

BDO Professional Judgment Framework Mini Guide

Every service we offer is created primarily through the exceptional professional judgment capabilities of our people.

Professional judgment can be described as the capacity to logically assess situations or circumstances and to draw sound, objective conclusions that are not influenced by cognitive traps and biases or by emotion. Good judgment takes experience, but it also takes awareness, repetition, and consistent application—the BDO Professional Judgment Framework provides the foundation.

It will serve to provide a shared conceptual foundation and common vocabulary for our professionals; it will encourage consistent behavior in driving towards desired outcomes, supported by justifiable conclusions and effective documentation; and it will aid us in dealing with and clearly communicating complex issues.

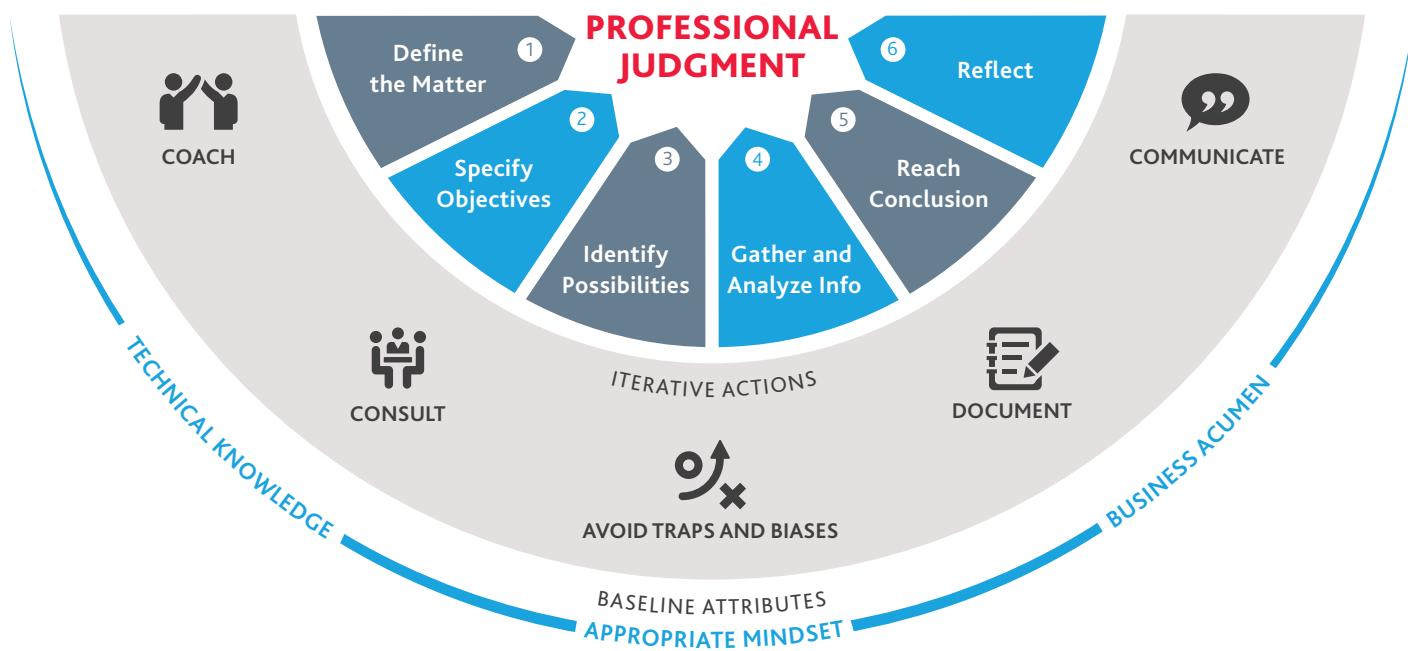
When all of the elements of the BDO Professional Judgment Framework are effectively in place, you maximize the likelihood of consistently exercising high-quality professional judgment.



