

# **Barriers to Audit Skepticism** *And How to Smash Through Them*

**Session W-302**

*The Conference That Counts*  
*May 24, 2023*

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# Skepticism

Doubt as to the truth of something

# AS 1015: Due Professional Care in the Performance of Work



**PCAEOB**

PUBLIC COMPANY ACCOUNTING  
OVERSIGHT BOARD



# Professional Skepticism

.07 Due professional care requires the auditor to exercise *professional skepticism*. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.

.08 Gathering and objectively evaluating audit evidence requires the auditor to consider the competency and sufficiency of the evidence. Since evidence is gathered and evaluated throughout the audit, professional skepticism should be exercised throughout the audit process.

.09 The auditor neither assumes that management is dishonest nor assumes unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest.

# Professional Skepticism: The Heart of Audit

Katharine Bagshaw | September 6, 2018 | 1 

- *An effective sceptic is neither a cynic nor a dupe* - Exercising skepticism means not accepting the first answer at face value without following up, even if it sounds plausible. It also means not asking questions *ad infinitum* because real audits have deadlines. It's about asking the right questions, following up answers and knowing when to move on.

INTERNATIONAL FEDERATION OF ACCOUNTANTS



# Presenter's Point of View

**There has never been  
a greater need for  
Skepticism  
in our lives  
than right now.**



# Agenda

1. **The Barriers**
  - a) **Anchoring Bias**
  - b) **Confirmation Bias**
  - c) **Truth-default Bias**
  - d) **Authority Bias**
2. **Retrograde Analysis & Skepticism Failures**
3. **Critical Thinking**
4. **Real Time Skepticism: 5 Examples**
5. **Discussion, questions, feedback & pushback**
6. **So...What's Our Role?**



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## 4. **Real Time Skepticism: 5 Examples**

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## 6. **So...What's Our Role?**


# Anchoring Bias

**Giving a disproportionate weight to the first piece of information we receive.**

Skepticism and The Auditor:  
Challenges and Solutions

Toby Groves, Ph.D.  
toby@tobygroves.com  
tobygroves.com





**The human brain forms  
a bias for the things it  
sees and hears first**

# Confirmation Bias



Skepticism and The Auditor:  
Challenges and Solutions

Toby Groves, Ph.D.  
toby@tobygroves.com  
tobygroves.com

# Confirmation Bias

The human tendency to irrationally  
believe new information  
supports your existing view  
even when it doesn't

*Management v. Audit View*

# Confirmation Bias

Confirmation bias isn't  
an occasional bug  
in our human operating system.

It is our operating system.

Talking  
to  
Strangers



Malcolm  
Gladwell

#1 NEW YORK TIMES bestselling author of *OUTLIERS*  
and host of the podcast *REVISIONIST HISTORY*

# Truth-Default Bias

Truth-Default Theory is the theory that when a stranger is lying, human beings default to assuming truth in others. We want to believe that what others tell us is true, and we'll default to truth unless, or until, our doubts can't be explained or rationalized.



# **AUTHORITY BIAS**

**Tendency to assign  
greater value to or  
be influenced by  
an authority figure  
even when we believe  
them to be wrong**



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# Skepticism Learning Tools



## Retrograde Analysis

THE HOME DEPOT 0654  
7015 E. TELEGRAPH RD. COMMERCE, CA. 90040  
STORE MGR. GREG HUNKO (323) 727-9600

SALE 0654 00022 95228 03/14/06  
51 JC45X0 01:58 PM



015082777320 WELD-PAK3200	459.00
074182268008 SOFTSOAP 7.5	
2 @ 1.92	3.84
037000429029 DAWN 38	3.49
037000800682 BOUNCE 80	3.99
SUBTOTAL	470.32
SALES TAX	38.80
TOTAL	\$509.12
XXXXXXXXXX1007 AMEX	509.12
AUTH CODE 539593/8221858	TA



