



Professional Skepticism in Compliance & Ethics

SCCE REGIONAL COMPLIANCE & ETHICS CONFERENCE
TAMPA | APRIL 2019

Debbie Hennelly | Founder & President | Resiliti
Suri Surinder | Senior Director | Resiliti

This Session includes Polling

To participate in Polling:

Go to the app store and download “**SCCE Mobile**” select SCCE Regional and click on New York. Click on this session, scroll to the bottom, and select Polling Question or go to [Pollev.com/scce](https://pollev.com/scce)

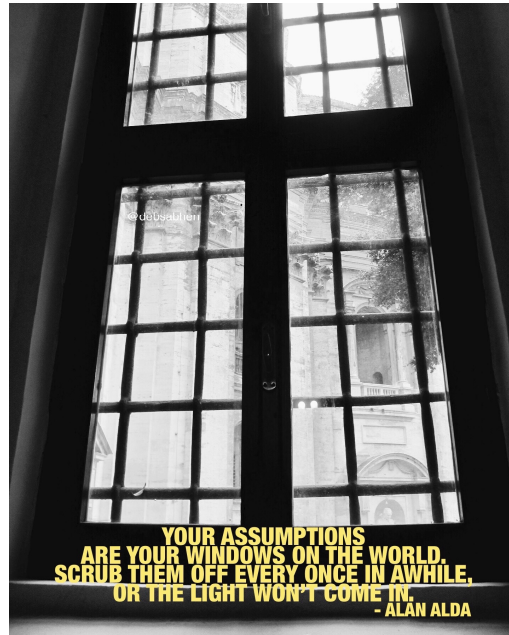
Session Objectives

- **CONTEXTUALIZE** professional skepticism and its significance in Compliance & Ethics
- **UNDERSTAND** the sources of unconscious bias that get in the way of exercising appropriate professional skepticism
- **ANALYZE** our mental skews and predispositions to proactively manage and sustain our professional skepticism

The Significance of Professional Skepticism in Compliance & Ethics

What is Professional Skepticism?

Context



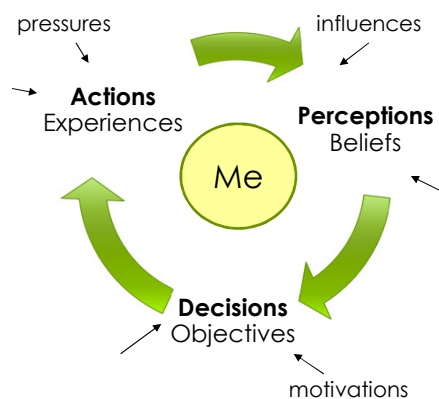
Acknowledging Our Vulnerabilities

- **Ethical decision-making** and **objective reasoning** are critical to our effectiveness as professionals... but we can't take them for granted
- Our decision-making is not always as rational or objective as we think
 - Regardless of our level of expertise and years of experience, we are all susceptible to external pressures and motivations that can create blindspots, cognitive biases and rationalizations
- We all have vulnerabilities in our perceptions and decision-making
 - Acknowledging this is always a strength, not a weakness
 - Accepting the unconscious biases that cause these vulnerabilities is critical
 - Addressing this is part of being an effective, objective professional in our field

“Truthiness”

- Concept made popular by Stephen Colbert
 - From his first segment of "The WØRD" in his debut of *The Colbert Report* (Oct 17, 2005)
- From Dictionary.com:
 - The quality of seeming to be true according to one's intuition, opinion, or perception without regard to logic, factual evidence, or the like: *the growing trend of truthiness as opposed to truth...*
- Distinguishing “truthiness” from fact-based, objective reasoning is key to professional skepticism

Influencing Perceptions, Decision and Actions



My **Actions** are driven by my **Decisions**, which are driven by my **Perceptions...**

- But external motivations, pressures and influences can drive changes in my perceptions
- Changing my perceptions changes my decisions which change my actions...

Defining “Professional Skepticism”

Let's Discuss:

- What does this term mean to you, as a Compliance & Ethics officer, leader, professional, attorney, auditor, investigator...?
- Are your definitions or expectations based on:
 - Professional standards?
 - Job descriptions and competencies?
 - Something else?

There is a professional standard—from the AICPA's auditing standards—that does very specifically define "professional skepticism"... Which of the following do you think is their definition for auditors?

