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Hurtt's model" in explaining the auditor's professional skepticism

"The Integration between the theory of social styles and characteristics of "Hurtt's model" in explaining the auditor's professional skepticism – A practical study"

An extract from PhD thesis in accounting titled

"A proposed model for the determinants of auditor's professional skepticism based on personal traits versus auditor's experience and its effect on the audit quality – A practical Study"

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Abstract:

Purpose: The main objective of this study is to investigate the effect of auditor's personal traits and characteristics on the professional skepticism exercised during audit engagements.

Design/ Methodology: As this research is one of the social science researches, it will depend upon the two basic approaches in the research methodology: the inductive approach and the deductive approach. The author conducted a survey to study the effect of the different social style on the level of professional skepticism of the auditor. The researcher distributed 100 surveys and collected 69 answered surveys with a response rate of 69%

Findings: the statistical results revealed that there is strong effect of the auditor's personal traits on his/her way of conducting the professional skepticism during audit. The integration between the theory of social styles and "(Hurt, 2010)" characteristics of professional skepticism will be useful in explaining the behavior of auditors during the audit engagements.

Originality/ Value: This study can explain more about the nature of trait professional skepticism by understanding the part of the professional skepticism which is affected by the personality and characteristics of the individual auditor.

Key words: Professional skepticism, the theory of social styles, characteristics of professional skepticism

ملخص البحث:

هدف البحث: الهدف الرئيسي من هذه الدراسة هو معرفة تأثير السمات والخصائص الشخصية لمراقب الحسابات على الشك المهني الذي يمارسه أثناء عمليات المراجعة.

منهجية البحث: وبما أن هذا البحث هو أحد أبحاث العلوم الاجتماعية، فإنه سيعتمد على منهجين أساسيين في منهجية البحث: المنهج الاستقرائي، والمنهج الاستنباطي. أجرى الباحث مسحاً لدراسة أثر اختلاف النمط الاجتماعي على مستوى الشك المهني لدى المدقق. قام الباحث بتوزيع ١٠٠ استبيان وجمع ٦٩ استبياناً مجاباً بنسبة استجابة ٦٩٪.

نتائج البحث: أظهرت النتائج الإحصائية أن هناك تأثير قوي للسمات الشخصية للمدقق على أسلوبه في ممارسة الشك المهني أثناء التدقيق. إن التكامل بين نظرية الأنماط الاجتماعية و"(Hurt, 2010)" خصائص الشك المهني سيكون مفيداً في تفسير سلوك المراجعين أثناء عمليات المراجعة. **الإضافة العلمية:** تهدف هذه الدراسة إلى تفسير المزيد عن طبيعة ممارسة الشك المهني من خلال فهم وتحليل الجانب الذي يتأثر بالشخصية والخصائص الفردية لمراقب الحسابات **الكلمات المفتاحية:** الشك المهني – خصائص الشك المهني – نظرية الانماط الاجتماعية

Introduction

In order to deliver a high quality audit, Auditors should adhere to professional standards and legal and regulatory requirements while performing financial statement audits. Those standards require that appropriate professional skepticism be applied in the exercise of professional judgment and issuing the audit opinion.

The professional skepticism is a very important topic for research in audit nowadays. The accountancy and audit professions have responded to an increasing pace of change in our society, economy and capital markets. Therefore, when we think of the audit of the future we should not concentrate on topics like big data, artificial intelligence or block chain only. If professional skepticism didn't come to this short list, it should. Professional skepticism has always been one of the main corners of audit profession (Mkololo & Barker Hoogwerf, 2018). It is used to validate information through probing questions, critical assessment of evidence, and attention to red flags and inconsistencies (Grenier, 2017)

1/1 Research problem

Audit profession has become under threat due to the major financial failures starting from Enron and worldcom 2000 to the financial crisis 2008 and after. The audit quality has also been questioned in many audit research and has been investigated from different viewpoints. The researcher claims that failing to put a comprehensive model for one of the main corners of the audit profession, which is the professional skepticism, is a major reason for not achieving quality audit. Audit judgments are results of professional skepticism performed by auditors. Professional skepticism in return is affected by the personality and experience of the independent auditor. The problem now is how far the personal traits and experience affect the level of professional skepticism exercised by the auditor?

