

Enhancing Professional Judgment with Behavioral Ethics

Your ethics and the ethics of those you audit

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To tell the truth:



I am more ethical than you.

FUNDAMENTAL ATTRIBUTION ERROR

I will do the right thing.

You can't be trusted to be ethical.

It is never my fault.

It is your fault (obviously).

My success is from talent, skill and hard work.

Your success is from privilege or luck.

Behavioral Ethics is Truth

Examines how real people make real decisions in real-life situations

Behavioral ethics examines the cognitive, social, and emotional factors influencing behavior. It combines insights from psychology, sociology, and neuroscience to understand how ethical decision-making actually occurs. [TL; DR?]

Real people with strengths and weaknesses

Real decisions in the context of their situation

Real life



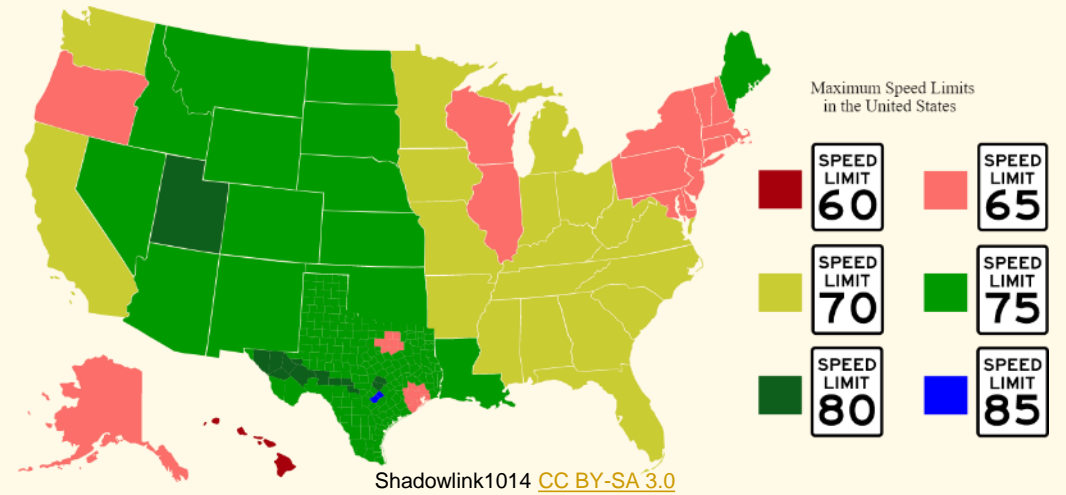
G. Washington



B. Arnold

You can't rely on good character and integrity

Honestly, laws and rules only work sometimes



Codes of Ethics and “ethical standards” are equally effective

Mo. Rev. Stat. § 105.452

Section 105.452 - Prohibited acts by elected and appointed public officials and employees

1. No elected or appointed official or employee of the state or any political subdivision thereof shall:

(1) Act or refrain from acting in any capacity in which he is lawfully empowered to act as such an official or employee by reason of any payment, offer to pay, promise to pay, or receipt of anything of actual pecuniary value paid or payable, or received or receivable, to himself or any third person, including any gift or campaign contribution, made or received in relationship to or as a condition of the performance of an official act, other than compensation to be paid by the state or political subdivision; or

(2) Use confidential information obtained in the course of or by reason of his employment or official capacity in any manner with intent to result in financial gain for himself, his spouse, his dependent child in his custody, or any business with which he is associated;

(3) Disclose confidential information obtained in the course of or by reason of his employment or official capacity in any manner with intent to result in financial gain for himself or any other person;

(4) Favorably act on any matter that is so specifically designed so as to provide a special monetary benefit to such official or his spouse or dependent children, including but not limited to increases in retirement benefits, whether received from the state of Missouri or any third party by reason of such act. For the purposes of this subdivision, "special monetary benefit" means being materially affected in a substantially different manner or degree than the manner or degree in which the public in general will be affected or, if the matter affects only a special class of persons, then affected in a substantially different manner or degree than the manner or degree in which such class will be affected. In all such matters such officials must recuse themselves from acting, except that such official may act on increases in compensation subject to the restrictions of Section 13 of Article VII of the Missouri Constitution; or

(5) Use his decision-making authority for the purpose of obtaining a financial gain which materially enriches himself, his spouse or dependent children by acting or refraining from acting for the purpose of coercing or extorting from another anything of actual pecuniary value.

2. No elected or appointed official or employee of any political subdivision shall offer, promote, or advocate for a political appointment in exchange for anything of value to any political subdivision.

§ 105.452, RSMo

L. 1978 H.B. 1610 § 3, A.L. 1990 H.B. 948, A.L. 1991 S.B. 262, A.L. 2008 H.B. 2233



Fined \$100M for helping hundreds of its auditors to cheat.
Many on ethics exams!

