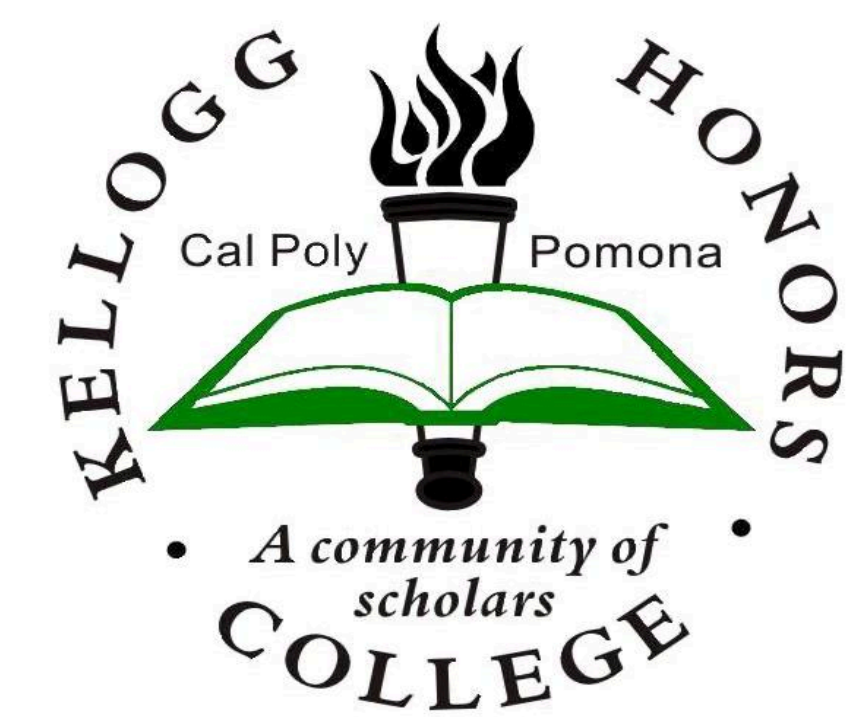


A Collective Study of Professional Skepticism



Casie Zwahlen, Accounting
 Mentor: Magdy Farag
 Kellogg Honors College Capstone Project



Abstract

The concept of professional skepticism (PS) within the field of auditing has been receiving an increasing amount of attention in recent years. While deemed a vital component within the procedures of performing an audit by regulators and Auditing Standards, there are very little information and resources that provide a narrow and distinctive definition of PS. This paper provides an analysis of the multiple definitions for PS that exist within the regulatory and academic fields. The paper analyzes the definition of PS provided by Auditing Standards and the role PS has in auditing. The definition of PS is then examined through an academic lens. The increasing emphasis that regulators are placing on PS has influenced an influx of research on the concept in an attempt to form a more distinctive definition of PS in hopes of encouraging better usage of the concept in future auditors. The lack of PS as a factor of audit failure has become a growing concern to regulators and firms alike. Therefore, academic research is examined, and the successes and failures of PS effectiveness is evaluated with regards to how current definitions of PS may impact the application of the concept during the performance of an audit.

Professional Skepticism as defined by Auditing Standards

Statements of Auditing Standards (SAS) of 1997 No. 1, AU section 230 and The Public Company Accounting Oversight Board (PCAOB) AS 1015 of 2016:

“an attitude that includes a questioning mind and a critical assessment of audit evidence”

“neither assumes that management is dishonest nor assumes unquestioned honesty” and only by, “gathering and objectively evaluating audit evidence [is the auditor required] to consider the competency and sufficiency of the evidence”

Statements of Auditing Standards of 2012 No. 122, AU-C Section 200:

“An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence”

“necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance”

Statements of Auditing Standards of 2012 No. 122, AU-C Section 240:

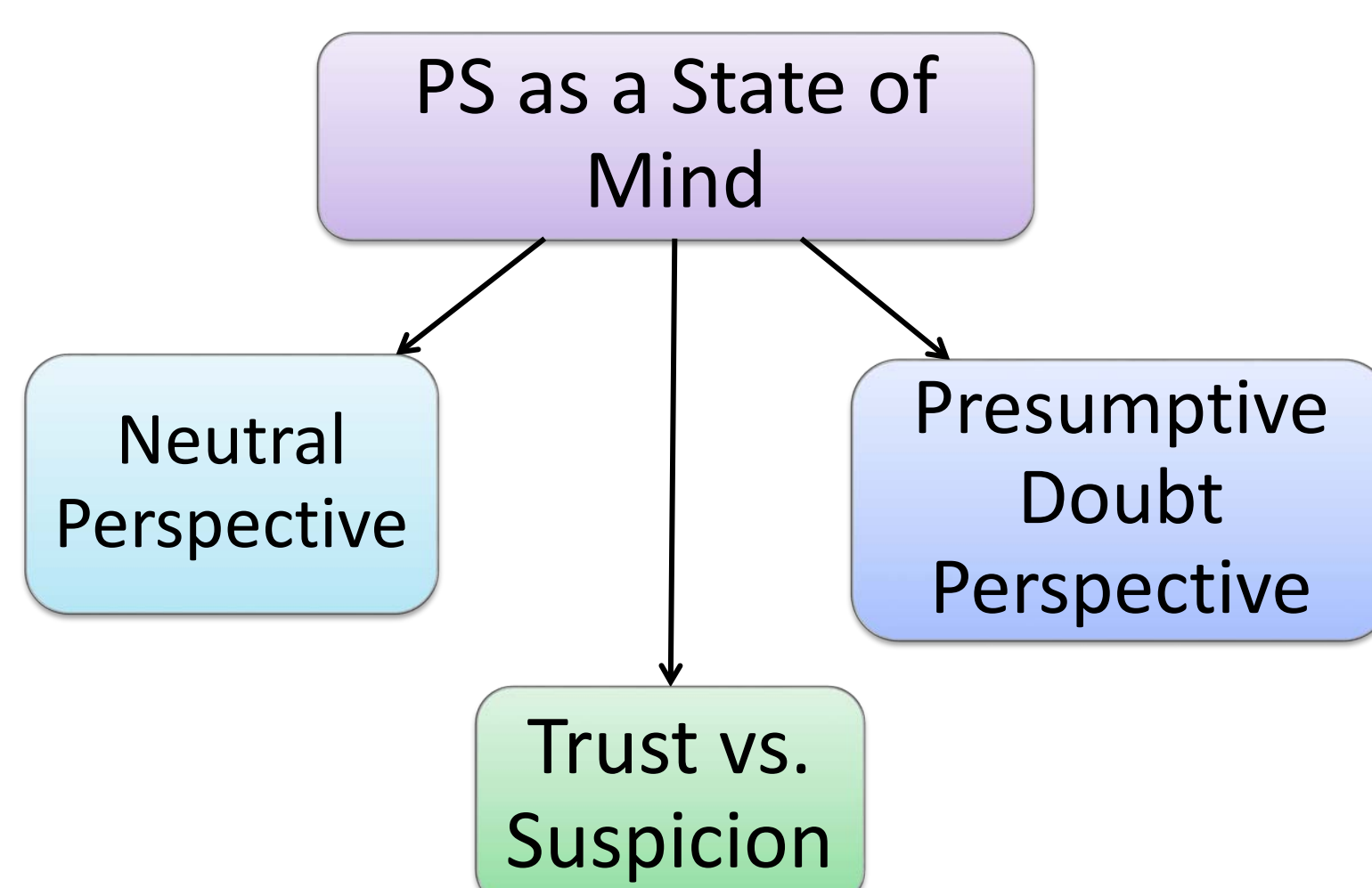
“the auditor [...] maintain professional skepticism throughout the audit, [and recognize] the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance”

Professional Skepticism: A State of Mind

The neutral attitude, coined **neutral perspective**, is based on the need of auditors to collect and gather evidences during an audit and to objectively analyze the evidence to draw conclusions on the validity of management assertions. In other words, an auditor must perform their duties, “but does not assume any bias ex ante” (Nelson 2009).