THE HOME DEPOT 0654  
7015 E. TELEGRAPH RD. COMMERCE, CA. 90040  
STORE MGR. GREG HUNKO (323) 727-9600

SALE 0654 00022 07785 02/28/06  
51 JM412M 05:06 PM



028877455358 2 GAL VAC	99.00
039725000774 71/4WRMORVSW	159.00
021709372946 505 CLEANER	2.88
028877517056 PWR. BROOM	29.97
028877491578 18V 6 TOOL K	629.00
SUBTOTAL	919.85
SALES TAX	75.89
TOTAL	\$995.74
XXXXXXXXXX1007 AMEX	995.74
AUTH CODE 515829/2220546	TA

8x  
100

## The New York Times

# *Cafeteria Workers Stole Nearly \$500,000 in Lunch Money From Schools, Police Say*

By Sarah Mervosh

Aug. 14, 2018

In the well-to-do town of New Canaan, Conn., families pay top dollar to live on picturesque New England streets, frequent the area's upscale boutiques and send their children to some of the best schools in the state.

But in recent years, a scandal had quietly been brewing at a couple of those schools: Someone had been taking the children's lunch money — after it had been paid.

For years, cash was disappearing from cafeteria registers at the high school and middle school, apparently unbeknown to school officials. Nearly \$500,000 was pilfered from 2012 through 2017, the authorities said.

On Monday, the New Canaan Police Department announced that it had arrested two women: sisters who worked in the cafeteria system.

Joanne Pascarelli, 61, and Marie Wilson, 67, turned themselves in over the weekend and were released on \$50,000 bond. They are accused of underreporting how much cash had been collected and taking the remainder. Each was charged with larceny.



# Former Cox Communications VP sentenced for embezzlement

May 31, 2018, 5:20am EDT

Janet West, a former vice president at Cox Communications, was sentenced to two years, one month in federal prison for her part in an embezzlement scheme that cost the company millions of dollars.

West, 49, was in charge of a nationwide field marketing plan to bring gigabit speed connections to markets throughout the U.S. Beginning in 2011, West directed her assistant to make payments, on the assistant's corporate credit card, to a third-party company for supposed marketing services. In reality, a significant portion of the marketing services never occurred and the majority of the payments for the services were covertly transferred back to the defendant. The defendant caused Cox Communications to make payments to the third party, totaling \$2.4 million

"This greedy defendant misused her high-ranking position to deceive and steal millions of dollars from her employer," said U.S. Attorney Byung J. "BJay" Pak. "She then used the money to fund her own lifestyle, including paying for two houses she owned."

The prison time will be followed by three years of supervised release. West was also ordered to forfeit her interest in the two properties and to pay full restitution to the victim.



BYRON SMALL | ATLANTA BUSINESS CHRONICLE

Byung J. "BJay" Pak is U.S. Attorney for the Northern District of Georgia.

**Mark Meltzer**  
Executive Editor  
*Atlanta Business Chronicle*



**Atlanta Business Chronicle**

# ***\$461,646 in Pay for One Worker: M.T.A. Overtime Scrutinized by Prosecutors***

Handwritten bookkeeping is still in use at the Long Island Rail Road. Now the practice is the subject of a federal inquiry.



**The New York Times**

Saturday, May 18, 2019



# *Home Depot Worker Swapped \$387,500 in Fake Bills for Real Ones, Officials Say*

The U.S. Secret Service said Adrian Jean Pineda bought prop \$100 bills, which are used for entertainment purposes, and swapped them for genuine currency for four years.

By Eduardo Medina

Published Feb. 6, 2022 Updated Feb. 7, 2022, 2:00 a.m. ET

**The New York Times**



BREAKING | Oct 6, 2020, 05:31pm EDT | 2,780 views

# Former Austin Library Employee Accused Of Stealing \$1.3 Million In Printer Toner



**Carlie Porterfield** Forbes Staff 

Business

*I cover breaking news.*

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**TOPLINE** A former public library employee has been accused by Austin auditors of buying and then stealing at least **\$1.3 million** worth of printer toner from work in order to resell it online and pocket the cash, charges the auditor's office alleges took place over more than a decade-long career at the library.



