Professional Skepticism in a Remote Working Environment

SPEAKER	TRANSCRIPTION
Kaylynn Pippo	Hi everyone, and welcome to Professional Skepticism in a Remote Working Environment. My name is Kaylynn Pippo, Principal of Audit and Assurance in the Research, Guidance and Support department at CPA Canada.
	In this podcast, I'll be speaking with Karen Higgins, who is an Audit and Assurance Partner with Deloitte Canada. Karen has over 30 years of audit experience and has held various national office and practice roles in the firm. She was also a member of the Canadian Accounting Standards Board from 2010 to 2019. Most recently, Karen chaired the Canadian Public Accountability Board's Professional Skepticism Working Group as part of the Canadian Audit Quality Roundtable initiative.
	Welcome, Karen! Thanks for chatting with us today.
Karen Higgins	Thanks so much, Kaylynn. I'm really looking forward to talking about this topic. It's a really important topic for auditors, and it's even more challenging now as many people are facing a partial or fully remote working environment.
Kaylynn Pippo	We're looking forward to hearing your insights.
	Listeners, our goal is to help you build a better understanding of:
	• what professional skepticism is
	• what the challenges are when it comes to applying professional skepticism in your day-to-day role
	• and how to apply this skill practically in a remote environment, with plenty of examples
	Karen, can you start us off by sharing a good working definition for what professional skepticism is and how auditors can demonstrate it at work?
Karen Higgins	Sure. I mean, the CAS 200 definition of professional skepticism is: "An attitude that includes a questioning mind, being alert to conditions which indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence."
	The key word in that definition is "attitude." It's really the most critical foundation to professional skepticism.
	I tend to think of attitude as a mindset – where you stay open-minded and don't form a conclusion until you really have enough persuasive evidence to validate or challenge the information provided to you.

Having the right attitude means you need to be able to mentally "clear the slate" and approach the audit as a truly neutral party. Professional skepticism requires you to challenge management's support, not support management's position.

Each person who's performing or reviewing audit procedures needs to approach that work with an understanding that an error or an alternative conclusion could exist, and that the work that they're doing has to be done with diligence. The evidence that you gather, review and document in the file really has to be done with a close attention to detail so you can find anything that could be amiss. This is even more important when we're working remotely as we don't have any of those "informal" moments with management, you know, where we walk by each other in the hall, which can really provide us with the ability to gain a general sense of how things are going and follow up on miscellaneous items.

Now, I want to be clear, I don't mean that we have to perform every audit procedure like it's a forensic procedure.

There's a degree of judgement and skill that we develop over time to know when we have sufficient independent and persuasive evidence. You learn how to evaluate contradictory evidence and identify what circumstances warrant additional procedures.

Things like consultation with more senior members of the team or a subject matter expert or your engagement quality control reviewers or even national office is a really key element if you want to improve your professional skepticism. And when you're working remotely, we may see consultations increase over levels in prior years – including consultations around questions about the quality or sufficiency of audit evidence that we've obtained in our remote working environment.

To achieve the appropriate level of professional skepticism as auditors, we need to be aware of, and overcome, our own unconscious biases. And that starts with acknowledging that we all have 'em. Different types of unconscious bias can cause us to not be as skeptical as we should be, and it's one of the biggest hurdles we need to overcome.

Kaylynn Pippo	That's a great overview, Karen. In my work, I also see how much the right attitude matters, and mitigating bias as an auditor is key.
	I know that there are lots of different types of unconscious bias to consider. Can you identify and describe a couple of the more common ones that we should all be thinking about?
Karen Higgins	Sure. Why don't I talk about two relevant ones for professional skepticism: Confirmation bias and anchoring bias.
	Confirmation bias is the tendency to place more weight on information that corroborates an existing belief than on information that would cast doubt on that belief.
	Anchoring bias is the tendency to use an initial piece of information as the anchor to assess and compare subsequent information.