Training (except this session) has limited impact on bad behavior



"Fat Leonard"

Imagine a world where people did what we told them to do?





Martin Lewison. CC BY-SA

“If we make it a law or tell them what is good for them...”

Smart, real-world, scientifically sound, rational and sensible laws, rules and advice

Don't text while driving

Eat more fruit and vegetables

Follow the law and professional codes

Floss!

Don't drink alcohol or sugared drinks

Don't smoke *anything*

Exercise regularly

Use sunscreen

Get enough quality sleep

Don't reuse passwords

Be independent and unbiased

Use public transportation

Don't Jaywalk

Get vaccinated against contagious diseases

Assure duties are segregated

Behavioral Ethics

We irrational humans:

- ✓ Usually succumb to cognitive biases
- ✓ Lack self-control to do the right thing
- ✓ Allow social norms, even in professions, to influence our decisions



All human behavior runs through psychology

Behavioral Ethics

Can help auditors:

- ✓ Be more objective
- ✓ Debias their work
- ✓ Flag situations where misconduct is more likely
- ✓ Make more effective recommendations



The truth is:

We're all *fast* thinkers!



If the bat and ball cost \$1.10,
And the bat cost \$1.00 more than the ball,
How much does the ball cost?

10 cents!

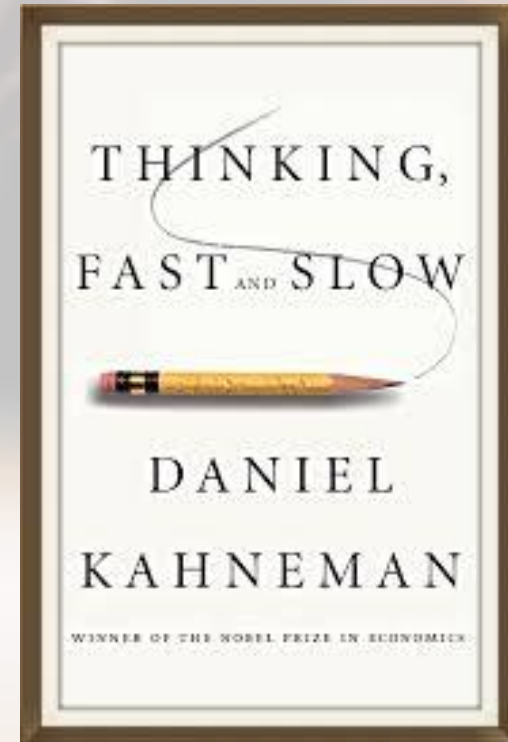


$$x + (x + 1.00) = \$1.10$$

$$2x + 1.00 = \$1.10$$

$$2x = .10$$

$$x = .05$$

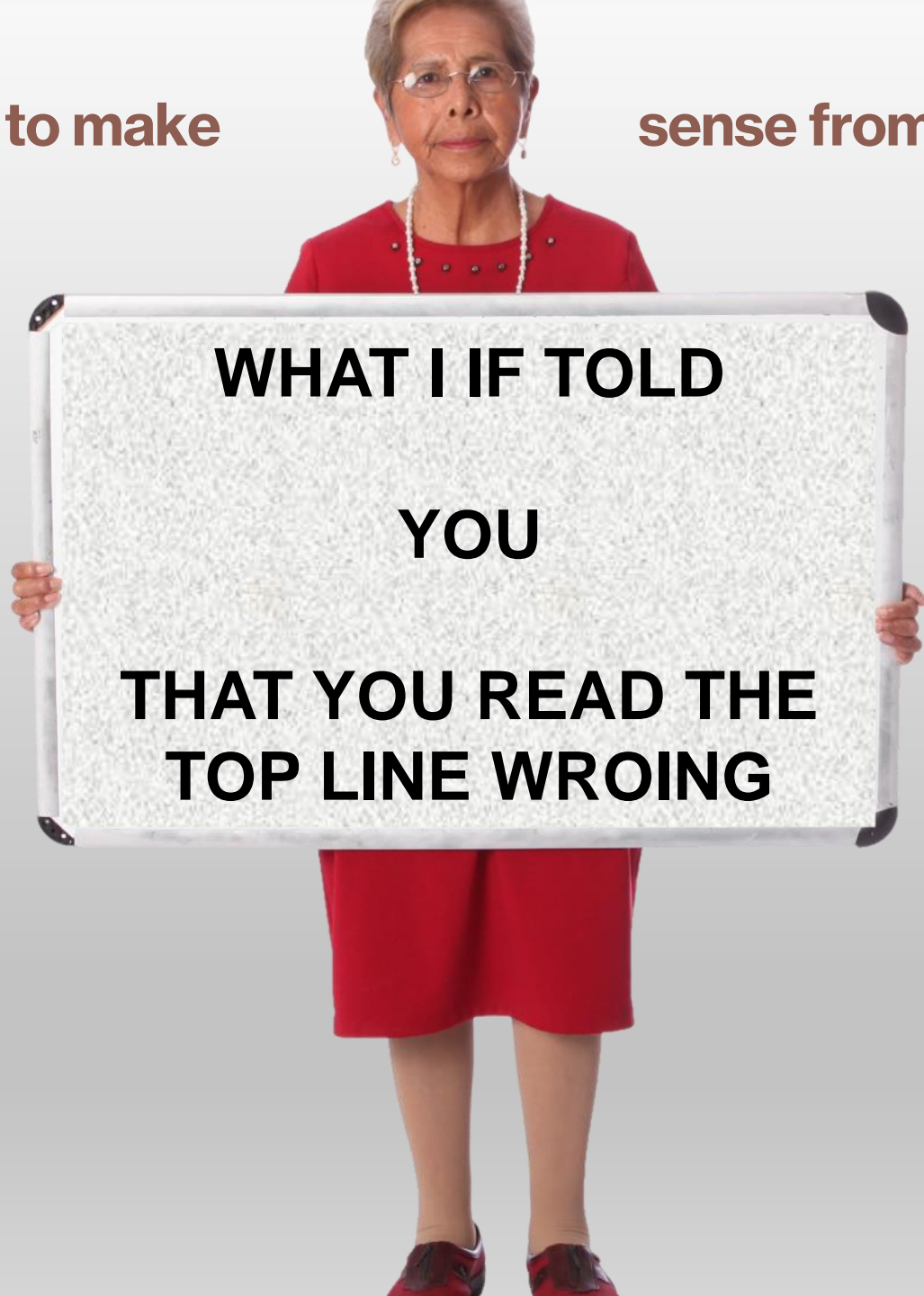


Honestly, thinking *fast* allows us to make

sense from nonsense

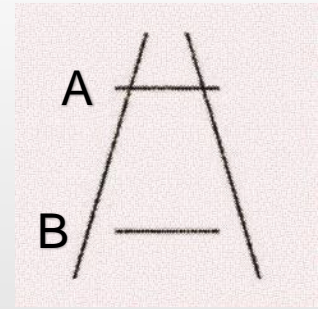
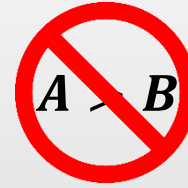
*Our automatic
brains use context
and pattern
recognition to
decide what is
right.*

*And our quick thinking is
reliable yet often wrong.*



The “truth” comes to us super *fast*!

Dual Processing Cognition



System 1

- Quick
- Effortless
- Intuitive
- Cognitive Bias
- High capacity
- Error Prone
- Primal
- Unconscious



