

## Improved auditor \* skepticism through an examination of cognitive dissonance

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- \*and management and all of us

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## Purpose of this session

- To assist you in recognizing the traps we all can fall into when we are evaluating information and evidence
- *Trying to be conscious about otherwise unconscious biases*
- "How could that be?"
- "Did you hear about so and so?"
- "Say it ain't so!"
- "How did I fall for that?"
- You can't believe anything he/she/they say

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- When our brains are made up, it is very hard to change them
- Cognitive dissonance—a state of tension created whenever a person holds two cognitions (ideas, attitudes, beliefs, opinions) which are psychologically inconsistent. Leon Festinger
- (Like Magic Tricks)
- Smoking is not a good thing, it can kill me; I smoke two packs a day
- How could Lance Armstrong be cheating? He is an American Hero...he has been tested hundreds of times...But he had serious cancer?

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- It produces mental discomfort
  - From minor pangs to deep anguish
- We don't rest easy until we find a way to reduce it
  - Quit smoking
  - Convince yourself smoking isn't so bad
    - Or it is worth the risk because it helps me relax, or prevents me from gaining weight (another health risk)
  - Armstrong is a cheater
  - His physiology is superhuman

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### Three primary applications to auditing and accountability

- Auditors and those charged with governance who need to remain objective in skeptically analyzing audit evidence
- Management and those charged with governance who need to remain objective and vigilant to indicators of possible fraud, waste or abuse through designing, establishing, reviewing/approving and monitoring effective internal controls
- Dealing with noncompliance with controls, exceptions, management override and special-handled transactions
- All of us as human beings who can trip down that ol' slippery slope

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### Auditor responsibilities per SAS 99

- Paragraph 14: when responses to inquiries of management, those charged with governance, or others are inconsistent or otherwise unsatisfactory (for example, *vague* or *implausible*), the auditor should further investigate the inconsistencies or unsatisfactory responses.

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Paragraph 14: maintain the proper questioning mind throughout the audit

- Paragraph 15: the questioning mind should include setting aside any prior belief that management is honest and has integrity and consider the risk of management override of controls

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Paragraph 15:

- Consider known external and internal factors that might: 1.create incentives/pressures to commit fraud, 2. provide opportunities for fraud to be perpetrated and 3. indicate a culture or environment that enables **rationalization** for committing fraud

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Paragraph 16: professional skepticism should lead auditors to continually be alert for information or other conditions that could indicate that MMDF may have occurred

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Paragraph 16: professional skepticism should lead auditors to thoroughly probe the issues, require additional evidence as necessary, consult with other team members and, if appropriate, experts in the firm, rather than rationalize or dismiss the information or other conditions indicating that a MMDF may have occurred.

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### Requirements of SAS 109

Paragraph 19: the auditor should plan and perform the audit with an attitude of professional skepticism, which should be exercised throughout the audit engagement

- Auditors should be rigorous in following up on indications of MMDF or error
- Auditors should be alert for information or other conditions indicating a MMDF/E may have occurred.

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DENNIS THE MENACE



THE TRUTH IS WHAT YA TELL WHEN YOU RUN OUT OF GOOD EXCUSES.

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- We are ingenious in developing ways to reduce the dissonance
  - But they are usually self-deluding
- Albert Camus: we humans are creatures who spend our lives trying to convince ourselves that our existence is not absurd
  - But to hold onto two ideas that contradict each other is to flirt with the absurd

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- Basically we lie to ourselves
- We develop "Good Excuses"
- How the people erroneously predicting the end of the world justify their error to themselves and their flocks

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- So, we strive to lead lives that are, at least in our own minds, meaningful and consistent
- Cognitive dissonance is the engine of self-justification

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**Confirmation bias**  
(we are not logical beings)

- If we are forced to look at disconfirming information, we will find a way to criticize it, to distort or dismiss it so that we can maintain or even strengthen our original belief.
- If we obtain new information that is consistent with our beliefs, we consider the information useful and well founded
- However, if the new information is inconsistent with our beliefs, we will consider it biased, inaccurate or foolish.

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**A neurological basis**

- MRI's have revealed that when people are facing dissonance/information that conflicts with their beliefs, the "reasoning parts" of their brains shut down
- And when the consonance was restored, the emotional circuits in their brains lit up

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**Absence of any evidence can become evidence for one's beliefs**

- Confirmation bias can even convince us that the lack of evidence to support our position or belief is evidence that our belief/position is correct
  - Mere rumors can be enough
    - WWII internment of Japanese Americans
      - The "fact" that there was no evidence to support sabotage by this group was seen as evidence of just how sinister, clever, organized and dangerous they were

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## Sticking with our decisions

- Especially irrevocable decisions
  - And decisions that involved a lot of cost or emotional commitment
    - The greater the dissonance the greater to need to reduce it by over-emphasizing the good aspects of it
- As a result, realize that testimonial advertising is the least reliable
  - If I spent a lot of money and time for a particular therapy, I am going to say it has made a great difference in my life (not "sure I wasted ten years of my life and \$50,000 on terrible therapy!!!!")