The second perspective noted by Nelson was the **attitude of presumptive doubt**. Unlike the neutral perspective, where a stance is not taken to prevent the influence of bias, presumptive doubt is heavily based on the possibility that management could be dishonest in their assertions and documentations (Nelson 2009). Henceforth, a biased stance is taken.

Shaub and Lawrence (1996) developed a definition of PS, defining the term as, “being willing to doubt, question or disagree with client assertions or generally accept conclusions”. Shaub and Lawrence use a definition of PS that requires a little bias when exhibiting an attitude of PS in order to be able to adequately and appropriately question evidence during an audit procedure. This definition was developed in response to a **trust vs. suspicion** relationship, where trust is granted, but the grantors remain suspicious their trust will be violated.

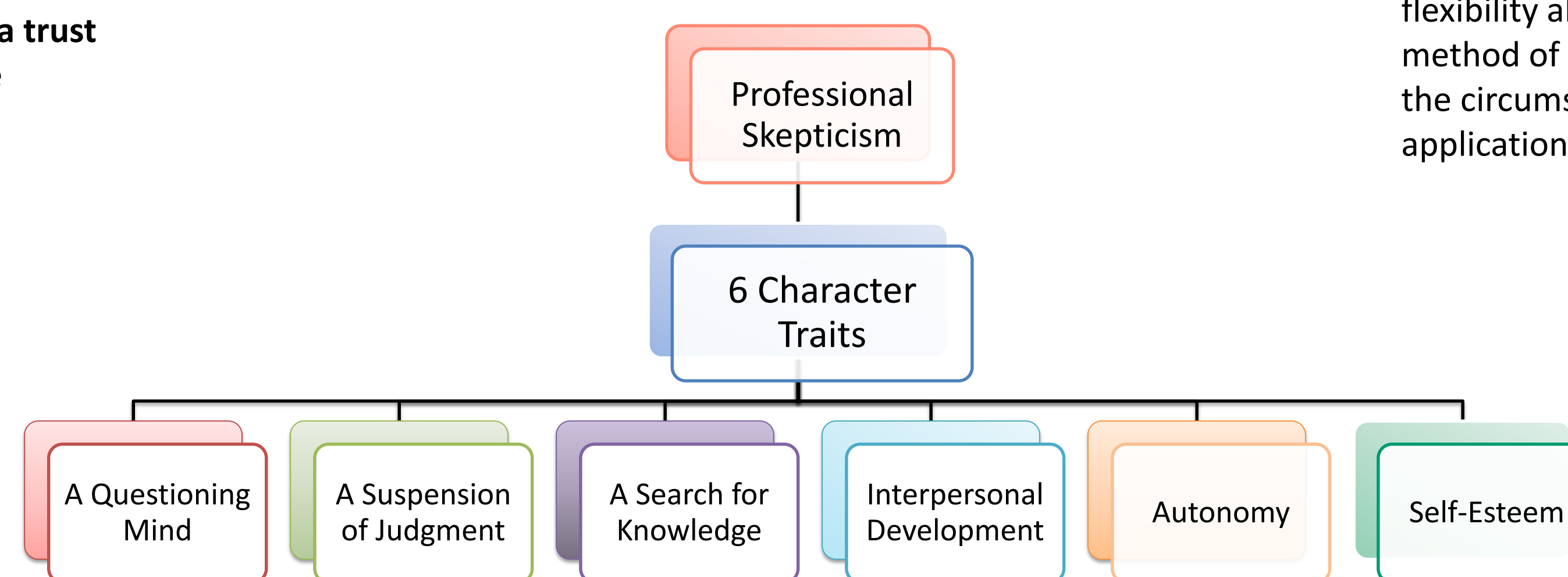


Professional Skepticism: A Character Trait

Hurtt defines PS as, “a **multi-dimensional individual characteristic**. As an individual characteristic, professional skepticism can be both a trait (a relatively stable, enduring aspect of an individual) and also a state (a temporary condition aroused by situational variables)” (2010).