How to Utilize this Professional Judgment Framework Mini-Guide:

The information within is all taken from the full Professional Judgment at BDO conceptual guide. It is not intended to replace the depth of practical information within, but rather as a hands-on resource to utilize as an enabler during judgment processes.

[Click here to launch full the Professional Judgment Conceptual Guide](#)



JUDGMENT STEPS



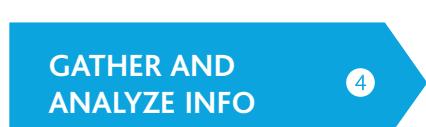
Clearly and comprehensively articulate the matter to be addressed, the risks involved, the judgment to be made—a critical starting point that sets the direction for the entire judgment process.



Clearly specify what is to be achieved by making a judgment or coming to a conclusion—the outcome of this step guides the development of a set of possible alternative conclusions or actions to be taken.



Identify all the possible conclusions or actions that allow us to achieve the objective. Think inside and outside of the box. The judgment is only as good as the possibilities considered.



Identify the information to be gathered, guided by the set of possible judgment conclusions or actions to be taken in Step 3. Gather and analyze the information in terms of how each conclusion or action might lead to the achievement of objectives specified in Step 2.



Reach a judgment conclusion or decide on an action to be taken based on the information gathered and analyzed in Step 4.



Step back and take a holistic view of the judgment process undertaken and the conclusion reached, considering whether any essential objective, possible conclusion, or information has been omitted, and whether the overall conclusion reached is reasonable from various viewpoints.

ITERATIVE ACTIONS

In carrying out a good judgment process, there is a set of essential iterative actions that should occur. These actions are not included as part of the sequential steps of the judgment process, because each of them can take place at any point throughout the judgment process and because they are more repetitive and frequently occurring within and between the judgment steps.

COACH	CONSULT	AVOID TRAPS AND BIASES	DOCUMENT	COMMUNICATE
Using the process of engaging in a significant judgment as an opportunity to develop and accelerate the judgment and business maturity of our professionals at different levels.	Making use of resources outside of the team to ensure adequate levels of the baseline attributes are present relative to the judgment, to provide alternative perspectives, and to appropriately involve the firm in judgments that involve the management of significant risks. Consultation should occur throughout all levels of the team as the judgment process moves forward.	Proactively identifying where a judgment might be compromised by systematic judgment traps and biases and taking steps to mitigate their potential to undermine the quality of the judgment. (Please refer to the next page for detail on various Traps and below for Biases)	Creating a record of the approach to making a judgment, including important aspects of the baseline attributes brought to bear, the essential iterative actions taken, and the steps involved in the judgment process; and this is done sufficient to justify and corroborate the soundness of the professional judgment made.	Appropriately conveying outputs of the judgment process to relevant parties in order to satisfy professional standards and expectations of the firm, the client, the engagement team, and other stakeholders.

BASELINE ATTRIBUTES

The foundation upon which our professional judgments rest; Represent key attributes that must be present in the exercise of professional judgment.

TECHNICAL KNOWLEDGE	APPROPRIATE MINDSET	BUSINESS ACUMEN
A thorough understanding of the applicable accounting and auditing standards and audit methodology, as well as any other specialized skills or knowledge that are relevant to a particular judgment.	Appropriate mindset implies an attitude of professional skepticism, which is a required component of our general duty of professional care—an attitude that includes being thoughtful, questioning, and evaluative, and critically assessing the appropriateness and sufficiency of audit evidence; will lead naturally to "stepping back" throughout the process of making a judgment to evaluate progress and ensure we bring professionalism to our work.	A broad-based understanding of the entity's business and the industry and macroeconomic climate in which it operates as well as the emotional intelligence to navigate interpersonal interactions professionally and effectively.

OVERARCHING COMMON BIASES

Biases happen unconsciously and are common even among the most experienced professionals. Bias can occur at any point in the judgment process.

