scepticism have plagued the audit profession for a number of years, resulting in economic losses and shareholder concerns over the auditor's role as "gatekeeper" of the client's financial statements. To address these concerns, both the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) have taken forward initiatives designed to increase scepticism. Highlights include guidance which directs auditors to foster an independent sceptical mindset; be alert to contradictory evidence that warrants an unbiased assessment, and document the application of professional scepticism.

In their 2018 consultation paper proposing amendments to the International Code of Ethics for Professional Accountants, the IESBA highlighted the need for a questioning mindset. They also drew attention to the importance of maintaining awareness of potential biases as a mechanism for minimizing their impact, resulting in improved professional judgement. The IESBA recently approved revisions to the code, arising out of a project on role and mindset, which highlights threats originating from bias, pressure and other impediments. Some of the more common biases faced by auditors include confirmation, halo effect, self-serving, familiarity, and attachment. *Auditor Independence, Conflict of Interest, and the Unconscious Intrusion of Bias* (Moore, Loewenstein, Tanlu & Bazerman) validates the impact of bias in the auditing setting and provides auditors with an academic perspective regarding threats arising from biased conclusions. Standard setters' initiatives also target quality management efforts of firms to ensure tone, culture, and resources are appropriate.

Other practical suggestions are being suggested on several fronts to facilitate improvements in professional scepticism and, ultimately, audit quality. For example, Brigham Young University professors Glover and Prawitt recognize in their efforts to establish a practical framework the

need for more context surrounding professional scepticism. They propose a professional scepticism continuum to serve as a tool to guide auditors, standard setters and regulators in recognizing cues that may necessitate more persuasive audit evidence in certain circumstances. They claim auditors and regulators should expect more persuasive evidence to be gathered when, after the initial risk assessment, audit procedures reveal increased risks of material misstatement, fraud indicators, complex judgements or inconsistent evidence.

In a study about the influence of mindsets on decision-making, Professors Heckhausen and Gollwitzer find that individuals can employ different streams of thought and cognitive functioning, depending on whether they are in the process of setting a goal or determining how to implement that goal. The ability to effectively switch between mindsets is critical for auditors as they transition from planning to evidence-gathering to concluding the audit, staying alert throughout for conflicting or disconfirming evidence. Research demonstrates how participants can be motivated to employ a deliberate mindset which will strengthen their ability to identify and evaluate a variety of options before concluding on audit matters.

Compliance Forum

To assist members in their practical application of professional scepticism, the Institute's Compliance Department held a virtual Compliance Forum: A closer look at professional scepticism, which is now available as an e-Seminar. While this forum focuses on audit situations, it can be of interest to a wider audience engaged in other functions like accounts preparation and internal controls. The event takes viewers through the auditor's thought process when applying professional scepticism. In addition, it shows how the concept is applied in practice through case simulations involving major transactions and valuation of assets.

The forum is hosted by members of the Compliance Department who have extensive hands-on experience in the regulation of the accounting profession. It opens in English with a highlight of factors contributing to professional scepticism deficiencies. Case handlers then discuss various cases in which inadequate levels of professional scepticism were established. The case section of the forum is in Cantonese.

If you are interested in learning more about how to apply professional scepticism to your work, register now for this free online forum.