# Former Yale Official Admits to \$40 Million Fraud Scheme

For a decade, a Yale School of Medicine administrator used university funds to buy computer equipment, which she resold to pay for luxury cars, real estate and vacations, the authorities said.



By Neil Vigdor

 Give this article



 278

April 1, 2022



The administrator admitted that she had submitted thousands of purchase orders for computer devices and tablets. Christopher Capozziello for The New York Times



CONTRACT CHANGE ORDER AUTHORIZATION  
VARSITY CONTRACTORS, INC.

General Contractor: Varsity Contractors, Inc.  
Address: [Redacted]  
[Redacted]  
[Redacted]  
Project: Gottschalks 8 inch water relocate  
Project Address: [Redacted]  
[Redacted]  
[Redacted]  
To: [Redacted]

Change Order  
Contract No. **1472602045**  
Date: 11/25/XXXX  
Previous Approved Changes: \$ -  
Original Contract Amount: \$ **36,479.00**  
Add: \$ **8,323.37**

**Total Revised Contract Amt.: \$ 44,802.37**

1	Locate services	\$ 243.52
2	Reconnect unkown 2" water service to Bank Of America	\$ 1,875.50
3	Install new gate valve, tee, 6" DI pipe w/mega lugs and (2) 45 degree bends for unknown 6 inch service line for hydrant.	\$ 3,115.75
4	Breaking out of concrete from sidewalk for asphalt prep	\$ 574.75
5	Crushed rock import for trench backfill	\$ 2,513.85
<b>Subtotal</b>	<b>Subtotal of all of the above added expenses due to changes to contract</b>	<b>\$ 8,323.37</b>
<b>Total:</b>		<b>\$ 8,323.37</b>

Furnish all necessary labor, material and equipment to provide the following additional work as approved by the OWNER:

Terms and conditions of original contract apply to all Change Orders.

[Redacted Signature]

[Redacted Signature]



CONTRACT CHANGE ORDER AUTHORIZATION  
VARSITY CONTRACTORS, INC.

General Contractor: Varsity Contractors, Inc.  
Address: [Redacted]  
Phone: [Redacted]

Change Order  
Contract No. 1472602-1  
Date: XXXX

Project Name: Gottschalks 8 inch water relocate

Original Contract Amount \$ 36,479.00

Project Address: [Redacted]

Add: \$ 8,323.37

To: [Redacted] Revised Contract Amt. \$ 44,802.37

1	Locate services	\$	243.52
	Unknown water service Bank Of America	\$	1,875.50
	Install 8 inch valve w/mega lugs and (2) 90 degree bends for unknown 6 inch drain	\$	3,115.75
2	Removal of concrete from sidewalk for install prep	\$	574.75
5	Check import for trench	\$	2,513.85
<b>Subtotal</b>	<b>Subtotal of all items above added expenses due to changes to contract</b>	<b>\$</b>	<b>8,323.37</b>
<b>Total</b>		<b>\$</b>	<b>8,323.37</b>

Furnish all necessary labor, material and equipment to provide the following additional work as approved by the OWNER:

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[Redacted Signature]

[Redacted Signature]