Hurtt believes that PS can also be a state of mind, but in order to achieve this mentality, stable aspects of an auditor’s character traits must be present and active in order to facilitate this process.

More specifically, Hurtt identified **six specific traits** that interact with one another to form the foundation needed to contribute to her multi-dimensional definition of PS. These six traits include having, “a questioning mind, a suspension of judgment, a search for knowledge, interpersonal understanding, self-esteem, and autonomy” (Hurtt 2010). The collective interactions between these six traits contribute to the creation of an attitude that allows for PS to activate.

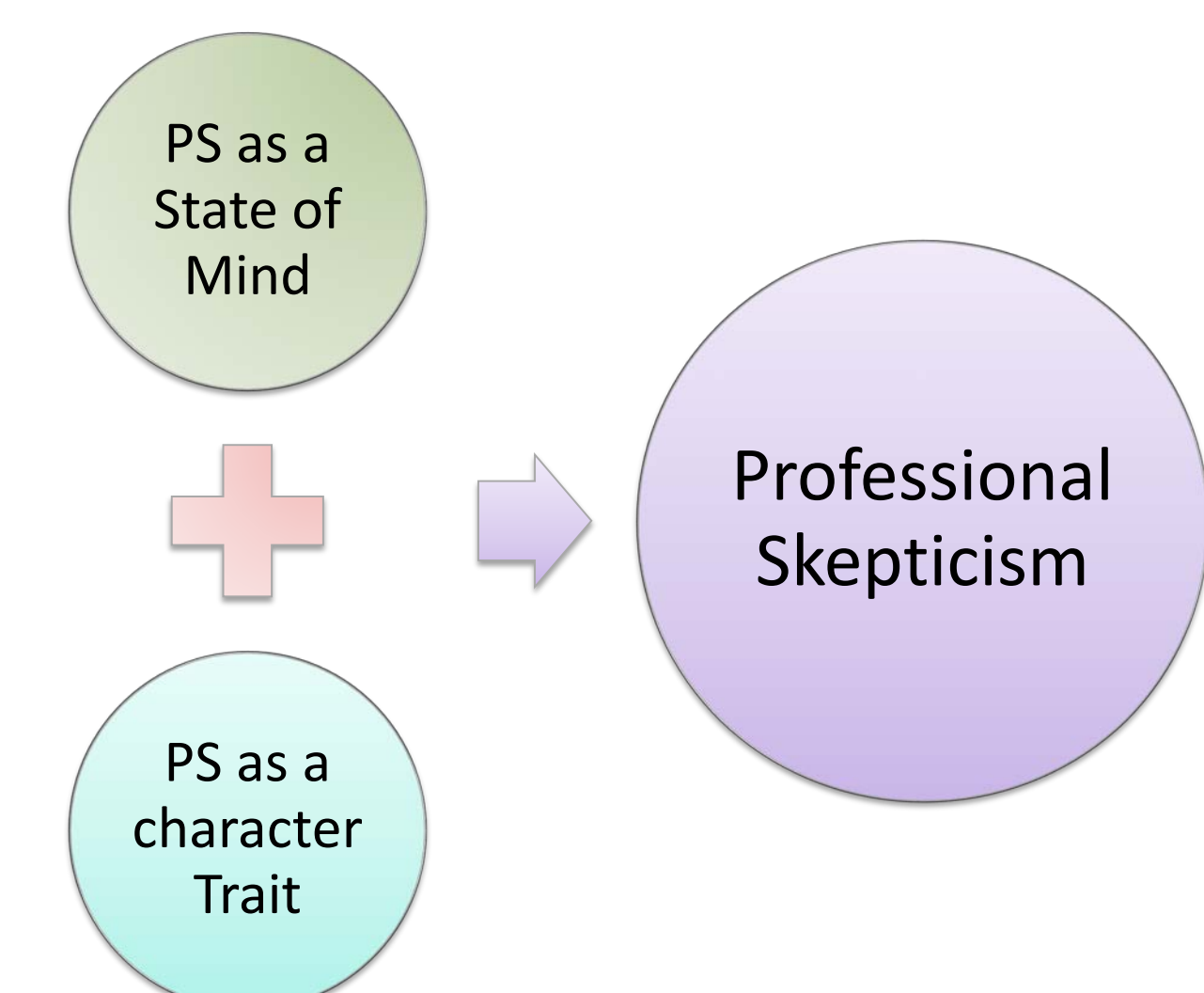


Professional Skepticism as a Dual-Component Concept

Viewing PS as a **dual-component concept** would explain the inability to completely separate PS from a temporary state versus an auditor’s character traits. Robinson, Curtis, and Robertson (2018) defined this dual-concept of PS as being, “a trait, or a stable personal characteristic, and a state that is temporary and context dependent”.

Robinson, Curtis, and Robertson (2018) argue that traits are aspects of an individual that are shaped over time and develop in response to specific experiences. The traits are often developed at such a young age, therefore, they are more difficult to change. Continuously, because traits are shaped by an individual’s experiences, PS as a trait is likely to be more “sensitive to situational factors” (2018).

Additionally, Robinson, Curtis, and Robertson (2018) suggest psychological states of mind are temporary conditions and are not permanent to an individual’s mental or behavioral character. Therefore, PS as a state of mind is temporary state which allows the auditor to match specific experiences and behaviors to specific situational circumstances. The flexibility allowed with PS as a state of mind allows auditors a better method of performing audit procedure because they are able to adopt to the circumstances of a situation rather than trying to apply a generic application of PS from a trait perspective.



Discussion and Conclusion

For a behavioral concept that is meant to inspire objectivity, the very founding’s of PS is based in subjectivity. Auditors are asked to perform under difficult circumstances where an auditor is asked to refrain from letting bias influence an audit, yet know when to continue to question the validity of the evidence acquired until eventually enough evidence has been gathered to satisfy the giving of an opinion. This is a very difficult balance to maintain which is why pinpointing a single definition onto PS or even explaining the inner workings of PS has been a challenge.