1/2 Research objective:

This research focuses on the integration between one of the main theories in psychology named "the theory of social styles" and the popular scale of skepticism is "Hurt's model ". This integration can explain more about the nature of trait professional skepticism. In other words, it helps us in understanding the part of the professional skepticism which is affected by

the personality and characteristics of the individual auditor during the audit engagement.

1/3 Research importance:

The widespread and diversification of business in this modern day has continued to increase the complexity of business transactions and of accounting standards. Given increased complexity and subjectivity together with a continued emphasis on reliable financial reporting, has elevated the interest in the application of high degree of professional skepticism by the auditors. This concern triggered many initiatives calling for the continuous importance of the professional skepticism in audit engagements.

1/4 Research method:

As this research is one of the social science researches, it will depend upon the two basic approaches in the research methodology: the inductive approach and the deductive approach. The inductive approach will be used firstly to understand and analyze the concept of previous studies while the deductive approach will be used in an empirical or field study to collect evidences and data about how this can be happening in practice.

1/5 The concept of the professional skepticism as introduced in the literature and standards:

The Center for Audit Quality (CAQ), in its 2010 report on fraud, describes professional skepticism as follows: "*Skepticism involves the validation of information through probing questions, the critical assessment of evidence, and attention to inconsistencies*". While the International Standards on Auditing (ISA) defines professional skepticism as "*an attitude that includes a questioning mind and critical assessment of audit evidence*" (Isa200, 2012)

Auditing standards emphasize two important corners of the professional skepticism: First: a questioning mind, and second: a critical assessment of audit evidence during all phases of the audit engagement.

In the academic literature, previous authors adopted somewhat different perspectives of the professional skepticism, for example (Hurt, 2010) defines PS in the view of the various characteristics which form the

auditor's state of questioning mind. These factors include factors like (questioning mind, suspension of judgment and self-confidence). Another author defines skeptic auditors as those who tend to be relatively accurate in their assessments of audit risks (Nelson, 2009)

This is as opposed to "trusting" or "suspicious" auditors who tend to be biased in their professional judgments. Other authors have adopted a sharper view of the PS. For example, (Shaub, 1996) puts skepticism and suspicion on the same level, meaning that the auditor should not trust the management at all.

1/6 the two basic types of skepticism (trait and State):

Various previous studies also have agreed that there are two types of professional skepticism. These two types as were firstly presented by (Nelsen, 2009) are as follows:

(1) (Trait Skepticism) Professional skepticism as a result of personal traits: Personality traits likely influence an individual's ability to appropriately apply professional skepticism. Because this type of skepticism is related to the person who performs the audit, Studies have agreed that it's relatively stable and enduring aspect for the individual.(P. S. M. Glover & Douglas, 2013)

(2) (State Skepticism) Professional skepticism stemming from previous experience: Skepticism that is result of previous experience of the auditor. It is called state because in this situation skepticism is aroused by either a previous experience of a possible risk of misstatements or situations led to suspicious during the current audit. (Popova, 2013)

Based on the various previous definitions, the researcher may establish a definition of the professional skepticism as follows,

"Professional skepticism is a state of mind should be maintained by the auditor through all over the phases of the audit engagement, this state of mind is affected by many factors some of them related to the personality of the auditor himself, other related to the circumstances of the audit and other related to the previous experience of the auditor with the client"

This research focuses on the first kind which is the trait skepticism or the part of the professional skepticism which is affect by the personality features of the auditor.

1/6 the enduring importance of the professional skepticism principle in today's accounting and auditing

It is noticeable that there is an increase in commercial transactions and complex accounting standards as a result of the development of Business and transactions between major international companies. In addition there is an expansion of the accounting standards based on principles versus accounting standards based on rules. This in return allows for extensive use of fair value accounting estimates and increased the opportunities for management to make more subjective estimates in the accounts balances. These reasons have increased the complexity of the audit process and more specifically the importance of professional skepticism Practiced by the auditor to ensure that these estimates do not involve any manipulation by the management.