**O'Hare  
Early Morning  
Layover**

# Skepticism Challenge

**War Stories**

**versus**

**Action Lessons**

# THE SECRET SAUCE

...begin (plan)  
with the  
**PRESUMPTION**  
that a BELIEF is flawed

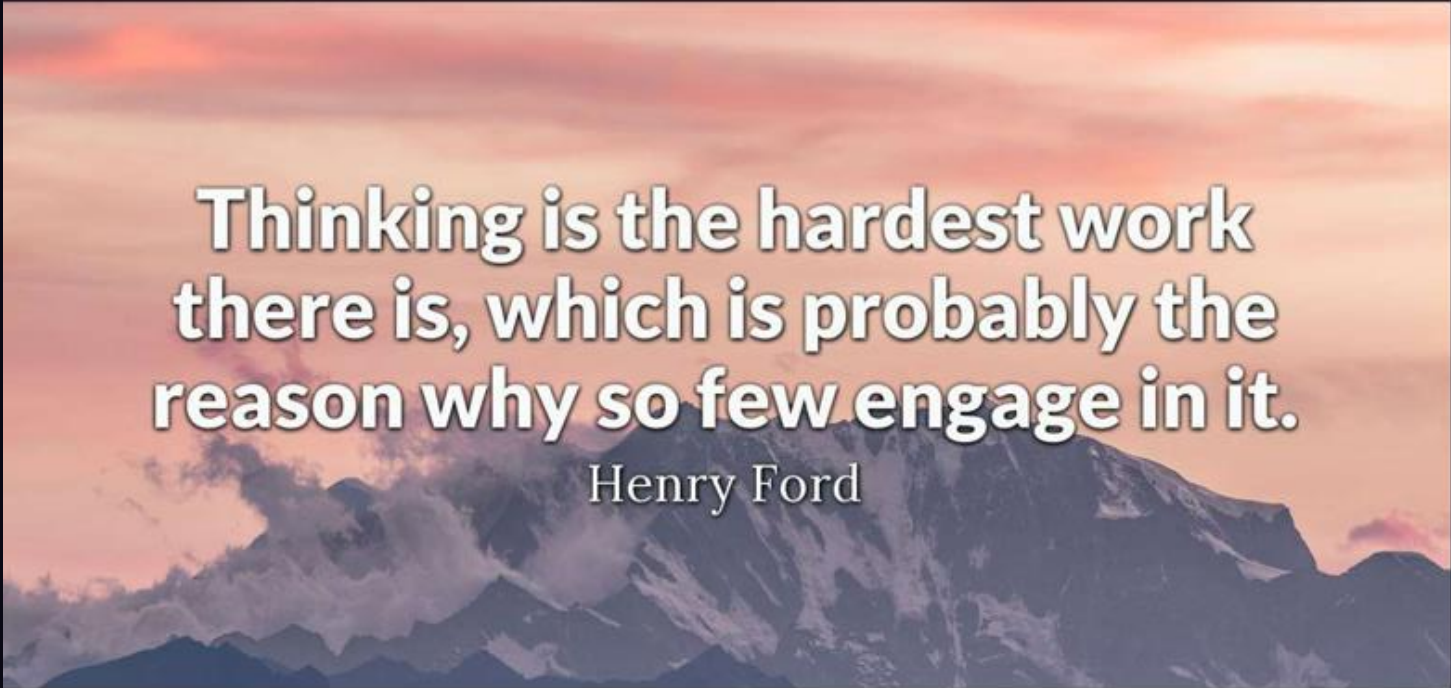
# THE SECRET SAUCE

## Believers & Doubters

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**Thinking is the hardest work  
there is, which is probably the  
reason why so few engage in it.**

Henry Ford



# Critical Thinking

# Critical Thinking Attributes

1. Understand the logical connections between ideas
2. Identify, construct & evaluate arguments
3. See inconsistencies & mistakes in reasoning
4. Solve problems systematically
5. Identify the relevance & importance of ideas
6. Reflect on the justification of beliefs and values

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# Critical Thinking Attributes

1. Understand the logical connections between ideas
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4. Solve problems systematically
5. Identify the relevance & importance of ideas
6. Reflect on the justification of beliefs and values
7. Objectively consider others Point of View

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# Believers & Doubters

**W W Y D N**

*(What Would You Do Next?)*



# Example 1

You are a manager in an automobile assembly plant tasked every Friday afternoon with reviewing and approving weekly time sheets for over 100 employees.

**Your employee Jerry works on the production line along with ten other employees.**

Jerry's time sheet for this week shows seven hours of overtime spread over four days. The rest of the team has no overtime reported.