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	So, let me start with some examples of confirmation bias. In our current environment, we have lots of clients, businesses and industries under pressure. The going concern assumption and the work we do around this is really critical right now.
	So, let's assume there is a client who's weathering COVID-19 relatively well because they were able to pivot their business model and are also were eligible for certain government support programs.
	If the engagement team approaches this audit with a confirmation bias, they may approach the going concern assessment with a mindset that they believe that the entity is a going concern based on current year performance / prior year performance, before they've even gathered any evidence. The team could feel confident that the entity will continue to be a going concern and this could lead to some real issues.
	Practically speaking, those issues could take a few different forms, for example:
	• an engagement team could assign this perceived lower risk area to a more junior resource without the right expertise in this area
	• the quality and extent of external evidence gathered to validate or contradict the going concern assumption may be insufficient or, even worse, superficial
	• contradictory evidence may be de-prioritized
	• the auditor may not push back much when management's own analysis is superficial
	• and last, the procedures may be performed very late in the audit cycle, almost as a "check the box" activity
	The way to avoid this is by approaching the going concern analysis with an open mind. You truly don't know if this entity is a going concern, and you can only reach a conclusion once you've gathered robust – and possibly contradictory – evidence from the client and available external sources.
	This is a great example of a situation where consultation with a specialist may also be appropriate, and where you may also encounter management bias via their own optimistic analysis.
	The second bias I mentioned at the beginning, that I want to discuss a bit is anchoring bias, where you're building a case on original information even though that initial context may be a bit flawed.
	For example, one of the areas many of us as auditors struggle with the most are complex management estimates. So let's assume you have an engagement where management has to estimate the fair value of an asset and the range of possible fair values is from $30 to $100.

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	Management may determine that $85 is the fair value, but we know as auditors we can't just take their word for it. We need to perform our own independent estimate of fair value and: What if our results indicate the fair value is actually closer to $50? You may think that outcome is too low, even if it's not, and look for reasons to support that it's too low - all because you're anchored by that first claim by management that the fair value is $85.
Kaylynn Pippo	It's true. You can't just take their word for it. True independent estimates have to begin with no pre-determined end point in mind.
	Those are two very relevant examples, given the level of uncertainty that organizations continue to face right now.
	In addition to the impact of bias, where do you tend to see other challenges in professional skepticism, and are there any common patterns or trends?
Karen Higgins	Yeah, thanks for that question. One of the biggest challenges I see in professional skepticism these days is really trying to strike the appropriate "trust but verify" balance in our interactions with management.
	As auditors, professional skepticism and our public interest role means we have to challenge management – that involves sometimes pushing them to provide higher quality evidence or letting them know of potential errors. That's not always pleasant. Being skeptical can often create conflict with management, and that can unfortunately cause some stress in the working relationship…and stress on our own, sort of, selves as well.
	It's not ideal, but it's part of the job – it's the cost of protecting the public interest in our roles as auditors. It's important that if you encounter those circumstances, that you consult with other firm professionals, don't go it alone. Talk to people who are more experienced, including possibly a subject matter expert to validate your approach and consider next steps.
	Depending on the issue, you should also consider if, or when, you might need to engage in discussions with the audit committee or those charged with governance. You'll need to obtain their support for the direction you may have to take. Even if that is creating stress or conflict with management.
Kaylynn Pippo	I'm glad you raised this challenge, Karen. I'm sure the effects of working remotely as well as the effects on clients' businesses as a result of the pandemic have certainly impacted interactions with management. While auditors may feel sorry for their clients and what they're going through right now, it's key that objectivity is not compromised.
Karen Higgins	Yeah, in addition to navigating these tricky situations with management, I also wanted to quickly highlight a few other kinds of challenges in the audit that can test skepticism, starting with actual time, perceived time and budget pressures.
	If you don't believe that you have sufficient time to complete your work with the appropriate level of diligence, you need to talk to the leaders of the engagement team early on to explain your concerns and agree on what's appropriate for the circumstance. And remember: it is really important to record all of the time you spend!
	Another common challenge is actually documenting professional skepticism in the file.