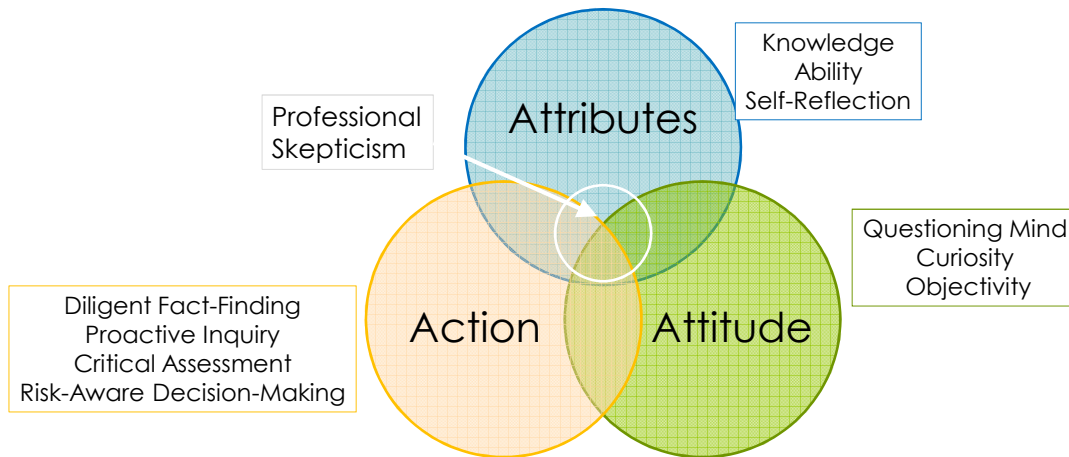
An adverse stance that involves proactively questioning the authenticity of all audit evidence.

An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence.

An assumption that fraud is present until sufficient evidence has been collected to prove otherwise.

A mindset applied throughout the audit that involves obtaining independent verification of all information.

A Framework for Professional Skepticism



8 Major Financial Scandals

 <p>Reported \$1.7 billion in fake earnings</p>	 <p>Misstated earnings by \$5 billion</p>
 <p>Kept several billion dollars of debt off balance sheet</p>	 <p>Booked \$3.9 billion of loans as revenue</p>
 <p>Inflated assets by \$11 billion</p>	 <p>Disguised \$50 billion of loans as sales</p>
 <p>Inflated earnings numbers by \$1.4 billion</p>	 <p>Tricked investors out of \$65 billion</p>

Which of the following elements of professional skepticism do you think played the biggest role in these compliance and accounting failures?

Attributes

Attitude

Action

Start the presentation to see live content. Still no live content? Install the app or get help at PollEv.com/app



© 2019 Resili LLC & CTR Factor Inc. All Rights Reserved.

13

Impediments to Professional Skepticism*

Influences on Attitude:

- Unconscious biases
- Scheduling pressures and workload demands
- Avoiding significant conflicts with management
- Providing an unqualified opinion by a deadline
- Achieving high client satisfaction ratings
- Keeping audit costs low
- Building or maintaining a long-term engagement or client relationship

Impacts on Action:

- Seeking evidence that is easier to obtain, rather than more relevant and reliable;
- Obtaining less evidence than is necessary
- Giving undue weight to confirming evidence, without adequately considering contrary evidence
- Developing an inappropriate level of trust or confidence in management.



* Public Company Accounting Oversight Board

© 2019 Resili LLC & CTR Factor Inc. All Rights Reserved.

14

How much professional skepticism do you think there is in the compliance and ethics field, based on your experience?

Very high

High

Low

Very Low

Start the presentation to see live content. Still no live content? Install the app or get help at PollEv.com/app

