

Factors Influencing the Professional Skepticism of Independent Auditors in Financial Statement Audits

Prof. Truong Thi Thuy, AOF

Academy Of Finance

E-mail: truongthithuy@hvtc.edu.vn

Tran Thi Toan, AOF

Academy Of Finance

E-mail: tranthitoan@hvtc.edu.vn

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Abstract

The author employed a qualitative research method by soliciting the opinions of experts in the field of auditing. From this, the author identified five primary factors influencing professional skepticism, which include: the auditors' professional knowledge and experience, the auditors' ethical standards, the auditors' personality, the relationships between auditors and their superiors, colleagues, and clients, as well as the workload. Through quantitative research methods, the author determined that three factors – auditors' professional knowledge and experience, auditors' ethical standards, and auditors' personality – positively affect the professional skepticism of independent auditors in financial statement audits.

Keywords: Professional skepticism, Financial statement audits

1. Introduction

Auditing plays a crucial role in ensuring the quality of financial reporting, serving as the foundation for transparency regarding a company's financial status. When conducting financial audits, auditors must consider all relevant events to provide appropriate evaluations. Consequently, auditors must maintain a sense of professional skepticism throughout the audit process, which significantly impacts audit quality. The importance of this attitude is evident not only in national and international auditing standards but also in academic research worldwide. According to Vietnam's Auditing Standard No. 240, auditors are required to demonstrate professional skepticism during each audit, recognizing the risk of material

misstatements or fraud that may directly affect the financial reporting of the entity. Despite being aware of the level of honesty and integrity of the evidence provided by the management and board of directors, auditors must remain vigilant.

Professional skepticism is a concept frequently discussed in the auditing field (Hurtt et al., 2013). Its nature is closely related to audit quality, auditor independence, and ethical issues concerning auditors (Glover and Prawitt, 2014). Although numerous studies have explored professional skepticism, a universally accepted definition for this term remains elusive. However, the definitions proposed by researchers share commonalities, all suggesting that auditors' professional skepticism involve questioning the information presented during the financial audit process.

Professional skepticism has been extensively discussed in auditing standards; however, auditors often undervalue and underutilize this attitude in practice. Furthermore, the significance of appropriately demonstrating professional skepticism during audits has not received adequate attention (Hurtt et al., 2013; Nelson, 2009; PCAOB, 2012). Serious shortcomings have been identified in the financial audits of major global corporations, notably highlighted by the dramatic collapse of Enron in 2002, which led to the downfall of Arthur Andersen, then the fifth-largest auditing firm in the world. Additionally, numerous accounting fraud cases have resulted in the collapse of large corporations, significantly impacting auditing firms, with examples including Worldcom, Lehman Brothers, and, more recently, Wirecard. Following these failures, particularly in the wake of the global financial crisis of 2008-2009, public criticism regarding audit quality emerged. Large-scale audit inspections were conducted, and the resulting reports indicated that auditors' professional skepticism was inadequate, emphasizing the necessity for a clearer and heightened expression of skepticism throughout the audit process (FMA, 2013; FMA, 2014; FRC, 2006). Therefore, research focusing on professional skepticism and exploring why auditors seem to lack this attitude at critical moments is essential.

Although numerous prior publications have addressed auditors' professional skepticism, most studies have been conducted in countries with developed financial systems, such as the United States, the United Kingdom, and Japan, with relatively few studies on this topic in developing nations, including Vietnam (Subianto et al., 2016). Moreover, qualitative research samples may not represent the broader population, and various factors influencing auditors' professional skepticism during financial audits might have been overlooked. Consequently, investigating auditors' professional skepticism in Vietnam is necessary.

2. Theoretical Basis

Christina et al. (2018) conducted a broader study on the factors influencing auditors' professional skepticism, identifying elements such as professional experience, audit conditions, ethics, and gender. The survey was directly administered to auditors at 15 major auditing firms in India using a purposive sampling method. The collected data were subsequently processed using Partial Least Squares (PLS). The findings revealed that professional experience, audit conditions, and ethics positively impact auditors' professional skepticism. Conversely, the factor of gender did not have a significant effect on auditors'

professional skepticism.

Justina and Gonadi (2019) examined whether time pressure affects professional skepticism and, if so, whether this effect is mediated by auditors' independence. The survey was conducted by distributing questionnaires to 163 auditors from both Big Four and non-Big Four firms in Jakarta, Indonesia. The results indicated that auditors' independence partially mediates the relationship between time pressure and professional skepticism. This implies that external auditors in Jakarta facing high time pressure tend to experience reduced independence, which in turn diminishes their professional skepticism.