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	When the Professional Skepticism Working Group that I chair talked about this issue, we found that, in our experience, even when our discussions and procedures that we performed demonstrated appropriate skepticism, the file didn't always reflect the true nature and extent and outcome of those procedures.
	You know, to our listeners, this comes up a lot and isn't unique and if you're struggling with this: you're amongst friends. Auditors can find it hard to include contradictory evidence in the file because of fears of challenge or that it could undermine the conclusion that's ultimately reached. But ultimately, documenting professional skepticism in the file is the equivalent of showing your own work in a math exam.
	Ensure your file includes clear identification and analysis of the alternative accounting outcomes you considered, other inputs to an estimate that you assessed, and all of the relevant probing questions and responses that you went through to fully consider valid alternatives. This is the essential component of supporting why the conclusion you reached is well-reasoned.
Kaylynn Pippo	Thanks, Karen, for flagging these challenges and for sharing helpful, real-world examples and tips as well. Hopefully sharing these obstacles will help auditors anticipate them and think about how to deal with them proactively on their engagements.
	Do you think the prevalence of virtual offices and the rise of remote work for auditors throughout the pandemic has altered the landscape? Or are the core challenges still common, even as our context has shifted?
Karen Higgins	Yeah, to me, it seems like a bit of both, Kaylynn. Some challenges transcend work location, while other unique ones may arise too, as many of us in the field operate with a more digital-first mindset right now.
Kaylynn Pippo	And can you share your thoughts on this, and what you'd advise auditors to put into practice in 2021 and beyond?
Karen Higgins	Yeah, Kaylynn. You make a good point. Maybe first I'll touch on some broad recommendations that are especially relevant during the pandemic, and then I can highlight a couple of best practices that are likely to have longer term application for auditing in a virtual world. I think I can sum it up in six broad topics. The first:
	1. carefully consider the direct of management bias
	2. challenge representations from management when they tell you that procedures, balances and controls are the same as last year
	3. pay attention to not only the information that management is disclosing, but also take time to think about what may be missing
	4. Re-assess how substantive analytical procedures and variance analysis are performed.
	5. Find ways to maximize virtual in-person audit procedures.
	6. Keep the reliability of electronic audit evidence top of mind.

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The first three recommendations relate to how you deal with management, including what they may be telling you or presenting you with. So, I'll speak to those first.

Recommendation #1:

-which is carefully consider the direct of management bias

As I mentioned earlier, similar to auditor bias, we have to address the fact that management will have some bias, whether conscious or unconscious.

In more traditional years, we might assume that management bias may result in the risk of overstatement of assets and/or the understatement of liabilities and our testing is designed accordingly. But in this year, after the rather dramatic impacts of COVID-19, it's important for us to really reconsider the possible drivers for management bias and also the directionality of that possible bias.

So, for example, if the results of the current year are very off plan, would management try to actually minimize, or make worse, their company's fiscal 2020 results by understating assets, or would they overstate liabilities in order to set the business up for a maybe guaranteed return to profitability in 2021? Either scenario is possible and being prepared for scenarios like this is helpful. They may require us to re-challenge our risk assessment and the nature of our procedures to test for management bias that's at odds with our normal assumptions.

Recommendation #2:

-challenging the representations from management when they say that procedures, balances and controls are the same as last year

Building on this idea of looking closely at what's at odds with the norm, you're going to need to challenge some representations by management where they say it's "business as usual" or "same as last year."

Clients may initially tell you that there's no substantial changes in their processes or controls other than the obvious switch to working remotely and the increased digitization. But is that accurate? We should really ask detailed, probing questions from a wide range of people – including people outside the finance function.

So, some effective questions that you could ask to get the ball rolling are ones like:

• Tell me about any errors you identified during your reviews and what caused those errors?

• Do you have to process any more adjusting entries than usual, or different information at month end due to changes in your processes as you deal with COVID-19?

• And for people in operations management, you can get to the heart of financial results by asking them about what they are using to develop an expectation for their business results. How would they find an error or a variance if the original budget no longer reflects the current environment?

This is really an area where we need to demonstrate professional skepticism to make those additional inquiries.

Remember also that many of our clients had to establish new processes to account for the various government support programs and act quickly. There may have also been severance or employee reductions to juggle through attrition as well. Enquiring about the impact on control processes – both those that were originally performed by employees that may no longer be with the organization and new control processes for government subsidies or new income streams.

