Maciej Ciołek  
Poznań University of Economics and Business  
e-mail: maciej.ciolek@ue.poznan.pl

PROFESSIONAL SKEPTICISM IN AUDITING AND ITS CHARACTERISTICS

SCEPTYCYZM ZAWODOWY W AUDYCIE I JEGO CHARAKTERYSTYKA

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Summary: Professional skepticism is an essential concept in auditing practice and theory. It has been identified in almost all existing auditing standards, however, the way it should be characterized is still unclear. Both researchers and regulators emphasize the importance of the concept but struggle on how to define and measure it. It is also often difficult to indicate if the lack of skepticism is the primary cause of audit deficiencies and what factors led to the lack of skepticism. The purpose of this paper is to synthesize research related to auditors’ professional skepticism and indicate major characteristics of such an attitude. I organize research studies into six categories related to attributes that a skeptic should possess: a questioning mind, a suspension of judgment, a search for knowledge, interpersonal understanding, self-esteem, and autonomy. These research findings have implications for practice and regulations (standards), but in order to understand how skeptical judgment translates into skeptical action, additional research will need to be conducted.

Keywords: professional skepticism, skepticism, auditor skepticism, auditor judgment, skeptical behavior.

Streszczenie: Sceptycyzm zawodowy jest kluczowym pojęciem w praktyce i teorii audytu. Został on wymieniony w niemal wszystkich istniejących standardach kontroli, jednakże sposób jego właściwego scharakteryzowania jest wciąż niejasny. Zarówno naukowcy, jak i instytucje regulacyjne podkreślają znaczenie tej koncepcji, jednakże nie potrafią jej ani zdefiniować, ani zmierzyć. Często trudno jest również stwierdzić, czy brak sceptycyzmu jest główną przyczyną uchybień w zakresie kontroli audytorów oraz jakie czynniki doprowadziły do tego braku. Celem niniejszego artykułu jest zsyntetyzowanie badań dotyczących profesjonalnego sceptycyzmu audytorów i wskazanie głównych cech takiego podejścia. Organizuję przytoczone badania naukowe w sześciu kategoriach związanych z cechami, które powinien posiadać sceptyk: powątpiewaniem, zawieszeniem osądu, poszukiwaniem wiedzy, zrozumieniem międzyludzkim, poczuciem własnej wartości i autonomiczności. Przytoczone wyniki badań mają duże znaczenie zarówno dla praktyki, jak i dla regulacji (standardów), jednakże w celu zrozumienia, jak sceptyczny osąd przekłada się na sceptyczne działanie, konieczne będzie przeprowadzenie dodatkowych studiów.

Słowa kluczowe: profesjonalny sceptycyzm, sceptycyzm, sceptycyzm audytora, ocena audytorów, sceptyczne zachowanie.
1. Introduction

Professional skepticism in auditing refers to “an attitude that includes a questioning mind and a critical assessment of audit evidence” and is at the foundation of the profession. Its importance has been underlined multiple times since auditing standards codification. Professional skepticism can be viewed as a lens through which auditors evaluate evidence and risk throughout the audit process. This questioning attitude and behavior is “essential to the performance of effective audits” and “is required in every aspect of every audit by every auditor working on the audit” [Baumann 2012]. Although both regulators and researchers emphasize the importance of employing the appropriate level of professional skepticism when conducting an audit, we still know little about skepticism itself. Two major questions related to the concept of professional skepticism: what exactly comprises professional skepticism and how to measure it, are still open ones. The lack of clear understanding what constitutes professional skepticism leads to inconclusive results provided by accounting research studies that address professional skepticism. Through various studies the attempts to measure professional skepticism turned to creating scales designed to measure other professional attributes such as independence [Shaub 1996; Kadous 2000], trust [Choo, Tan 2000], suspicion [Shaub, Lawrence 1996], conservatism bias in audit judgment [McMillan, White 1993] and presumptive doubt [Nelson 2009]. Many other auditing studies have examined the skeptical behaviors in auditing instead of professional skepticism (e.g. [Anderson, Maletta 1999; Mueller, Anderson 2002; Rose 2007]). Even research that attempted to measure somehow the level of profession skepticism represented by subjects does not provide many conclusive remarks (e.g. [McMillan, White 1993; Shaub 1996; Shaub, Lawrence 1996]). Each of these studies uses a different scale which causes that it is unlikely that they are capturing the same construct. It is also difficult to draw any inferences due to the lack of common measurement. Another issue associated with results published in these studies is ambiguity whether they attempt to measure trait or state as well as whether they focus on the problem of recognition or action in front of the recognized problem.