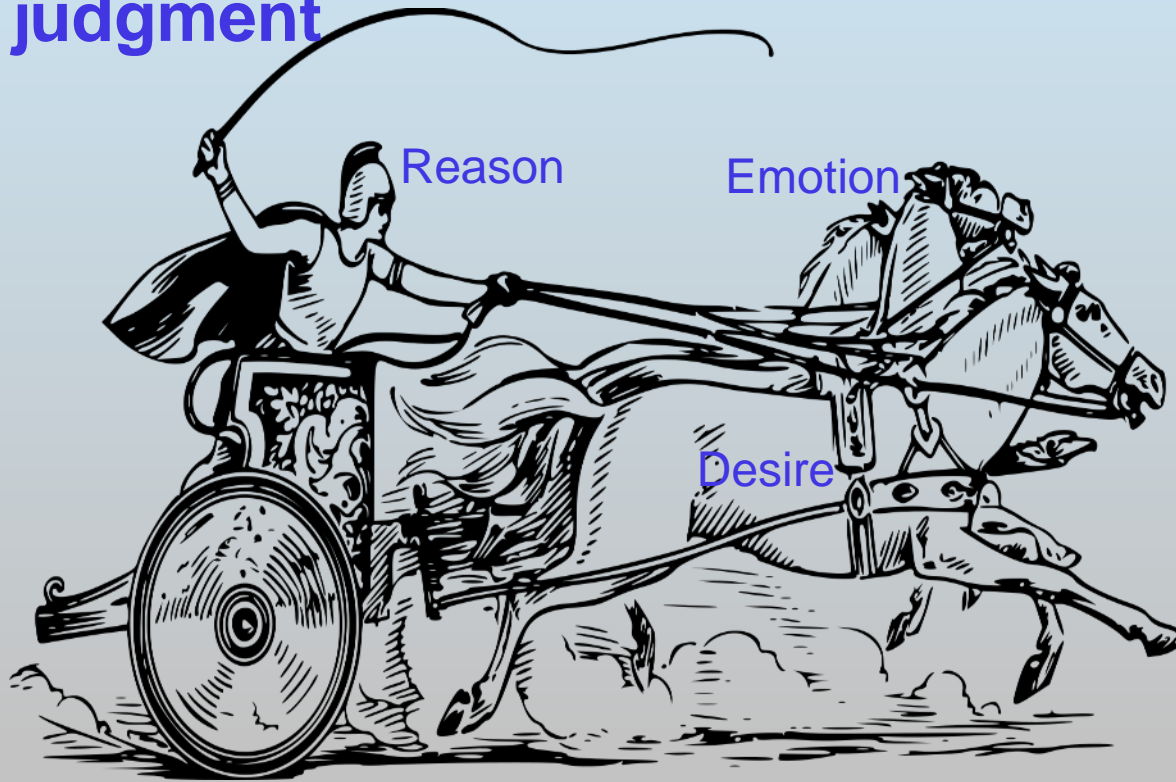
System 2

- Slow
- Effortful
- Deliberate
- Mentally Skilled
- Low Capacity
- More Accurate
- Evolved
- Conscious

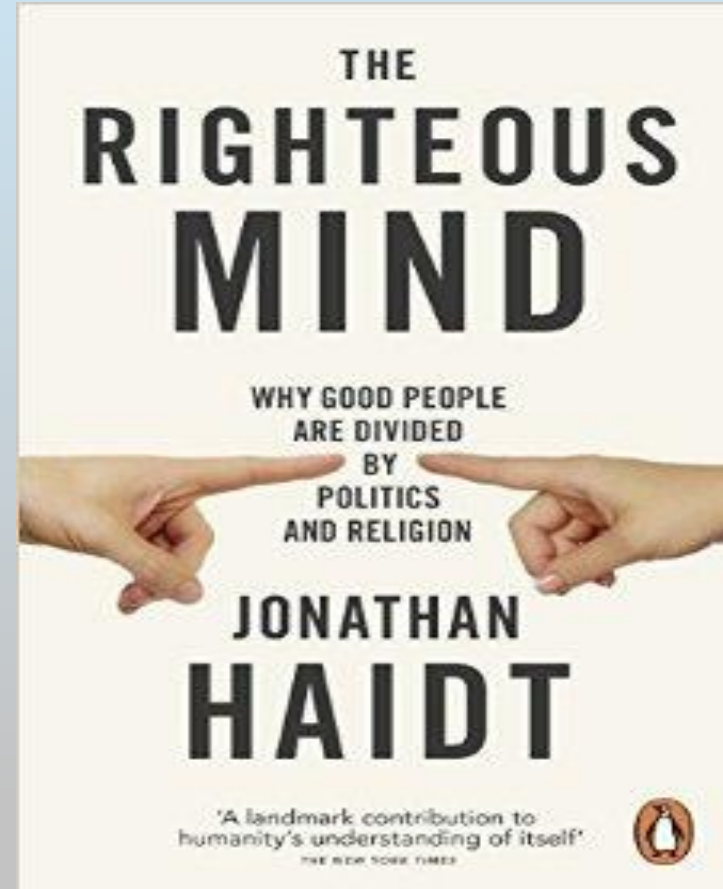


It's the Truth

Conscious, slow, reasoned system 2 ethical reasoning has little impact on ethical judgment



Plato (Phaedrus)



“If passion drives you let Reason hold the reins”

“*Knowing* something is wrong...and the explaining why, are completely separate processes.”

Jonathan Haidt

Ethical judgments are made *without delay*.



1. **Ethical judgment is**
made by intuition and
emotion.

It is
automatic.

2. C

(the

and *then* supports the
judgment already made



...Geddon CC BY-SA 4.0

The rider evolved *eons later* to serve the elephant

Our intuitive ethical judgment is difficult to override with reason

It's *really hard* to influence a determined elephant

It might be hard to admit, but

Almost all parties involved in auditing can distort measures to their own benefit and have reason to do so, at the expense of the public and anyone who relies on the audit.

There are embedded incentives for bias:

- What does the audited entity want?
- What does the unit under audit want?
- What pressures are pushing on the auditor?
- What does the reward system encourage?

These affect day-to-day work ^(System 1) *unconsciously*

Even good people succumb to unconscious bias



Good Ethics News for Government Auditing

- No profit motive in government



**DEFICIT
ORGANIZATION**

Jeffrey Zeldman CC BY 3.0



- Government has no business being businesslike
 - The people decide how to spend funds for the public good
 - It is inefficient. How could it not be?
 - No premiums to support CSR or ESG efforts

Bad News for Government Auditing

- Government contractors do have a profit motive. Ask them.
- The entity wants honest feedback?
Get real: governmental audited entities also want a clean opinion.
- Contracted firms for audits do not have to be rotated.
- Internal government auditors also have pressures against truth telling.
 - Social desirability bias
 - Nonmalfeasance is often present
 - Political bias
 - Diffusion of responsibility
 - Too little discretion
 - Bureaucratic instead of investigative or curious mindset

No profit motive, but government auditors are human too. Honestly

Motivated Reasoning (I don't like it, so it can't be true)

We know the “right” answer in advance

- Does my gas stove contribute to climate change?
- Will I get extra recognition or a bonus for a good *finding*?
- Are government auditors overworked and underpaid?