This may also trigger us to think about new factors that management might not have considered – such as: What's the impact of employee reductions on pension plans? Things like curtailment or tracking how subsidies like the Canadian Emergency Wage Subsidy should be treated in the financial statements, especially if there is a policy to capitalize payroll costs to PPE or inventory.

Recommendation #3

Is paying attention not only to the information that management is disclosing, but look for what's missing.

So, whether your client is public company, reporting issuer or a private company, disclosing the full impact of COVID-19 in the financial statements is really critical for stakeholders. There's a risk here that as auditors we can fall into the trap of just editing and wordsmithing the draft disclosures that management's presented.

What we really need to do to be skeptical is to step back, form our own views about what critical disclosures we would expect to see in the financial statements and and then to make sure we perform procedures to focus on identifying what disclosures may be missing. What do we know about the entity? What do we know about their key estimates and what changes in their business might require additional or enhanced disclosure?

Kaylynn Pippo	These recommendations all highlight the importance of a questioning mind, which is really at the heart of professional skepticism.
	Let's move to tip 4: "Re-assessing how substantive analytical procedures and variance analysis are performed".
Karen Higgins	Yeah, in many cases right now, traditional procedures we would have performed about comparisons to budget or forecast or even the prior year may not be a strong tool to identify variances. Given the significant and wide-ranging way that COVID-19 has impacted your clients, you may actually want to focus as much on balances that are consistent with prior year and budget as those which have significant variances.
	Also, substantive analytical procedures which would normally be dependent on a statistical or consistent relationship between variables may no longer be appropriate. If so, it's time to design additional procedures. Consider what external data is available to challenge or corroborate variance explanations provided by management.

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Kaylynn Pippo	I can imagine teams are grappling with this one, so I appreciate you raising it. These considerations also highlight the importance of making sure the engagement team is appropriately staffed and that senior members of the team are more involved where needed. Now for the last two recommendations related to working in a remote environment and gathering evidence electronically.
Karen Higgins	Recommendation #5 Is finding ways to maximize virtual in-person audit procedures. It's hard to replace in person meetings and I think many of us miss the ease of face-to-face time instead of things like zoom and endless phone calls or formally structured meetings. And in our role as auditors, watching someone's body language, their expression and even their interactions with others is a really important input indicator too. To maximize audit procedures in a remote working environment, we do need to use video for all client meetings where we're making inquiries. If you're looking for ways to make the client video call experience, I suggest some really clear communication and planning upfront: • Be clear in your invitation that the video call will be "cameras on." If the client dials in and indicates that they're in transit and can't be on camera, you know, depending on the nature of the call, consider whether you reschedule the call if it relates to a key audit area or an area of audit judgment, where they can be on camera. • Sending an agenda in advance of the call is also helpful. • Bring a teammate to take notes so you can remain completely focused on the screen to observe facial expressions, body language, and any other tells. • Use the client's preferred technology where possible, especially if you're going to ask them to share their screen to demonstrate their own processes. • For key walkthroughs, consider asking the client for their permission to record the session in order to refer back to it when completing your own documentation, but not for inclusion in the file. • And brace yourself too for some potential uncomfortable moments. Be prepared to challenge, to prod or ask follow-up questions and document those questions and responses in your file. Also, whenever possible, avoid using email – either with your team or the client – for anything other than administrative matters. Sometimes, a quick 10-minute video call will be far faster and garner more straightforward action plans. Okay, we're almost done! We've got one more tip to go over. That's: Recommendation #6 Keep the reliability of electronic audit evidence top of mind.