The purpose of this paper is to synthesize research related to auditors’ professional skepticism in order to identify antecedents to both skeptical judgment and skeptical action as well as to indicate an individual characteristics of professional skepticism as a trait and also as a state. In this synthesis of academic research on professional skepticism, I provide insights regarding possible threats to professional skepticism and suggestions how these threats may be mitigated to improve audit quality. The examination of extant literature discusses also the characteristics of skepticism that can be attributed as a trait and as a state in order to provide suggestions for measuring both groups of attributes associated with the concept of professional skepticism. In addition, I discuss promising avenues for future research in areas not addressed in the literature.
2. Professional skepticism concept and its characteristics

Even brief analysis of professional standards and academic research in auditing shows lack of precision in the use of the term “professional skepticism”. Nelson [2009] categorizes attempts to define this concept as holding either a neutral position, a presumptive doubt position, or a position of Bayesian unbiasedness. As an example of neutral perspective of professional skepticism, Nelson characterizes an attitude portrayed in SAS No. 1 where “the auditor works hard to gather and evaluate evidence, but does not assume any bias ex ante”. Other examples of neutral view of professional skepticism can be found in other international standards such as PCAOB in AS No. 2 [PCAOB 2004], SAS No. 67 and SAS No.109. In contrast, the examples of presumptive doubt position can be found in ISA 200, where professional skepticism is defined as “An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence”, as well as in ISA 240 in which it is stated that “the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance” [IAASB 2010c].

The attempts to define the notion of “professional skepticism” where undertaken as well by academics who focus their research on auditing. In this case researchers hold either neutral position or a presumptive doubt position. For example, Hurtt’s [2010] view of this notion can be categorized as a neutral. She considers that an auditor should suspend judgment until substantial evidence is obtained to reach a conclusion. She also defines professional skepticism as a multidimensional individual characteristic that can be categorized as both a trait and a state. In contrast, Nelson [2009] supports a presumptive doubt view of professional skepticism in which an auditor demonstrating high professional skepticism needs relatively more persuasive evidence to conclude an assertion is correct relative to the norm.

Whichever of the two “profession skepticism” conceptions we consider to be adequate, there are some characteristics that can be attributed to this term. These characteristics were determined through a review of the European and American auditing standards as well as a review of the research on skepticism from auditing, psychology, philosophy, and consumer behavior. According to Hurtt [2010] the first three, thus questioning mind, suspension of judgment and search for knowledge, relate to the way an auditor examines evidence. They indicate a will to collect data, thorough review and investigate the evidence before making a decision. The next characteristic, interpersonal understanding, recognizes a need to implement human factor into an auditing process. It applies in particular to events, circumstances or conditions that may be recognized as incentives or pressures on individuals to carry out the fraud or perpetrate it. The fifth and sixth characteristics, self-esteem and autonomy, relate to professional courage while examining the evidence and ability to submit own intentions to the same kind of evaluation [Mautz, Sharaf 1961, p. 35].
2.1. Trait dependant characteristics