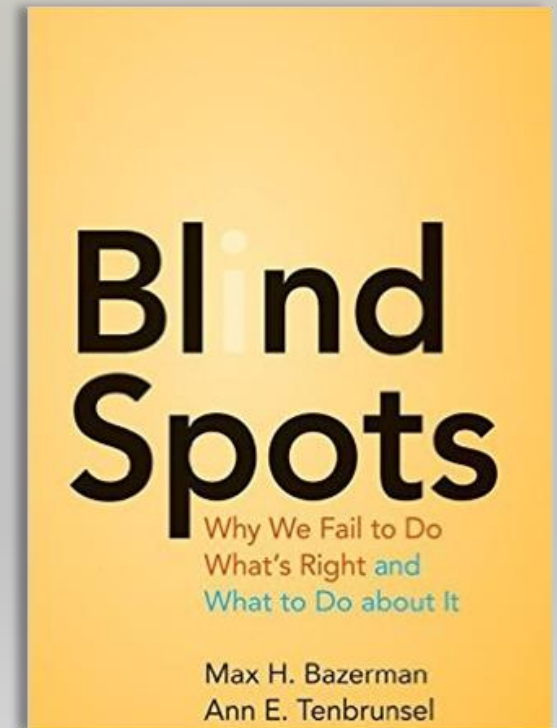
We have unconscious Blind Spots.

Bounded ethicality: Our ability to be ethical is limited and influenced by situational and psychological factors beyond our awareness.

**Public accountants?
Government auditors?**



Should-self and want-self



Bounded ethicality – trust me, it exists

Our own ethics

Implicit Attitudes

- Unconscious or automatic attitude towards a particular object, person, group, or concept.

Ingroup Loyalty (Outgroup Animosity)

- The tendency to favor members of their own group while perceiving members of other groups as less favorable or trustworthy.

Awareness of others' ethicality

Conflicts of Interest

- When an individual or organization is involved in multiple competing interests that could affect their ability to make objective decisions

Outcome Bias (in ethics)

Judging ethicality by its outcome, not by the quality of the decisionmaking. “No harm no foul” thinking

Bounded ethicality – trust me, it exists

Our own ethics

Overclaiming Credit

- Overestimating the contribution to a task or group.

Discounting Future Impact

- Giving more weight to the short-term consequences of a decision, like “hitting your numbers” in the next report or accomplishing a goal.

Awareness of others' ethicality

Slippery Slope

- Believing one thing will lead to other negative consequences--without evidence.

Indirect Blindness

- Unintentional failure to recognize or acknowledge unethical behavior.

The above derived from Max Bazerman

I'm objective. But for you:

Motivated Reasoning is often explanatory

Not just conscious selfish desire

- Will this support or hurt my team?
- Ingroup loyalty and fidelity to leaders
- Protect against outsiders

Hyperpartisan environment



You should be wary of overconfidence!

“Human minds are overconfidence machines.” David Brooks



Boeing's Starliner capsule

NASA



Overconfident executives are more likely to con

ud.
(12)

**Auditor overconfidence allows auditors to believe
And above all, objective.**

(95)

Auditors are most overconfident about their impartiality

Auditors are human.

GAGAS is not an objectivity potion.

Programs are often selected for audit because of perceived risk.

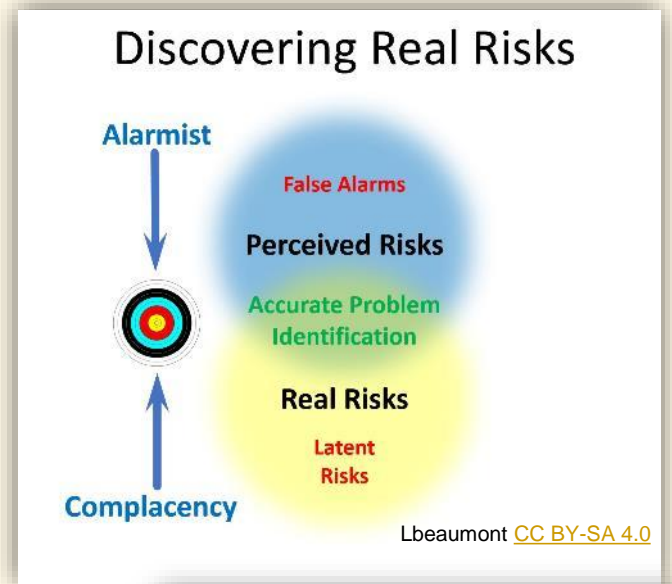
Auditors are judged for what they find.

