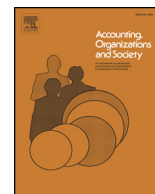




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Grounding the professional skepticism construct in mindset and attitude theory: A way forward[☆]

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ABSTRACT

The concept of professional skepticism is pervasive throughout auditing standards, and inspectors around the globe often identify a lack of skepticism as a root cause of audit deficiencies (IFIAR, 2015, 2016). Despite its importance, the professional skepticism construct remains ill-defined and measurements used in research do not map well into practice. The purpose of this paper is to develop a conceptualization of professional skepticism that will facilitate the conduct of research with meaningful implications for practice, providing a way forward for skepticism researchers. To that end, we propose a dual conceptualization of professional skepticism as both a mindset and an attitude, and we rely on mindset and attitude theory to develop measures of each component. Mindsets drive cognitive processing, and the mindset component captures the critical thinking that is an important element of professional skepticism and is required by standards. Including the mindset component reflects the idea that skepticism involves critical analysis of evidence, and not just doubt. Attitudes include affective and cognitive components to predict intentions and behavior, and attitudes recognize the influence of social factors on evaluative judgments. Including an attitude component thus expands the notion of evaluation to include auditors' feelings, as well as their beliefs, about risk, and it improves the predictive power of "skepticism" for auditors' evidence collection. We expect that our skeptical mindset and skeptical attitude theoretical approach will move the literature forward, especially in terms of framing standards, developing interventions to improve audit quality, and performing root cause analyses.

1. Introduction

Professional skepticism is a foundational construct in auditing. Auditors are required to exercise skepticism throughout the conduct of each engagement (IAASB, 2012a; PCAOB, 2006). The proper application of professional skepticism requires that auditors question the reliability of evidence (PCAOB, 2003), be alert to indicators of fraud (IAASB, 2006) and management bias (IAASB, 2017), and critically assess the evidence (IAASB, 2012a; PCAOB, 2006). The IAASB (2012a) asserts that skepticism reduces the risks of overlooking unusual circumstances, over-generalizing when drawing conclusions from audit observations, and using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof. Thus, skepticism can be viewed as the force that drives auditors to recognize potential errors and irregularities and to

investigate misstatements, should they exist. This implies that an appropriate level of professional skepticism is essential to a high-quality audit.

Despite the importance of the professional skepticism construct, there is no clear consensus regarding what professional skepticism is and how it can be measured (IAASB, 2015). Regulators generally refer to professional skepticism as an attitude that includes a questioning mind and a critical assessment of evidence (AICPA, 1997; PCAOB, 2006; IAASB, 2016). Practitioners often refer to professional skepticism as a mindset that influences auditors' professional judgment (e.g., Glover & Prawitt, 2014; Ranzilla, Chevalier, Herrmann, Glover, & Prawitt, 2011). While neither group has determined how to measure or document professional skepticism, regulators often attribute audit deficiencies to a lack of skepticism (e.g., IFIAR, 2015; 2016).

Researchers employ a variety of conceptualizations of professional

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skepticism (e.g., see Nelson, 2009; Hurtt, Brown-Liburd, Earley, & Krishnamoorthy, 2013). For example, some view professional skepticism as an individual characteristic or personality trait (e.g., Cohen, Dalton, & Harp, 2017; Hurtt, 2010; Quadackers, Groot, & Wright, 2014). In contrast, other researchers view a more skeptical auditor as one who assesses the likelihood that the financial statements are misstated as higher or demands more evidence to conclude they are fairly stated. As a result, skepticism is commonly measured by higher risk assessments (i.e., skeptical judgments) and a higher demand for evidence (i.e., skeptical actions) (Nelson, 2009).

The purpose of this paper is to develop a conceptualization of professional skepticism that researchers can use to move the skepticism literature forward and to better link their work with practice. The lack of guidance and lack of agreement among researchers about how skepticism should be conceptualized and measured, as well as the discrepancy between the professional skepticism conceptualizations of researchers and those of regulators and practitioners, interferes with researchers' ability to facilitate positive change in practice and regulation. That is, it is not always clear that researchers examining "skepticism" are looking in the right place if their goal is to help auditors improve their judgments and help regulators improve standards, enforcement, and audit quality, more generally. For example, researchers focusing on skepticism as a trait of the individual auditor may not be able to provide insight into structural features of the audit environment or features of standards that inhibit or promote skepticism. Likewise, researchers focused on encouraging auditors to demand more evidence may generate schemes that increase audit costs without increasing audit quality.