It can be concluded from the above discussion that there is a continuous or enduring importance to this concept. The other major reasons can be summarized in the following points:

- The higher the level of P.S, the more detailed audit procedures and more sample testing will be performed. This makes it more likely to detect misstatements specially that are due to fraud. The auditing standards (for example SAS No.99) stress the importance of the audit role in detecting the misstatements which are due to fraud. High level of P.S will lead to detecting the area of high risks in the audit process and let the audit respond quickly to the red flags
- The importance of P.S increases when there are doubts regarding the management incentives and announcements. In this case the exercising of P.S will lead to detecting any attempts by the management to manipulate the financial statements. In addition to that the principle of P.S will protect the auditor from any attempts to affect the auditor opinion by the client.
- Moreover, the principle of the P.S is not confined on the external auditors. And shading the light on its importance is relevant to the internal auditors as well. The internal auditors as a part from the internal control of any organization considered to be the first line of defense against any attempts to fraud and manipulation inside the

organization. So the enduring importance of this principle (i.e. P.S) is relevant for any type of audit.

- It is noticeable that there is an increase in commercial transactions and complex accounting standards as a result of the development of Business and transactions between major international companies. This in return increases the importance of audit in general and as the principle of professional skepticism in specific.
- In addition, with the expansion of the accounting standards based on principles versus accounting standards based on rules which allow for extensive use of fair value accounting, it becomes more subjective than objective. This, in turn, will increase the complexity of the audit process and the importance of professional skepticism Practiced by the auditor to ensure that these estimates do not involve any manipulation by the management. This means that the P.S principle is not important only for the auditors but also for standards setters and capital market investors.
- The International standard on auditing (ISA 540) revised which issued in 2018 stressed the importance of the application of the professional skepticism when auditing the accounting estimates. One of these estimates is the fair value measurement which is currently used widely by the recent accounting standards such as IFRS 7. These estimates require the management judgments and therefore the importance of applying the professional skepticism has increased recently due to these changes.
- previous studies also have confirmed the previous point as (D'Aquila, Jill M., 2011) stated that the US securities market suggests that one of the major causes for audit failure is not applying the principle of professional skepticism appropriately by audit partners during audit engagements. The study of (Beasley et al., 2001) have also confirmed this and concluded that 60% of the cases where the audit failed to detect material statements are due to the lack of applying the P.S. This indicates to the importance of discussing this topic as it considered one of the major causes of audit failure.

1/7 Analyzing Hurt's model for measuring Trait skepticism:

In 2010 "Hurt" introduced the first comprehensive scale to measure the degree of professional skepticism of the auditor. Previous attempts have been made to measure the degree of skepticism for example (Shaub, 1996) and (Mcmillan and White, 1993) but these attempts used different scales and the results were not unified. "Hurt" developed the first scale to explicitly measure an individual's degree of skepticism. She described the professional skepticism as an individual state that has many dimensions. In addition, she focused on the personal traits of the auditor and classified these traits into six main individual characteristics as follows:

- Questioning Mind
- Suspension of Judgment
- Search for Knowledge
- Interpersonal understanding
- Autonomy
- Self- Esteem

The above six characteristics are unique to each auditor as it represents the inner traits which differentiate between individuals in the different situations. Therefore, the first three characteristics are related to the audit evidence and refer to the willingness of the auditor in search for explanations and information for areas that might have high inherent risks. For examples management accruals and fair value of the financial assets represents areas of (red flags) that the auditor has to search for sufficient and appropriate evidence to support the management evaluation and this need high degree of professional skepticism.

The last three characteristics are related to the ability of the auditor to understand the motives and intentions of the management (interpersonal understanding) and also the auditor's ability and courage to act against his professional skepticism and ask the appropriate evidence from the client (Autonomy and Self Esteem).

1/8 the theory of social styles

From what have been discussed above regarding the effect of the personal traits on the level of professional skepticism, we can conclude that these traits are different from one auditor to another. The author believes that

there is an effect of the type of personality as well on the how the auditor performs in audit in general and apply the professional skepticism in particular (Farag & Elias, 2016). Therefore, the theory of personal or (social) styles will be discussed with its effect on the research problem.