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- Dissonance can even make us hang onto practices and notions that are not based on conscious decisions, just "feelings"<sup>8</sup>
  - We may not have a clue why we are holding onto this view or opinion, but
    - We are too proud to admit that
  - We are smart and clever people, aren't we?
    - And again, especially if developing/holding onto it involved a lot of pain, cost
      - Initiation into a fraternity

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- The greater the gift or the effort of giving, the greater the dissonance and the more we tend to view the person favorably

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## A Cheating Scenario

- Two students are both facing a critical exam for admission to a graduate program
- They are both reasonably honest and have the same attitude towards cheating—it shouldn't be done
  - That is, they are very close together in their views of cheating
- But they each find themselves stumped by a question on the exam
- And they each find themselves with an easy opportunity to cheat by copying an answer from another student which appears to be a very good answer
- One cheats and the other does not

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## Back to the cross roads moment

- At that time, as they stood at the top of the slippery slope, the choices seemed a lot more ambiguous than after they have made their choice and traveled down the slope
- The early, almost inconsequential steps, didn't seem that big
  - But it starts a process of entrapment
    - We justify each step to reduce our uneasiness/the ambiguity of the dilemma and it also increases the level of our commitment and the intensity of that commitment and takes us further and further away from our original principles and intentions

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### THE SLIPPERY SLOPE Moving From Moral Ambiguity to a Commitment Without Awareness

One Small Step at a Time

As He Goes

Cheating is wrong, but easy, and a bit in as  
take and unlikely to be caught

**A**

A decides to take one small step and to cheat,  
just this one time

A has to justify his decision, to reduce  
his discomfort and the ambiguity

A then takes another small step and  
cheats again - higher discomfort  
requires more justification

**B**

B resists the temptation this time

B justifies his decision to resist himself  
because right

B resists another temptation and has  
to convince himself he is not being  
hard on

Over time, such is entangled in a  
position far from the starting point  
and even further from his colleagues  
and it is impossible to return quickly  
to the

Over time, such is entangled in a  
position far from the starting point  
and even further from his colleagues  
and it is undesirable to return against  
the tide

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## Stanley Milgram

- “the experiment requires you to continue”
- Created a “slippery slope”
  - Not high voltage charges that could seriously harm someone, but
    - \$20 to participate in a scientific study to determine whether a mild shock with a miniscule amount of voltage (10 volts) can increase people’s ability to learn
    - He even tries it on you and you can barely feel it
    - So it’s harmless and interesting (hmm, will spanking the kids make them study?) and you get some money (\$20 in 1963)

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## How do we lose our ethical compass?

- Get someone to take one small step at a time
- Self-justification will do the rest
- To preserve our belief that we are smart, we will all, on occasion, do some things that are dumb
  - We can’t help it, we are wired that way..the human condition

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## Psychological blind spots

- The biggest one: that we don’t have any
- Justify our own perceptions and beliefs as being accurate, realistic and unbiased
- Naïve realism: we believe that we perceive objects and events clearly, as they really are
  - We assume that other people see things the way we do
  - If they disagree with us, obviously they aren’t seeing things correctly

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### The problem with blind spots

- We can't find them through introspection
  - They are unconscious
- They are innate and inevitable
  - Everyone has them
- When we are unaware of them, we make foolish decisions and cross ethical lines
- They enhance our pride and activate our prejudices
- Although we can't avoid them, we can try to be aware of them

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### The greatest of all faults is to to be conscious of none..Thomas Carlyle

- These blind spots make us feel that we cannot be co-opted or corrupted
  - That our dislikes or even hatreds of other groups are not irrational but are reasoned and legitimate

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### The formula

- Self justification—we don't think that we have any blind spots and we are just doing what needs to be done
- Pride—through my blind spot, I think that I, of all people, am above the temptations
- Trouble—so, I won't even see the line when I cross it

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### That old bell shaped curve

- Although there are many who are at the end where they would never cross the line, there is that other end

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### Science and profit

- Jonas Salk when asked if he would patent the Salk Vaccine in 1964
  - Are you kidding? Would you patent the sun?
- How naïve now...
- The culture of science back then valued the separation of research and commerce
- Scientists were paid by the government, universities and foundations for their research and they were free to conduct research for years investigating a problem that may or may not pay off
- In 1980 the supreme court ruled that patents could be issued on genetically modified bacteria, independent of the process for developing them
- The pharmaceutical industry became unregulated

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- The rush was on for new drugs, even if they weren't that much of an improvement over older ones
- Conflicts of interest between scientists and their roles on boards and jobs with companies
- Correlations shown between their interests in the companies and drugs and the results of clinical tests of drugs

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### Wakefield's statement

- A conflict of interest is created when involvement in one project potentially could or actively does, interfere with the objective and dispassionate assessment of the processes or outcomes of another project. We cannot accept that the knowledge that affected children were later to pursue litigation, following their clinical referral and investigation, influenced the content or tone of our paper. We emphasize that this was not a scientific paper but a clinical report.