Previous studies have extensively analyzed the factors influencing auditors' professional skepticism, revealing that this attitude is a multidimensional concept. Building on the findings from earlier publications, the author identified several research gaps that warrant further investigation, particularly within the current context of auditing services in Vietnam. The identified research gaps are as follows:

First, there has been limited research on professional skepticism in Vietnam, with studies often constrained by conditions that focus on a single province or city and involving a small sample size. Therefore, this represents a significant research gap.

Second, the majority of prior studies have been conducted in countries with well-developed financial systems, such as the United States, Japan, and India, with only a few addressing the Southeast Asian context. Consequently, these studies may not be adequately applicable to Vietnam, a developing country with a nascent accounting and auditing framework. Thus, further research is needed to analyze the factors affecting professional skepticism in Vietnam.

3. Research Methodology

Based on the aforementioned research hypotheses, the author utilized a mixed-methods approach, balancing qualitative and quantitative research. After establishing the theoretical framework, the author collected primary data by distributing surveys to auditors and audit assistants working at auditing firms in Vietnam. This data was then analyzed and synthesized through a research model encompassing five factors that influence auditors' professional skepticism, which are: (1) auditors' professional knowledge and experience; (2) auditors' ethical standards; (3) auditors' personality; (4) the relationships between auditors and their superiors, colleagues, and clients; and (5) workload. The proposed research model is illustrated in Figure 1.

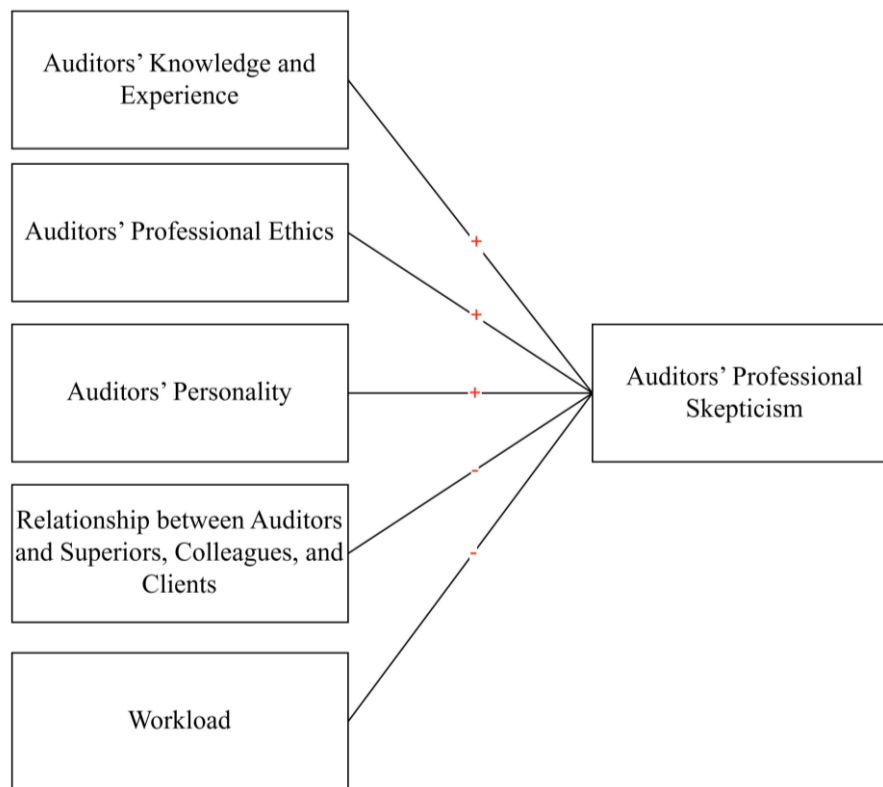


Figure 1. Proposed Research Model

Source: Compiled by the author

From the proposed model, the author employed multiple regression analysis procedures to examine the extent to which independent variables influence the dependent variable, “Auditors’ Professional Skepticism”. This analysis allows for the assessment of the impact of various factors on auditors' professional skepticism. The author presents the regression equation as follows:

$$HN = \varepsilon + \beta_1 * KK + \beta_2 * DD + \beta_3 * TC + \beta_4 * QH + \beta_5 * KL + eY$$

In which:

HN: Auditors’ Professional Skepticism (dependent variable)

KK: Auditors' Knowledge and Experience (independent variable 1)

DD: Auditors' Ethical Standards (independent variable 2)

TC: Auditors' Personality (independent variable 3)

QH: Relationships between Auditors and Superiors, Colleagues, and Clients (independent variable 4)

KL: Workload (independent variable 5)

ε : Constant of the equation

eY: Error term

Using SPSS as a tool to identify the coefficients β , the author aims to assess the degree to which these factors influence auditors' professional skepticism. The results of this analysis are presented in the research findings section.