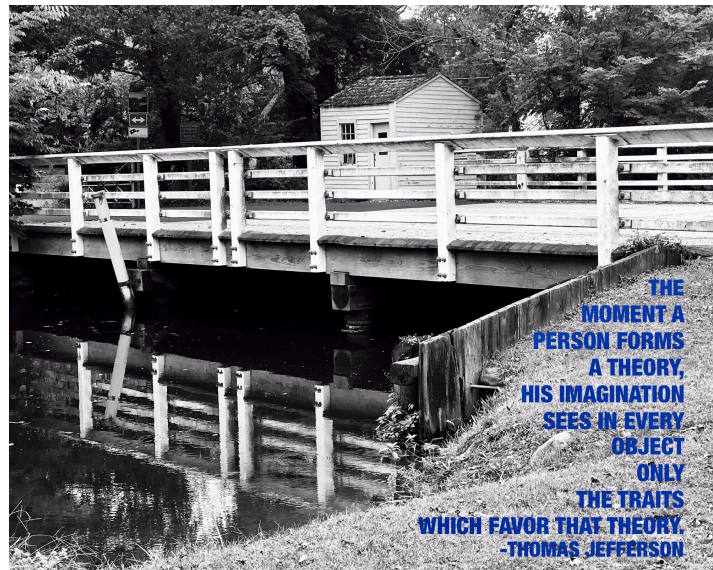


© 2019 Resiliti LLC & CTR Factor Inc. All Rights Reserved.

15

*Understand
and Analyze*

Unconscious Bias



© 2019 Resiliti LLC & CTR Factor Inc. All Rights Reserved.

16

Sources of Unconscious Bias

Definition of Bias



A predisposition or preference for or against something, based upon a unique combination of internal, external, and organizational variables that influence us

Reasons for Bias

11 MILLION

Bits of information
received every
moment by the
average human
brain

40

Bits of information
processed consciously
every moment by the
average human brain

99.999996%

Percentage of
unconscious
processing of data
every moment by the
average human brain

The **unconscious preferences** of the human brain, developed through **pattern recognition**, triggered due to **cognitive complexity**, and manifested via **heuristics** result in bias in everyone of us 99.999996% of the time

Reasons for Bias (contd.)



Bias-Enhancing Aspects of Investigations*

- **AMBIGUITY:** People tend to reach self-serving conclusions whenever ambiguity surrounds evidence. Many decisions require subjective interpretations of ambiguous information
- **ATTACHMENT:** Auditors are highly motivated to remain in clients' good graces and approve their accounts. Why? Clients can fire them for delivering unfavorable audits. Also, long-term relationships enable firms to sell more lucrative consulting services.
- **APPROVAL:** Bias intensifies when people endorse others' biased judgment—provided it aligns with their own bias. Thus, auditors may accept more aggressive accounting from clients than what they themselves might suggest independently.

* Harvard Business Review: "Why Good Accountants do Bad Audits"



© 2019 Resiliti LLC & CTR Factor Inc. All Rights Reserved.

21

Bias-Enhancing Aspects of Investigations (Contd.)*

- **FAMILIARITY:** People are more willing to harm strangers (such as anonymous investors) than individuals they know (long-term clients, for example). The deeper the investigator/client ties, the stronger the tendency toward approving dubious practices.
- **DISCOUNTING:** We tend to be much more responsive to immediate consequences than to delayed, uncertain ones. Investigators may hesitate to issue critical reports because of possible immediate damage to the relationship, loss of the contract, or unemployment.
- **ESCALATION:** People often explain away minor indiscretions—then conceal the growing problem. Unconscious bias can evolve into conscious corruption.

* Harvard Business Review: "Why Good Accountants do Bad Audits"



© 2019 Resiliti LLC & CTR Factor Inc. All Rights Reserved.

22

Strength of Bias

- **Thought** - Something on our mind, haven't taken a side yet
- **Opinion** - Picked a side but still open to question
- **Conviction** - Opinion no longer open to be changed
- **Judgment** - Any other opinion is wrong

What bias strength do you tend to exhibit most of the time?

Thought

Opinion

Conviction

Judgment

Sustaining Our Professional Skepticism

Types of Bias

- More than 150 different biases have been established by researchers
- We will talk about 5 of those that specifically affect professional skepticism
- Before we tell you what they are, we want you to experience them yourself

Overconfidence Bias

How do you rate your driving skills?

A) Poor B) Below Average C) Above Average D) Exceptional



- Be self-aware of your limitations
- Remember the Dunning-Kruger effect
- Always be learning – growth mindset
- Ask yourself: What if I am wrong
- Ask others to play Devil's Advocate

resiliti

© 2019 Resili LLC & CTR Factor Inc. All Rights Reserved.