Robinson, Curtis, and Robertson (2018) specifically point out how the standards require auditors to demonstrate a neutral perspective, while also demonstrating the presumptive doubt perspective. Trying to exhibit both perspectives at the same time is nearly impossible as the two perspectives counter each other entirely. One cannot maintain neutrality while implementing a slight degree of bias. Robinson, Curtis, and Robertson cite this double standard as a possible source of confusion among many auditors and could be a reason why PS has not been practiced as appropriately as expectations demand. However, even with this double standard between the two perspectives, the standards as a whole appear to adopt more of the presumptive doubt view.

I do not believe that PS as a trait can be used alone. Traits are shaped by time and experiences and as a result perspectives and ways of thinking are solidified over time. They can be difficult to reform for the temporary time of an audit. Therefore, the use of a temporary state of PS can be useful in assessing what traits an auditor has developed is best suited for the current audit at hand. Auditors are not at liberty to make assumptions about management assertions, however, auditors cannot simply accept the assertions at face value. This dilemma gives rise to a “guilty until proven innocent” mentality. I believe that regardless of which perspective or trait model one chooses to follow, most definitions seem to take a “guilty until proven innocent” stance when determining the definition of PS. Referring back to Nelson (2009) and Shaub and Lawrence (1996), I cannot help but feel that these definitions of PS revolve this same mindset.

Further research should be conducted to develop a more solidified definition of PS so as to reduce the levels of confusion that exist within the current Auditing Standards. By developing a more adaptable definition of PS, researches may be able to retest and reevaluate the effectiveness of PS. If this can be achieved, then it may become easier to develop improvements that may be implemented in the standards to enhance the quality of audits and reduce auditing failure.