**You have never had reason to question Jerry's weekly time sheet during the five years he has worked for you.**

The time sheets are due in the payroll department in 15 minutes.



# Example 2

You are an accounting manager in a medium-sized division of a large international company.

**Times are still tough a year after the pandemic due to labor shortages plus unrelated supply chain disruption for critical raw material components used in your products.**

It is the end of the third accounting quarter, and earnings are due to headquarters in two hours.

**For a week, you have been trying to get comfortable with the support behind an important accrual entry your boss, the controller, wants you to post. But you aren't there yet.** The entry would swing reported results from a loss to a modest gain in quarterly earnings.

# Example 3

You have three years of experience as a financial statement auditor employed by local CPA firm (25 professional staff).

**The firm's largest client is a well-respected contractor who provides services to their customers thru multi-year consulting contracts.**

Revenue is 'earned' and recorded based on the 'percentage of completion' method applied to each customer contract.

**Your task is to verify the percentage of completion estimates stated by your client's chief financial officer.**

You feel that the estimates are aggressive in an attempt to improve profitability. But your audit manager suggests that it will all balance out over time.

# Example 4

You high school age daughter comes home from school and tells you that are drugs being openly sold in the hallways between classes.

**She 'heard' that one of the most-respected teachers is supplying the drugs to a few trusted students, who then resell the drugs to anyone interested.**

The word is that administrators and the lone security officer in the school are aware but afraid to do anything proactive about it for their own and job security safety reasons.

# Example 5

**Slowing down to the posted speed limit will improve mileage by an average of 17% (\$0.68 per gallon when gas is \$4.00)**

# Real-Time Challenge

**What's  
Being Missed  
Right Now?**

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# THE BIG QUESTION

What's  
our role?



# ***Risk of Positive Illusions***

***I believe I'm better than I am...  
and no one is telling me otherwise***

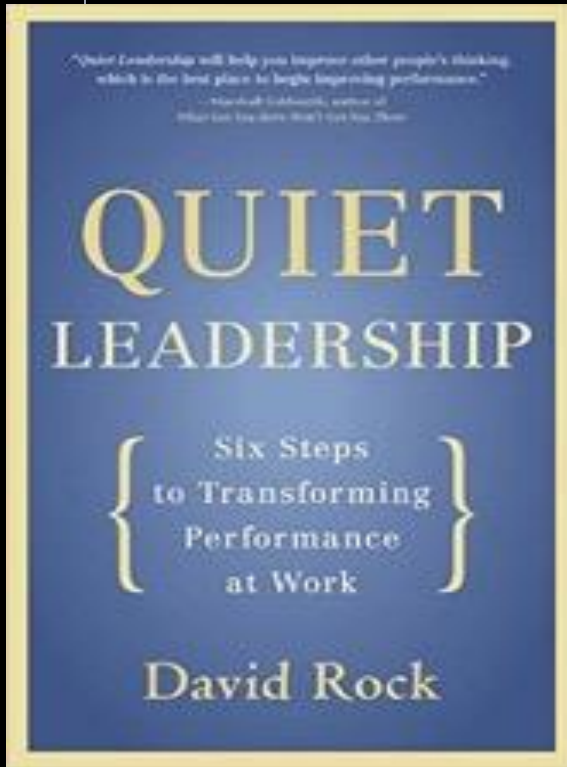
Believers & Doubters

***We are  
Professional  
Doubters***

# Believers & Doubters

*Doubters*

*Check Facts*



# High-Leverage Behaviors

***A few simple but critical behaviors***

# ACTION TRIGGER



# ACTION TRIGGER



# Skepticism Behaviors

1. Look for indicators
2. Ask “How do I know?”
3. When in doubt, doubt
4. Resolve or refer suspicions



LOOK

ASK

DOUBT

RESOLVE



**Thoughts**  
**Questions**  
**Comments**  
**Suggestions**  
**Well-Reasoned Arguments**

# Thank You

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