27

Availability Bias

What do you think are the odds of a plane crash vs a car accident

A) Much higher B) Little higher C) Little lower D) Much lower



- Increase availability through diversity
- Focus on facts, not feeling
- Push for less available data
- Don't confuse probability with impact
- Don't confuse correlation with causation

resiliti

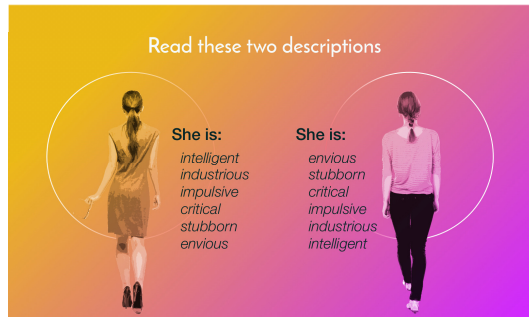
© 2019 Resili LLC & CTR Factor Inc. All Rights Reserved.

28

Confirmation Bias

Which of these two people would be a better co-worker

A) Left B) Right C) Neither D) Both



- Postpone, postpone, postpone
- Remember the rule of three
- Share the data, not the conclusion
- Seek disconfirming evidence
- Believe in circles not straight lines

Anchoring Bias

How do you view this deal?

A) Not sure

B) Not great

C) Good

D) Great



- Change the sequence of the process
- Change your benchmarks
- Ask a different question
- Ask: What would it take.....?
- Imagine you are someone else

Rush To Solve Bias

How many tests did you get right?
A) 0 B) 1 C) 2 D) 3



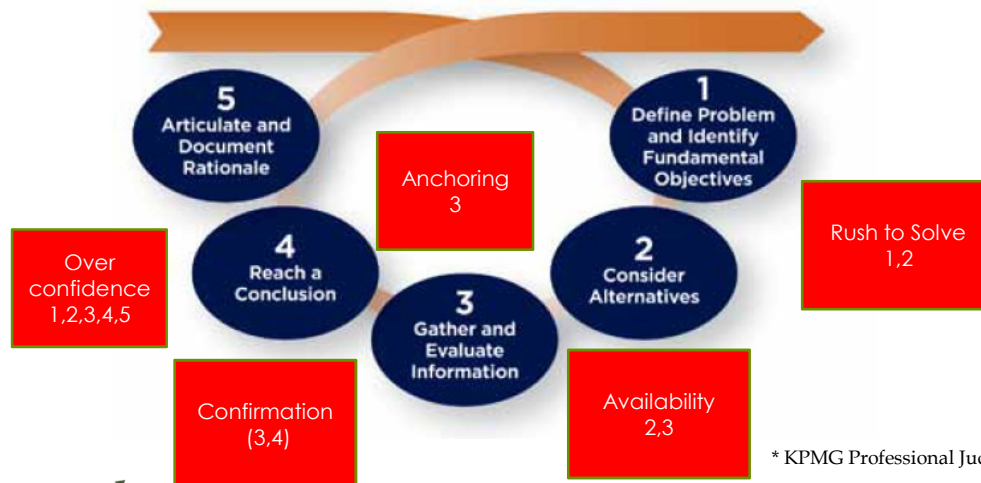
- Ask: What question are we answering?
- Throw out the first thought
- Get more time
- Soak in the data
- Try multiple alternative solutions

resiliti

© 2019 Resili LLC & CTR Factor Inc. All Rights Reserved.

31

Professional Judgment Framework*



* KPMG Professional Judgment Framework

resiliti

© 2019 Resili LLC & CTR Factor Inc. All Rights Reserved.

32

Sustaining Our Professional Skepticism

Conscious Mitigation



Self-Reflection Exercise: “Continue, Start, Stop”

As you think of sustaining and enhancing your professional skepticism:

- What are you doing well that you should **continue** doing?
- What are you doing in isolated instances that you should **start** doing more of?
- What are you doing that you should **stop** doing?

Will you share one point with the group...?

Will you share something with at least one person in the next week...?

*What will you
take away
from today's
session?*

Professional Skepticism
Unconscious Bias
Conscious Mitigation



© 2019 Resiliti LLC & CTR Factor Inc. All Rights Reserved.



35



Questions?

Debbie Hennelly
deb@resiliti.com

Suri Surinder
suri@resiliti.com

www.resiliti.com

© 2019 Resiliti LLC & CTR Factor Inc.. All Rights Reserved.

Thank You!

36