

Professional
skepticism and
auditor behavior

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FOUNDATION FOR
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RESEARCH

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① *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.)

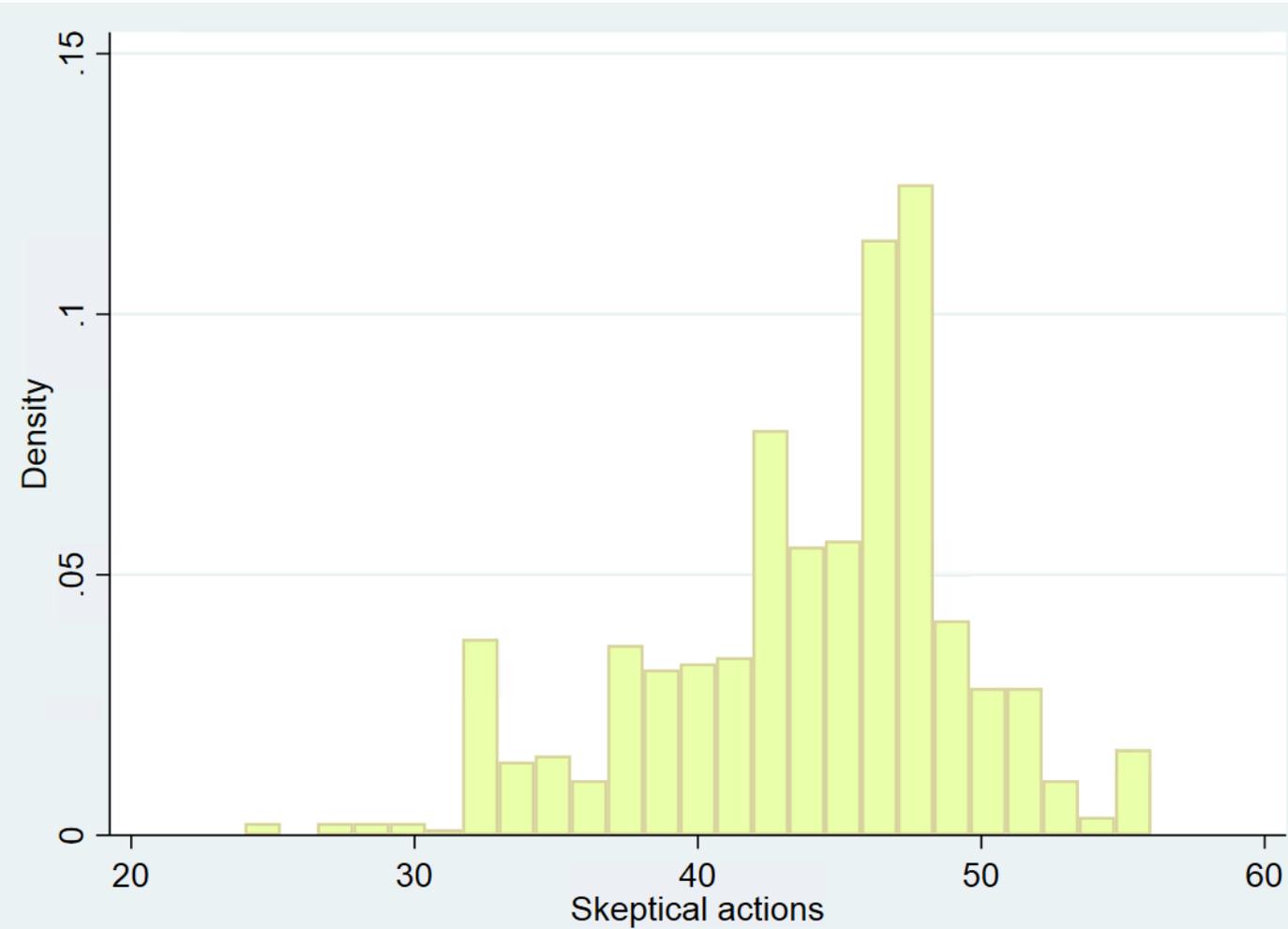
What factors have the strongest associations with auditors' skeptical actions?

② *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 $\alpha = 0.86$)

- 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)



③ *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 skeptic)

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)

③ *Field-based evidence on auditors' skeptical actions*

- Skeptical actions are most strongly associated with

Personal characteristics

- Trait skepticism and attitudes
- Motivation
- Audit and industry knowledge

Environmental characteristics

- Social norms (most important, by far)
- Audit firms' focus on professionalism
- Accountability

④ *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**

⑤ *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

⑤ *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?

⑤ *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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