MOTIVATED REASONING

Our reasoning is affected by our motivation and preferences. The tendency to "see what you want to see" by ignoring information contrary to your preferences and focusing on information that conforms to your preferences.

AVAILABILITY

Recognize salient/available information over information that may be more relevant but is less available in memory. Information that easily comes to mind tends to be weighted more heavily in our judgments.

OVERCONFIDENCE

Underestimating the uncertainty that exists in given setting. Can lead to underinvestment in judgment process because we underestimate uncertainty that abounds and may mistakenly believe components of good judgment are not needed.

ANCHORING (AND INSUFFICIENT ADJUSTMENT)

We may anchor to initial estimate and then fail to sufficiently adjust away when making assessment.



TRAPS RELATED TO EACH JUDGMENT STEP

1. Define the Matter	Rush to Solve: Seeking immediate action without fully defining/understanding the matter. Good solution to the right problem is better than great solution to the wrong problem.	Decision Trigger: This can cause us to look at a problem too narrowly and as a result you do not look at the big picture. Decision triggers often force us to feel the need to make a selection among an artificially restricted set of possibilities.	Frozen Frames: A frame is a particular perspective that simplifies the complex and frames enable us to understand a given judgment situation, but also serve to limit our ability to "see" other perspectives. Can become frozen into a single way of seeing a situation.	
2. Specify Objectives	Rush to Solve: Taking immediate action rather than making sure we understand the objective. We can't move forward until we know what we hope to get out of the judgment process.	Means to an End: It is important to specify the objectives as a true end objective versus the "means to the end." The process is just as or more important than the end result. Ask WHY until there is no more WHY to ask.		
3. Identify Possibilities	Same As Last Year (SALY): SALY inhibits innovation. Identify the SALY possibilities and then identify several alternatives that vary from SALY to determine innovation and critical thinking has occurred.	Idea Production Blocking: Be careful of actions that shut down creative thinking. Blocking occurs when an idea is shared and that idea inadvertently shuts down additional, new ideas.	Evaluation Apprehension: When team members are inhibited with concern on how they will be evaluated, they may hold back rather than actively participate. Every team member should have confidence that their input is valuable.	
4. Gather and Analyze Information	WYSIATI (wizzy-atty): When gathering information, you cannot assume that the data that is immediately available is all there is. You need to look beyond the obvious and ensure you have not missed valuable information.	Information Overload: When you gather too much information, it is difficult to perform appropriate data analysis. The best way to avoid this is to look back to be sure you are gathering the right information and it is in line with the matter at hand and our objectives.	Intuitive Statistician: You need to back your decision with sound techniques rather than "going with your gut."	
5. Reach Conclusion	Ego Depletion: Being mentally and emotionally worn out can impair us from making good judgments. It is best to hold off from reaching a conclusion until you have taken time to rest.	Surrogation: May lead you to take action that improves performance while hurting what you care about most. Carefully consider what each metric used represents. Engage in high-level thinking by asking yourself, "What is the goal I really care about?" and "What does this metric represent?"	Paralysis by Analysis: Continually analyzing our options and never reaching a final conclusion. Sometimes we need to go back and revisit our data analysis to help us differentiate between alternatives and select the best option.	Conformity: Aversion to being too different. Becomes a trap when it leads groups to reach a consensus even though some members of the group may have misgivings about the agreed-upon conclusion. By expressing doubts, the conformity trap begins to dissipate and the full benefit of working with a team with differing points of view can be realized.
6. Reflect	Historian's Fallacy: Form 1) Tendency to look back on a judgment and overlook the uncertainty that existed during the judgment process. Effective documentation of our judgment process can be helpful to avoid falling prey to the historian's fallacy.	Historian's Fallacy: Form 2) Tendency to look at the outcome of the process rather than looking at the process independently of any hindsight that comes with the knowledge of the outcomes. Make sure to assess all components of the judgment process, not just the final outcome.		