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- He had no incentive to look for disconfirming information
- Five subsequent studies found no causal correlations
  - There was a temporal correlation due to the fact that children tend to get the vaccinations about the same age when they are diagnosed with autism

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### memory

- What we refer to as memory is really a form of storytelling that goes on continually in the mind and often changes with the telling
  - William Maxwell

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### Do we always lie when we don't tell the whole truth?

- When two people tell completely different stories of the same event
- There are direct, conscious lies, intended to manipulate or deceive:
  - James Frey...A Million Little Pieces
- But many of us are just self-justifying
  - Neither telling the whole truth nor intentionally deceiving

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### Memories as story telling

- All of us, as we tell our stories, add details and omit inconvenient facts
  - Give the tale a small, self-enhancing spin
  - That spin goes over so well that the next time we tell it, we add a slightly more dramatic embellishment
    - Its not a lie, I'm just making the story better!! And even clearer
- In the end, the story we are telling may not have happened that way, or even have happened at all!!

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### Our memory is our personal, live-in, self-justifying historian

- It is like a dictator that ruthlessly destroys information that it doesn't want to hear and re-writes history from the standpoint of the victor!!
  - Like other victors, we rewrite history to justify our actions and to make us look good to ourselves and what we did or failed to do
  - If mistakes were made, they were made by someone else
  - If we were even there, we were innocent bystanders

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Memory irons out the dissonance we might feel

- Enables the confirmation bias to roll right along
- Selectively letting us to forget about disconcerting and disconfirming information about beliefs we hold dear

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We conveniently forget good arguments raised by the other side

- As well as foolish arguments by our side
- And remember the good arguments for our side and the foolish arguments for the other side

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What drives us to self distort?

- The need to be right
  - To keep our self concept consistent
  - To preserve self esteem
  - To excuse failures and bad decisions/mistakes
  - To find an explanation, preferably one in the safe and distant past, of current problems

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### Nietzsche

- "I have done that" my memory says
- "I cannot have done that" says my pride, and remains inexorable.
  - Eventually my memory yields

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### The truth about memories

- How disorienting it is to learn that a vivid one is indisputably wrong
- That even being absolutely, positively sure a memory is correct does not mean it is
- Errors in memory support our currently held beliefs and feelings

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### Complex memories are reconstructive

- We may learn and remember some simple things by rote training but complex past information is shaped to fit into a story line
- Because such memories are reconstructed, they are fallible and subject to mistakes
- In reconstructing memories, we draw on many sources
- We weave them together into one, integrated account

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### They aren't lying they are self-justifying

- When two people produce entirely different memories of the same event we usually presume one of them is lying
  - That can happen, for sure—James Frey and "A Million Little Pieces"
- But for most of us, we aren't telling the whole truth nor are we intentionally deceiving
  - We are self-justifying
- What we refer to confidently as memory is really a form of storytelling that goes on continually in the mind and often changes with the telling

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Con artists know all about dissonance and self-justification

If a patsy is torn between the positions of:

1. I am a smart and capable person vs.
2. I have spent thousands of dollars on magazine subscriptions that I don't need

they will spend even more money to justify what they have done.

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### Lao Tzu

- A great nation is like a great man
- When he makes mistakes, he realizes it
- Having realized it, he corrects it
- He considers those who point out his faults as his most beneficial teachers

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### How do we reduce the temptation to dysfunctionally reduce dissonance?

- We tend to view mistakes we make as indications that we are stupid.
- Although we like to say “we learn from our mistakes” we don’t
- And others often contribute to this by shaming us for our mistakes
  - What were you thinking?

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### The real battlefield is our self-esteem

- If I just subscribe to more magazines, I will win the big prize!!
  - It protects their self-esteem but victimizes them even more

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### So let's deal with self-esteem

- Ask the person (and ourselves) what about the person/situation appealed to us? Made us want to believe in their story?
- Con artists appeal to people's best qualities:
  - Kindness, thoughtfulness, honoring commitments, reciprocating a gift, helping someone

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- By recognizing these qualities in the victim (or ourself) and praising them, we can offset feelings of insecurity or incompetence

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- Separate your higher qualities from the mistake. They are two different things.
- If a smart, decent person makes a mistake, they are still a smart and decent person AND the mistake remains a mistake.
- The key now is remedying the mistake.

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1. This is the single most important idea I got from this session \_\_\_\_\_
2. This is why it is important (This what I will gain from its use) \_\_\_\_\_
3. This is how I will use it: (What to do) (How to do it) (When to do it) (With whom) \_\_\_\_\_
4. I will share these ideas with \_\_\_\_\_ not later than \_\_\_\_\_ because \_\_\_\_\_

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**GOOD LUCK ☐**  
**I HOPE I HAVE HELPED!**  
**REMEMBER—**  
**IT IS NEVER TOO LATE**  
**TO HAVE A HAPPY CHILDHOOD**



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