It is beyond doubt that questioning mind is the most recognized attribute of professional skepticism. Both European and American auditing standards, thus ISA 200 and SAS No. 82, respectively, indicate that questioning mind is an attitude that defines in most professional skepticism. Many studies in accounting equate this notion with such terms as suspicion, disbelief, doubt, all of which have some aspects of questioning [Nelson 2009]. Research in other fields such as consumer behavior indicate similarly that skepticism is closely related with questioning mindset. Studies that deal with individuals’ skepticism about advertising suggest that one of the aspects of consumer skepticism is a tendency to question claims in advertisements [Koslow 2000]. Comparable attitude is identified by communication researchers who discuss the concept of media skepticism. Individuals often tend to question or discount the information provided by mass media lowering their relative value in comparison to the information obtained from relatives or friends [Irving, Berel 2001]. Another evidence that a questioning mind is a skeptics’ attribute can be found in philosophical literature, in which word “skeptic” originates from a term meaning “to examine” and “to observe carefully.” Fogelin [1994, p. 3] defines a skeptical person as one who “calls things into question”. McGinn [1989, p. 6] goes even further, writing that a skeptic questions everything, even her or his own judgments. It does not mean, of course, that doubting is not a lack of belief. As Kurtz [1992, p. 66] points out, “doubt initiates inquiry and leads to the formation of beliefs.”

Withholding judgment until there is an appropriate level of evidence for conclusions is being recognized as a second important characteristic of a professional skepticism. However, there is a significant difference in auditors’ initial attitude indicated in European and American auditing standards. For example, in Auditing Standards No. 1 [AICPA 1997b] it is recommended to wait for persuasive evidence to be collected before making a conclusive judgment. Similarly, in AU 230.9 it is stated that “auditor should not be satisfied with less than persuasive evidence.” In contrast, European ISA 200 states that “The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.” Similarly, ISA 240 recommends that “the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist”. Even though professional standards differ in initial assumptions that an auditor should adopt, they all support the concept that final judgment must be suspended until sufficient evidence is obtained. In other fields of research this characteristic is also present. In psychology, it is most closely related to the inverse of the need for cognitive closure. Kruglanski [1989, p. 14] defines closure as the desire for a definite answer on some topic. This characteristic differs across individuals, however, uniqueness makes it a trait that is desired in auditing profession. Studies in philosophy also define suspension of judgment as an attribute of a skeptical attitude. McGinn [1989, p. 6]
states that “the skeptic takes up a reflective stance compared to our ordinary practice of making and accepting knowledge claims”. Others, as Bunge [1991, p. 131] claim that “skeptics do not accept naively the first things they perceive or think … they are critical; they want to see evidence before believing”. However, the clearest statement among philosophy researchers was made by Naess [1969, p. 28] who articulates that “Suspension of judgment is the basic trait of the skeptic when confronted with dogmatic assertions”. The review of skeptical attitudes made across various fields of research shows clearly that a skeptic is willing to form a judgment but always in a critical matter and slow pace.

Searching for knowledge is another trait-dependent characteristic which is directly connected with the former one. Suspending judgment implies searching for knowledge through collecting evidence in order to achieve deeper understanding of things. It differs from questioning mind as this term contains some sense of doubt or disbelief. Skeptics are truly interested in broadening their knowledge in general and they are not interested in searching for simple answers while verifying conclusions. This attribute of skeptic attitude is evident in philosophical studies. For example, Bunge [1991, p. 131] states that skepticism encourages a desire to investigate. Even clearer statement can be found in [Popkin, Stroll 2002, p. 36] who qualify skeptic as the one who looks “deep into beyond and obvious”. Such a curiosity of an individual to search for more evidence has been discussed by philosophical researchers for over a century [Litman, Silvia 2006, p. 318]. It seems that a strong desire to possess knowledge and collect information is considered as a relatively stable individual trait. However, intensity which this trait occurs is also situationally dependent characteristic [Spielberger, Reheiser 2003].