Truth: Everyone thinks they are right and objective.

It's rare to find an auditor who will admit a lack of objectivity.



**Assessing
your own
objectivity is
the ultimate
self-review
threat.**



TRUST ME!

I'm with the government
I'm here to help you



Independent in Mind.
Independent in Appearance.

“Auditors are pressured to believe in their own objectivity.

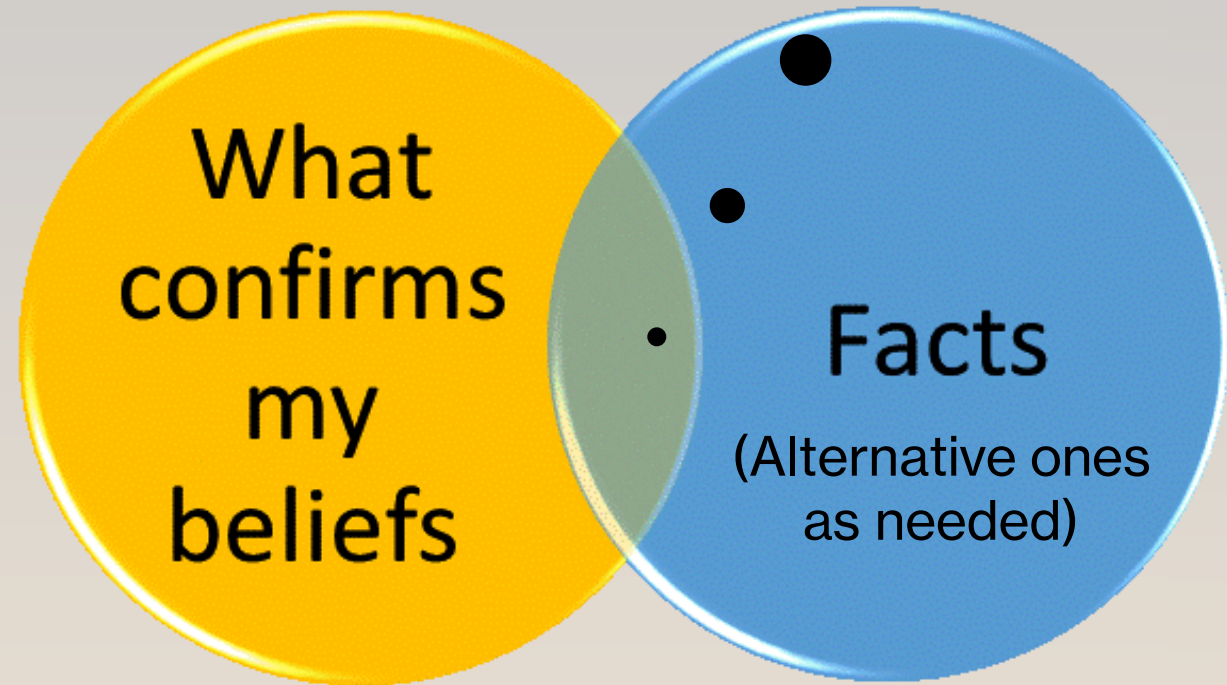
Once convinced of their exceptional ability to be objective, auditors can become susceptible to moral licensing and ethical blind spots in their work.”

Lager, J. & Waymire, T. (2022). Toward a More Perfect Objectivity. *Internal Auditor*

Real Honesty:

“I will look at any additional evidence to confirm the opinion to which I have already come.”

Lord Molson



Confirmation bias feels good!

Attend to the competing pressures on the auditor, the audited entity, and the requesting party.

Debias Your Work!

Never base a current engagement on the previous one without independently gathering evidence first, to ameliorate **anchoring** bias.

Assign a devil's advocate to any significant decision to ameliorate **groupthink, framing effects, confirmation, status quo**, and other biases and to promote an ethical, speak up culture.

Rotate auditors regularly, internal and external, to forestall **familiarity, self-interest, confirmation, overconfidence** and other biases.

Examine important decisions using multiple frames to help assure alternatives are considered, avoiding **moral myopia** and **ethical fading**.

Nudge with moral reminders, to reduce unethical behavior generally.

Apply behavioral ethics to the audited entities

The Reward System *Always Affects Behavior*

“A reward system that encourages results is indistinguishable from a system that encourages fraud.”

Prof. Robert Bloomfield

- ❑ A system that rewards bank employees for the number of new accounts they open?

**WELLS
FARGO**



- ❑ A system that rewards financial institutions for processing forgivable government “loans” with little or no penalty for bad lending practices?