“Social styles” is a theory developed by two psychologists in 1981 by David W. Miller and Roger H. Reid. The theory was first published in their book “Personal styles and Effective performance” (Merrill, D. W., & Reid, 1981). The authors in this theory claimed that every person has natural behaviors and a preferred style of communication according to his / her personality traits. This theory can be applied to auditor's behavior in the audit engagements as well specially when practicing the professional skepticism.

According to this theory, Reid and Miller used “factor analysis” depends on two scales: Assertiveness (Dominance) and responsiveness (sociability).

The first scale (Assertiveness) measure the degree of control the individual have in making requests from the others. In other words, it is the method the individual influences the thoughts and actions of the others. Highly assertive persons have usually higher self -confidence and believe they have the right to request what they need. They usually like to face difficulties rather than avoiding them.

On the other hand, (responsiveness) scale measures how the person responds to the requests and demands of the others. High responsive persons usually have higher emotional response. They act quickly to the other requests and normally are people oriented.

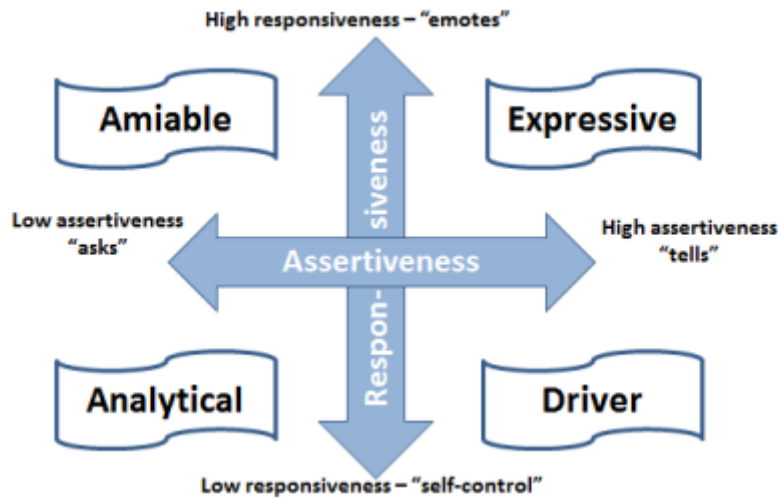


Figure 1 Source: (Hector, Margarita, 2012)

From these two dimensions, (Merrill and Reid) defined four behavioral (personal) styles that represents a model of the outer behavior. Each style has its unique traits and characteristics (Griffith, Hammersley, Kadous, & Young, 2015) (Merrill, D. W., & Reid, 1981)

These four styles are as follows:

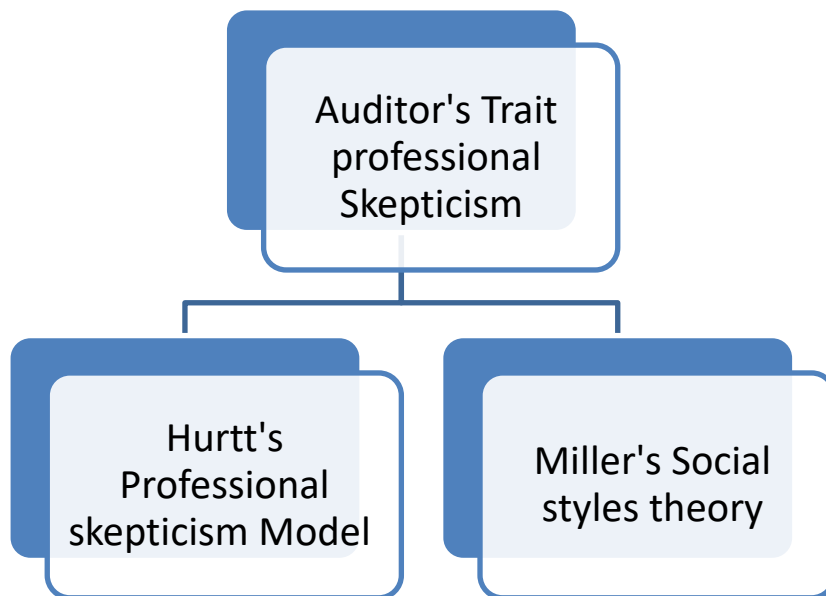
- Driver
- Amiable
- Analytical
- Expressive