2.2. Action-dependent characteristics

Interpersonal understanding is a fourth characteristic of the professional skepticism. However, in contrast to the previous three, this one is not associated with how an auditor evaluates evidence. It deals with understanding the integrity and motivation of individuals who provide evidence. There are many incentives and opportunities for such personnel to commit fraud or provide distorted evidence. A skeptical auditor should take into consideration that a communication with client’s employees may be less than truthful. Research in this topic is not exclusive to auditing. For example, psychological studies related to social competence are capturing professional skepticism in interpersonal aspect [Helmreich, Stapp 1974]. Researchers of consumer behavior identify advertising skepticism which appears in questioning the motives of the advertisers [Obermiller, Spangenberg 1998, p. 60]. In philosophy, a skeptical attitude requires understanding people’s motivations and behaviors. Researchers in this field rather agree that recognizing and understanding different perceptions of the same object or evidence by different individuals is possible only by understanding people. Popkin [1979] states that it is even a fundamental component of skepticism.
Studies in behavioral economy also show clearly that perceptions, motivations and incentives may lead people to provide misleading or inaccurate information. Without this aspect of professional skepticism it may be difficult for an auditor to recognize or to detect in advance ambiguous intentions of people providing information. Once they are identified and understood, the skeptical mind can challenge and correct unclear assumptions.

The fifth characteristic of the professional skepticism, an autonomy, is being indicated in all well recognized auditing standards as a foundation of an auditor profession. For example, ISA 200 states that “The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements” supporting the attribute of autonomy while performing auditing procedures [IAASB, 2010a]. Other auditing standards, as AU 230.08 and ISA 700.33 indicate that the auditor should remain autonomous evaluating evidence and making decision whether collected evidence is sufficient to render a judgment [IAASB 2010b]. Auditing researchers also underline the autonomy as an essential attribute of an auditor. Mautz and Sharaf [1961, p. 136] clearly state that professional skepticism requires being concerned with one’s determination of the veracity of claims and being less influenced by the beliefs or persuasion attempts of others. The autonomy as the characteristic of a skeptic is also supported by philosophical researchers. The skeptic should not easily accept the claims of others [McGinn 1989, p. 6], should identify contradictions and fallacies in the claims of others [Kurtz 1992, p. 22] and should undertake additional evidence and investigation until is satisfied [Bunge 1991].

The last characteristic attributed to professional skepticism is the sufficient level of self-esteem. It enables the auditor to resist persuasion and challenge opinions of the others. In fact, self-esteem is necessary factor allowing an auditor to remain autonomous while performing auditing procedures. This often requires face-to-face interactions with evidence providers and skeptic should be able to explicitly identify and acknowledge explanations other than offered. Linn et al. [1982] state that the skeptics should possess a level of self-esteem that allows them to value their own insights at least as greatly as those of others. Lom [2001, p. 32] considers this attribute in terms of an inner calmness and a lack of disturbance which seem to be essential while investigating evidence during auditing process. In psychology, self-esteem was found negatively related to susceptibility to normative influence [Clark, Goldsmith 2005].

3. Conclusions

Professional skepticism is considered to be fundamental to the performance of a high-quality audit. Research studies suggest that professional skepticism can influence auditor’s judgment and also auditor’s actions. However, there is a strong discrepancy in between what academics are trying to understand and what standards
setters are interested in. Most research focus on auditors’ judgment, however regulators focus mostly on auditors’ actions and procedures. It seems that filling the gap between these two dimensions of professional skepticism needs to be addressed to in future research.

Other area of studies provides evidence that professional skepticism allows auditors to identify more fraud cues, expand budgeted audit hours, identify more contradictions, generate more alternative explanations, and negotiate more forcefully with a client. However, they are in most cases limited to the actions that auditors actually take related to their professional skepticism instead of traits that need to be exercised in order to retain high level of professional skepticism while performing audit procedures. It is suggested to focus more in future research onto the important aspects of the skeptical traits.

References