Apply behavioral ethics to the audited entity



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[Freestock.com](#)



- ☐ Employees at the audited entity stressed out? Under deadline pressure? *Look a little closer.*
 - ☐ More misconduct and fraud with time pressure, high stakes measures, or stretch goals
- ☐ Good in theory, and sometimes appropriate. But *look closer.*
 - ☐ It drives offenders underground and makes it harder to find the misconduct
 - ☐ Deprives supervisors and managers of discretion
- ☐ No segregation or rotation of duties? *Look a little closer.*
 - ☐ The poor ethical system begs for misconduct

Beware of laser-focused efforts in audited entities

A focus on one thing can push the ethical aspects of a decision to fade from view.
Ethical fading happens, even to good people.



Personal Profit



Political Gain



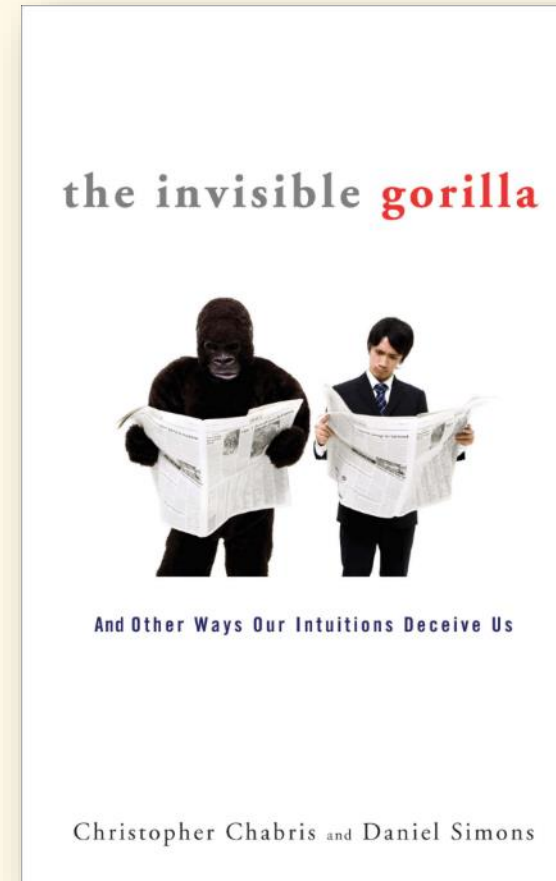
Pleasing the Boss



Meeting an Important Goal



Compliance with Standards



Euphemisms front and center? The truth is hiding!

When you hear	What it means
Aggressive accounting	They probably cheated
Creative accounting	They cheated a little more
Restatements	You can't trust what we said before
I was keeping up with traffic	I was breaking the law with everyone else
Revenue enhancements	Tax and fee increases
Poor audit quality	Auditor incompetence or impairment
Budget shortfall	We spent too much
Transfer pricing	See aggressive or creative accounting
Pre-owned	Used
Shrink	Stolen merchandise
Downsizing/Rightsizing	Firing people without replacing them



Ethical Fading

Ethics Unwrapped, McCombs School of Business, University of Texas at Austin

Dana, J., Loewenstein, G., Weber, R. A., De Cremer, D., & Tenbrunsel, A. E. (2012). **Ethical immunity: How people violate their own moral standards without feeling they are doing so.** *Behavioral business ethics: Shaping an emerging field*, 201-219.

Think in systems about how things are measured and recommend accordingly.

Measure the right thing!



AICPA: Intended to assure competence

Attending a conference assures competence?

Fight Measure Management

Insist on multiple measures.

- It's hard to bias several different measures

Insist that the multiple measures are correctly weighed.

- Particularly if some of the measures are poorly related to the desired outcome

Consider hiding some of the measures.

- People can't manipulate a measure opaque to them

Limit discretion with policy or internal controls.

- **Warning:** Can be counterproductive

The measure (CPE) captures BS, not competence.

Look for the indicia of ethical culture



Look for Ethical Culture Barriers

Negative Elements

(DISQUALIFIERS)

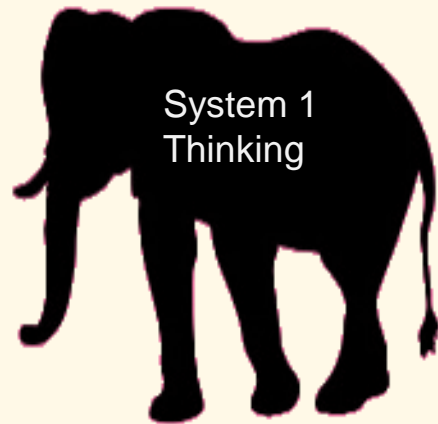
ORGANIZATIONAL UNFAIRNESS
ABUSIVE MANAGER BEHAVIOR
SELFISH ORIENTATION
LACK OF AWARENESS
FEAR OF RETALIATION



Behavioral ethics:

Gives insight into the pressures and biases affecting objectivity

- Pure objectivity is impossible. Do what you can eliminate bias up front, and debias on the back end.