1/9 the link between hurt's model for the professional skepticism and social styles:

As far as the point of this research none of the previous studies have investigated the trait professional skepticism from this angel. hurt's skepticism scale is based on characteristics and behaviors from six individual characteristics as mentioned above. These characteristics or personal traits are different from one auditor to another according to his social style. Therefore, the author believes that linking the social style theory with the personal traits of the hurt's skepticism scale is important and useful from many reasons:

- Studying the social styles of auditors will help in understanding the needs and requirements of each type of personality. According to previous studies professional skepticism is a result of personal traits and experience. So we need to understand more about the personal traits of the auditors.(S. M. Glover & Prawitt, 2014)
- This in return will help in predicting the behavior of auditors in practicing the audit in general and specifically when maintain the professional skepticism.
- Studying the social styles will increase the self-awareness of auditors and will facilitate for the managers and partners creating an effective workplace in the audit firm and in return this will reduce the number of junior auditors' turnover rate. (David N. Herda; Nathan H. Cannon; Randall F. Young, 2019)
- In addition, studying the social styles together with the hurt's model will give us insights of which kind of personality is likely to have greater level of the professional skepticism

So that the determinants of the auditor's professional skepticism based on personal traits can be summarized in the following diagram:



1/10 Research Hypothesis and constructing the Practical study:

This section is concerned with the practical study that focuses on testing the validity of using the proposed integration between the hurt's model and the theory of social styles on the level of professional skepticism exercised by the auditor during the audit engagement. The research hypothesis will be the following:

Hypothesis 1 (H1): The personal traits (reflected in the different social styles and the characteristics of Hurt's model) have a significant effect on the level of the professional skepticism

The practical study will be in a Form of questionnaires containing questions related to the above measures on a 5 Likert scale.

1/10/1 Sample of the Study:

The questionnaires were distributed to the following populations:

- Practicing auditors
- Accountability state authority auditors
- Tax authority affiliates
- University post-graduate students and academics

The researcher distributed 100 surveys and collected 69 answered surveys with a response rate of 69% as explained in the following table:

Table 1 - Frequency distribution of the sample distributed

Sample distribution					
Serial	Item	Freq.	%	Valid %	Cumulative %
1	P. Auditors	19	27.5	27.5	27.5
2	Accountability state auditors	21	30.4	30.4	57.9
3	Tax authority affiliates	24	34.8	34.8	92.7
4	Academics and post-graduate students	5	7.3	7.3	100
Total		69	100.0	100.0	

It is noted from the above table that most of the respondents in the category group (tax authority affiliates) which accounted for a percentage (34.8%), came in the first place, then category group (accountability state auditors) which accounted for present (30.4%), and the category group (practicing auditors), by present (27.5%), and the category group (academics), by present (7.3%), According to the responses of the sample.

1/10/2 Descriptive statistics:

The following part deal with descriptive statistics for the variables of the research by showing data from the tables and determining phrase with the highest level of agree and the lowest level of agree in accordance with the response of the research sample and then showing the general trend of the research items by looking at the at the percentage coefficient of variation.

The researcher used a questionnaire with 5 (Likert scale), starting with strongly disagrees, disagree taking the value of 2, neither agree nor disagree, then agree, and strongly agree

1/10/2/1 Reliability and validity of the study:

The researcher used to check the reliability coefficient "Alpha cronbach", to measure the stability of the content variables of the study, it was found that coefficient to check the total of the axes of the research " **The Integration between the theory of social styles and characteristics of "Hurt's model" in explaining the auditor's professional skepticism**" has reached stability coefficient for the total sample size (0.857), which indicates that the high degree of persistence of the study sample, and its effect has been reflected Validity (Which represents the square root) was (0.925). This indicates to the high consistency and validity of the sample study.

