Professional skepticism and auditor behavior

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Precursors to auditors’ skeptical actions

The most important antecedents to auditors’ skeptical actions?

- **Personal characteristics**: personality, experience, expertise, motivation, etc.

- **Environmental characteristics**: audit firm’s culture, QCs, etc., as well as client/engagement characteristics (time, etc.)
What factors have the strongest associations with auditors' skeptical actions?
Sample and participants

- Final sample: **663 auditors**/engagements
  - 139 partners, 174 managers, 103 seniors, 247 staff

- **Survey**, extensive information about
  - auditors (personality, knowledge and experience, etc.)
  - audit firms (tone at the top, performance evaluations, etc.)
  - specific engagement (client importance, time pressure, etc.)
  - skeptical actions
Skeptical actions (Cronbach’s α = 0.86)

1) I challenged the reliability of information given by management
2) I extensively searched for evidence in order to improve audit quality
3) I was willing to challenge management assertions
4) I searched for evidence opposing management’s point of view
5) I was alert to conditions that could indicate possible material misstatements
6) I was critical of audit evidence gathered by other members of the engagement team
7) I challenged the judgments of other members of the engagement team
8) I searched for evidence supporting management’s point of view (reversed)
Which characteristics are associated with skeptical actions?

- Skeptical actions are most strongly associated with
Rank factors according to their importance for auditors' skeptical actions

- Time pressure
  - Skepticism rewarded in performance evaluations
  - The auditor self-identifying with the client
- Focus on professionalism (vs. commercialism) in the audit firm
- Auditors feeling accountable to the client, financial statement users, etc.
- Importance of the client for the audit firm
- Tone at the top (audit firm)
- Social norms (perceived social pressure to act skeptically)
- Trait skepticism (being inherently skeptical)
- Broad personality traits such as conscientiousness (being inherently careful, diligent, etc.)
- Strong QC (audit firm)
- The auditor feeling committed to the client
- General experience as an auditor
- Specific expertise on the client’s industry
- Specific audit knowledge (knowing about analytical procedures, etc.)
- Motivation to perform well on the engagement
- Attitudes (thinking favorable about professional skepticism)
Field-based evidence on auditors’ skeptical actions

- Skeptical actions are most strongly associated with

<table>
<thead>
<tr>
<th>Personal characteristics</th>
<th>Environmental characteristics</th>
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<tbody>
<tr>
<td>• Trait skepticism and attitudes</td>
<td>• Social norms (most important, by far)</td>
</tr>
<tr>
<td>• Motivation</td>
<td>• Audit firms’ focus on professionalism</td>
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<tr>
<td>• Audit and industry knowledge</td>
<td>• Accountability</td>
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Some caveats

- Data are self-reported
- Data about individuals, not entire teams
- Lots of different variables, but perhaps not all that’s relevant?
- Data from a single country, so no information about importance of standards or institutional characteristics
Some further discussion – Scientific contributions

- We test many variables all at once and assess their relative importance for skeptical actions
  - Many factors discussed in the literature without testing
  - Prior research largely focused on factors ‘one at a time’
  - Most prior research focused on skeptical judgment not actions

- Social norms appear to be really important
  - Similar findings by Ying et al. (2020) for skeptical judgments
  - Unlike them, we find social norms to be less important for auditors who are inherently more skeptical
Some further discussion – Fostering skeptical actions

- Importance of social norms and perceived professional orientation of the audit firm aligns with broad and more specific claims about the importance of audit firm culture for professional skepticism.

- Effect of performance evaluations on discouraging skeptical behavior perhaps less important than recent research suggests (e.g. Brazel et al. 2016, 2019)
  - Effects of performance evaluations on social norms?
Some further discussion – Fostering skeptical actions

- **People matter**
  - Some people are ‘inherently’ more skeptical (trait skepticism)
  - Attitudes (thinking favorably about skepticism)

- **BUT**: Strong situations/environments can offset personal effects
  - Behavior of less inherently skeptical auditors is affected (more) by social norms, QC, feelings of accountability, industry expertise
  - Motivation, knowledge and expertise, attitudes are not fixed

- **Focus on professionalism**
THANK YOU

“On a mission to reveal audit quality drivers, one insight at a time”

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