We propose that professional skepticism can be productively conceptualized as both a mindset and an attitude. Mindsets consist of a collection of judgment criteria and cognitive processes and procedures to facilitate completion of a particular task (Gollwitzer, 1990). Accordingly, mindsets are evidenced by cognitive processing measures, such as those capturing an individual's openness or receptivity to information (Fujita, Gollwitzer, & Oettingen, 2007) and the extent to which they seek out confirming or positive information (Bayer & Gollwitzer, 2005). Thus, a mindset conceptualization of professional skepticism captures the idea that information processing—in particular, critical thinking—is an essential component of skepticism. We rely on mindset theory to inform the development of measures to capture the nature and extent of auditors' critical thinking, which indicates whether the auditor's mindset was indeed "questioning", "alert", "objective", and "receptive" to information, including disconfirming evidence. This critical thinking influences the formation and strength of auditors' skeptical attitudes.

Attitudes are evaluative responses associated with a target. These evaluative responses include beliefs and feelings that drive individuals' intentions and actions (Ajzen, 2005). Relevant targets for the attitude of professional skepticism are the financial statements (i.e., management's assertions) and the evidence. This implies that an auditor's attitude of professional skepticism can be measured in terms of his or her beliefs about risks and feelings of doubt associated with management's assertions or the supporting evidence. Thus, an attitude conceptualization of skepticism captures the idea that appropriate evaluative judgments, both cognitive and affective, are critical components of skepticism. We rely on attitude theory to develop measures that reflect auditors' beliefs about risk and what constitutes sufficient evidence to address those risks, as well as their emotional responses to both. These attitude measures correspond to, and thus help predict, auditors' intended and actual behaviors.¹

¹ Our work is based on the premise that researchers, regulators, and auditors are typically concerned with insufficient auditor professional skepticism. We acknowledge that it is possible for auditors to exhibit too much professional skepticism by over-estimating risk and engaging in inefficient questioning and evidence collection. Establishing an optimal level of skepticism is beyond the scope of this paper.

Our dual conceptualization of professional skepticism as a mindset and an attitude allows for more comprehensive examination and measurement of the professional skepticism construct, and this facilitates a more direct line from research to practice. For example, the measures of auditors' skeptical mindset incorporate standard setters' view of skepticism as including "being alert" to the possibility of fraud, bias, and contradictory evidence, and critically assessing the evidence. The measures of auditors' skeptical attitude capture standard setters' views of skepticism as serving as a lens through which evidence is interpreted and as driving auditors' actions. While audit firms sometimes use the term "mindset" and standard setters sometimes use the term "attitude" in discussing skepticism, they use these terms in their colloquial, versus scientific, sense. We apply mindset and attitude theory to map these scientific constructs into audit standards, and we develop measures based on these theories that capture skepticism in a way that allows researchers, firms, and standard setters to use a common conceptualization.

The rest of the paper proceeds as follows. Section 2 provides an overview of our conceptualization and situates it within a framework. The section also describes the major implications of the conceptualization for audit research, including how it is useful for moving skepticism research forward. Section 3 describes the application of mindset theory to professional skepticism and provides measures that researchers can use to assess auditors' skeptical mindsets. Section 4 describes the application of attitude theory to professional skepticism and provides measures that researchers can use to assess auditors' skeptical attitudes. Section 5 offers future research opportunities and concludes.

2. Professional skepticism as mindset and attitude

2.1. Conceptualization of professional skepticism

We view auditors' professional skepticism as comprising two components, a skeptical mindset and a skeptical attitude. The mindset component captures the idea that professional skepticism is reflected in particular ways of thinking, or processing information. For example, auditing standards about skepticism require that auditors be open and receptive to evidence about fraud (IAASB, 2012a; PCAOB 2010b) and management bias (IAASB, 2012a; PCAOB, 2010a), and that they critically assess audit evidence (IAASB, 2012a; PCAOB, 2010a). This implies that a skeptical mindset is reflected in open, objective, and critical thinking about audit evidence and related matters.

The attitude component of professional skepticism captures the idea that skepticism is reflected in auditors' evaluations, both cognitive and affective, of the evidence and of managements' assertions. The audit literature historically views auditors' beliefs about management's assertions and evidence as capturing some aspects of skepticism (Nelson, 2009). Use of the attitude construct expands that view to acknowledge that auditors' feelings, as well as their beliefs, about management's assertions and the evidence influence their intentions and behaviors (i.e., skeptical actions). For example, auditors' comfort with an assertion or dread about the possibility of insufficient evidence is likely to drive decisions about further evidence collection. A conceptualization of skepticism including these feelings increases researchers' ability to explain auditors' subsequent skeptical judgments and actions.²

Fig. 1 depicts auditors' professional skepticism conceptualized as both a mindset and an attitude. Mindsets are measured in terms of cognitive processing variables. Attitudes are measured in terms of judgments (evaluative responses) associated with a target. The arrow connecting the processing and judgment measures illustrates the bi-

² For example, Pentland (1993) views the audit as an exercise in transmitting comfort "up the chain of command, from staff to the partner" (p. 610). Thus, comfort drives auditor behavior and is socially derived from others within the firm.

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