1/10/2/2 Descriptive statistics for the research variables:

The following are the research variables:

- Characteristics of the professional skepticism (According to Hurt,2010)
- The four social styles according to ((Merrill, D. W., & Reid, 1981)

Table (2) Descriptive Statistical (Arithmetic mean, standard deviation and coefficient of variation) of the above variables

Items	Mean	Std.	C.V
1 - Professional skepticism is considered one of the basic pillars of the auditing profession, which is affected by the personality of the auditor	4.08	0.61	14.97
2 - Professional skepticism should be exercised in conjunction with compliance with the requirements of auditing standards and due care	3.94	0.72	18.39
3 - Auditors who possess certain personal qualities have a natural tendency to be more skeptic than others	4.10	0.62	15.16
4 - The questioning or thinking mind is considered one of the most important personal characteristics that affect the level of professional skepticism of the auditor.	3.95	0.84	21.42
5 - Search for knowledge and curiosity are among the factors that affect the level of professional skepticism of the auditor	4.02	0.70	17.53
6 - Suspension of judgment is one of the personal characteristics that affect the level of professional skepticism.	3.98	0.77	19.47
7 - Social intelligence and interpersonal understanding (understanding motives and personalities) is one of the things that affect the level of professional skepticism of the auditor.	4.07	0.64	15.93
8 - Self-Esteem is one of the personal characteristics that affects the level of professional skepticism	4.05	0.53	13.28
9 - Autonomy is one of the personal characteristics that affects the level of professional skepticism of the auditor	3.66	0.76	20.73
10 - The driving personality is the personality that focuses on achieving goals	4.13	0.61	14.92

and achievements and is characterized by firmness, determination, and leadership of others. Do these qualities improve the level of professional skepticism?			
11- An amiable personality is characterized by sincerity, love of personal relationships, and avoidance of conflicts and differences. Do these qualities improve the level of professional skepticism of the auditor?	3.88	0.79	20.49
12 - Expressive personality is characterized by openness, enthusiasm, and love of appearing and persuading others. Do these qualities improve the level of professional skepticism of the auditor?	3.62	1.00	27.65
13 - The analytical personality is characterized by calm, logic, caution, and deliberation. Do these qualities improve the level of professional skepticism of the auditor?	3.84	0.50	13.11
Total	3.88	0.42	10.96

From the above table it can be concluded that:

- The trends in variables research sample had shown a general trend to the (agree) with a mean (3.88), coefficient of variation (10.96%), and differences in variances ability (89.04%).
- The high degree of agreement was about the following questions: question No. 13 which is (The analytical personality is characterized by calm, logic, caution, and deliberation. Do these qualities improve the level of professional skepticism of the auditor?), and question No.8 (Self-Esteem is one of the personal characteristics that affects the level of professional skepticism), with a coefficient of variation, (13.11%), (13.28%), respectively.
- The less degree of agreement was about question No.12 which is (Expressive personality is characterized by openness, enthusiasm, and

love of appearing and persuading others. Do these qualities improve the level of professional skepticism of the auditor?), with coefficient of variation calculation (27.65%) according to the total variables of the study sample, which indicate that these qualities or traits are not helping in improving the auditor's professional skepticism.

1/11 Results of the study:

- The importance of professional skepticism has increased in nowadays audit. The audit profession has come under threat because of many financial scandals occurred recently. The professional skepticism was the main culprit in many of these cases.
- There are two main classification of professional skepticism. The first One which is relatively stable because of the personal traits and characteristics of the auditor and is called "trait skepticism". The other is Professional skepticism stemming from previous experience: Skepticism that is result of previous experience of the auditor and is called "state skepticism"
- Professional skepticism is considered one of the basic pillars of the auditing profession, which is affected by the personality of the auditor.
- The six characteristics of professional skepticism introduced by (Hurt, 2010) are all significantly correlated with enhancing the professional skepticism with Self-Esteem was ranked first in these characteristics.
- The statistical results show that some social styles are more naturally skeptic than other which makes it important for audit partner to plan the audit engagement team according to this.

1/12 Recommendations:

- Despite the fact that many researches and studies discussed the recent advances in today's business environment such as big data, block chain and artificial intelligence, the solutions to high quality audit still by following the basic principles and code of professional conduct published by the major professional standards.
- The accounting curricula can be updated to increase the awareness of accounting and audit students regarding the importance of the professional skepticism. There should be more emphasis on the

financial scandals in which the professional skepticism was the main reason

- The theory of social styles can be generalized inside the audit firms to provide more interpersonal understanding between the audit team members

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