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	In many cases when you're working remotely, you're going to receive a digitized version of the exact same information that you might have obtained in another format (paper, for example) in prior years. Make evaluating the reliability of this audit evidence received in this new format your guiding light.
	Compare the digitized version to prior years so you can confirm it's complete. That it includes signatures when appropriate, and so on. Usually if the paper evidence you historically recieved included manual signatures, check marks and notations of manual review, you'd be tracking that. So how is that same evidence of review now tracked in the digitized version and available for you to observe as auditors?
	Some clients have created checklists for sign-offs, follow up questions and explanations of the review procedures performed. But not everyone may have made that switch.
	When the information you're provided while working remotely is in a different format, consider performing additional procedures to assess the relevancy as well. Did that information come from a different source or different person this time? If so, what's the reason for the change? Do you need to consider other external or internal sources of possible contradictory or confirmatory evidence?
	And don't overlook the potential need to expand the scope of your client inquiries to individuals outside of the finance department to obtain additional context or validation of key matters. I can't emphasize this enough.
	Then there's inventory counts – really one of the trickiest procedures to perform in a remote working environment. In certain cases, it may be appropriate to leverage some technology. In those cases, consultation with a subject matter expert prior to the count may be advisable, so you can discuss and agree on the nature and quality of evidence you require. You may also want to expand your inquiries to include people such as the inventory floor manager.
Kaylynn Pippo	That's a lot of information, but incredibly insightful. Thank you, Karen, for getting into the nuts and bolts with practical examples in your recommendations.
	One thing we haven't talked about yet, that I want to make sure we touch on before we wrap up this podcast, is effective coaching and team supervision. It's so critical to the audit. How can we ensure coaching and team supervision work well in a remote environment that's built on trust and transparency?
	Do you have any strategies to implement virtual coaching and supervision for better outcomes, based on your experience at your firm?
Karen Higgins	Yeah, I'm glad you brought this up. Coaching is probably the most critical challenge we're facing in a virtual world now, professionally.
	Pre-pandemic, younger professionals would've had a lot of informal opportunities to learn, just by sitting in an audit room or in the office and listening to all the discussions around them. Working remotely is really limiting those informal "fly on the wall" learning opportunities. So what can we all do?

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	Here's some strategies that we've established at Deloitte to keep investing in our mentorship and coaching initiatives: • Have an explicit discussion with your team about the importance of professional skepticism and audit quality even more broadly. Describe what it is and how the team will apply it during the audit. Keep up this discussion throughout the engagement and at the right time, share examples or experiences during team calls. Identifying action items that each team member can do to apply skepticism and follow up. • Schedule virtual office hours three to five times a week where the engagement team can all dial in for at least an hour with cameras on. No agenda, just a forum for people to ask questions as if they were all working together in the audit room on that client's files. Partners or managers could also select this time to discuss amongst themselves a key issue so the junior teams can observe that discussion too. • Encourage supervisors to schedule one-on-one video calls, and for junior staff to bring to those calls a list of questions. Better yet – send that list before the call! • Make time for an on-the-job coaching session before someone tackles a new section for the first time. It's a small but powerful gesture and it doesn't need to necessarily take that long. Share with them the purpose of the test, what you will be looking for as a reviewer, and then let them know what personal research they should perform to improve their knowledge of the area before they begin work. • If they're going to be performing a test with multiple steps or samples, you know, my recommendation would be to have them perform one or two and then regroup back on video with a shared screen so you can provide some real-time feedback before they do more. At Deloitte, we've developed a coaching conversations guide relating to audit testing to help guide that technical discussion between junior and senior staff around getting prepared to perform a new procedure. • Resist the urge to answer technical questions by email. Sometimes context can get lost. Get on the phone to have a really robust discussion. • Avoid review note overload in a single working paper. If you have questions, organize a call ask the preparer to walk you through the document, and share your feedback live with them on that call and then give them a chance to make those corrections based on that discussion before you go back to do a formal review.
Kaylynn Pippo	Great advice Karen, I can remember being a staff accountant and what a steep learning curve there is, so I can only imagine the challenges that come along with not being able to be in the same room with the rest of the team, let alone if the team may be working different hours right now. Thanks again for sharing such practical suggestions that will be helpful to both junior staff and senior leaders.

That concludes our podcast. Karen, thank you for being a guest today and openly sharing tips for applying skepticism in a remote working environment.

And we thank you for listening to this podcast. If you want to learn more about professional skepticism, check out our online professional skepticism audit course available on-demand. For further information about CPA Canada and our available resources, including free COVID-19 related audit resources, I encourage you to visit our website at **www.cpacanada.ca**. Thank you.