Empowers you to deal with the elephant in the room

- Most unethical behavior can be traced to **systems forces**, **unconscious bias** and **automatic thinking**, not cold cost-benefit calculation.

Consider behavioral ethics and:

Adjust system forces to make ethical behavior easy

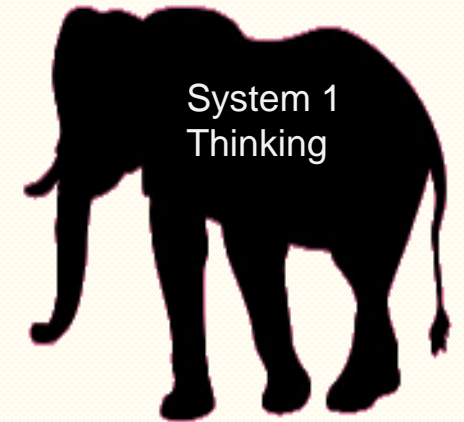
- Removing structural and systems-level obstacles to good behavior is often more effective
- *Never* rely on human integrity alone
- Reward good process not good outcomes



A Benedict Arnold



Trustworthy



Attend to risk with a systems view

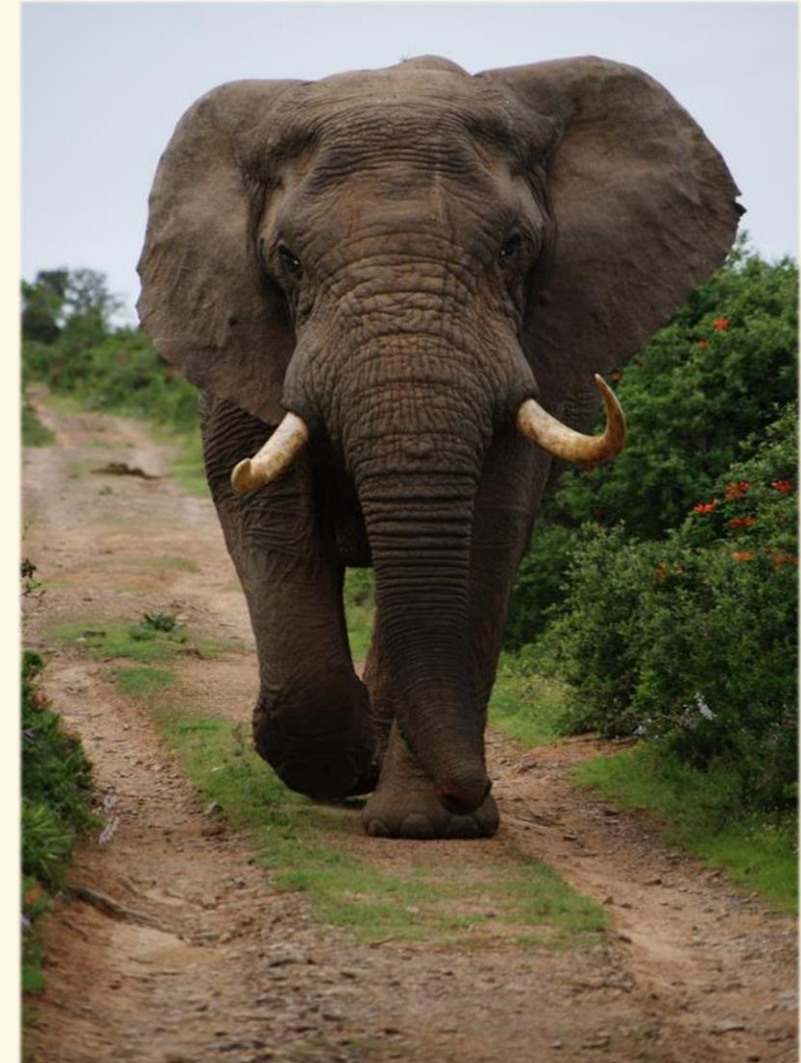
- Are the systems actively encouraging unethical behavior?
- Imagine how a person who is tired, stressed, or with weak self-control would react in the situation
- *Lack of Internal Controls* is often symptomatic of poor culture or systems issues, not an underlying cause

Deal with ethics as if we know things about human behavior

Law, policy and standards should not have to work so hard.

“Ethics is not a belief problem, it’s a design problem.”

Prof. Nick Epley,
University of Chicago



Will all these help
improve objectivity?

TRUST ME

I'm a Lawyer



Nick Youngson [CC BY-SA 3.0](#) Pix4free

Curious?

**What questions do
you have?**



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Photo by Austin Chan on Unsplash

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(with gratitude to these and other scholars)

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