4. Research Results

Table 1. Summary of the EFA factor analysis coefficients of the independent variables after adjustment

Observed variables	Author factor				
	1	2	3	4	5
KK5	0.888				
KK6	0.850				
KK1	0.826				
KK3	0.790				
KK4	0.685				
QH6		0.772			
QH3		0.771			
QH1		0.765			
QH2		0.758			
QH5		0.702			
QH4		0.684			
DD5			0.787		
DD1			0.737		
DD2			0.735		
DD4			0.731		
DD6			0.695		
DD3			0.687		
TC4				0.823	
TC3				0.810	
TC2				0.797	
TC5				0.750	
TC1				0.634	
KL1					0.865
KL3					0.774
KL2					0.768
Eigenvalue	4.971	3.091	2.976	2.538	1.864
Total variance extracted	61.761%				
KMO = 0.799			Sig. = 0.000		

Source: Analysis results of the research author

Table 2. KMO and Bartlett results table after adjustment

Kaiser - Meyer - Olkin Measure of Sampling Adequacy		0.799
Bartlett's Test of Sphericity	Approx. Chi - Square	1856.119
	Df	300
	Sig.	0.000

Source: Analysis results of the research author

From the analysis results after data adjustment, we observe the following:

$0.5 \leq KMO = 0.799 \leq 1$ indicates that the factor analysis is very appropriate. Bartlett's test results in 1856.119 with Sig. = $0.000 < 0.05$, which is statistically significant, showing that the observed variables are correlated within the factor and the overall model.

Factor Loadings are all above 0.5, and the Eigenvalue convergence values of these factors are all greater than 1, indicating that the observed variables are related to the original factors.

The total variance explained by the factors is 61.761%, which satisfies the requirement of being greater than 50%, showing that the EFA model is appropriate.

The author finds that the factors ensure the representativeness of the initial survey data, including five factors:

Auditors' professional knowledge and experience (KK1, KK3, KK4, KK5, KK6)

Auditors' professional ethics (DD1, DD2, DD3, DD4, DD5, DD6)

Auditors' personality (TC1, TC2, TC3, TC4, TC5)

The relationship between auditors and their superiors, colleagues, and clients (QH1, QH2, QH3, QH4, QH5, QH6)

Workload (KL1, KL2, KL3)

5. Conclusion and Recommendations

Research on auditors' professional skepticism when conducting financial statement audits in the context of Vietnamese auditing will help managers develop appropriate plans for different staff levels, ensuring that audit firms achieve stable business results. Based on the research findings and the current state of auditing firms in Vietnam, the author proposes several recommendations for audit firms as follows:

First, audit firms need to build professional development programs and enhance specialized training for auditors.

Audit firms should have specific policies and programs, allocating more resources for the development of skills and expertise for auditors. The training policies of the firm greatly influence the knowledge, experience, professional ethics, and even the soft skills of auditors. Therefore, investing in training will improve the human resource structure and enhance quality, thereby improving and increasing the productivity of the firm. As such, audit firms need to focus on training to enhance employee quality, regularly organizing training sessions or facilitating auditors to participate in advanced training courses, and encouraging them to supplement their professional knowledge and ethical standards. This will help them continuously improve themselves and recognize their responsibilities toward their profession.

Audit firms can collaborate with organizations such as VACPA or centers providing auditing services to organize seminars on the topic of auditors' professional ethics, thereby emphasizing the importance and role of professional skepticism.

Second, audit firms need to collaborate with agencies and professional associations to conduct annual courses aimed at enhancing the professional ethics of auditors.

If an auditor acts in accordance with professional ethics, they will maintain a suitable attitude of professional skepticism throughout the audit. However, not all auditors adhere to professional ethics. Each year, audit firms should work with agencies and professional associations to offer courses designed to teach and reinforce ethics for auditors. These courses should highlight the importance of professional ethics and outline the penalties, deterrents, and disciplinary actions that may be imposed if auditors violate ethical standards.

Third, audit firms need to establish personnel rotation policies for auditors.

If an auditor has provided services to a client multiple times, there is a tendency for the auditor and the client to become too familiar with each other, which can lead to a decrease in professional skepticism. Additionally, auditors who have collaborated multiple times in the past may be inclined to accept information from their colleagues without thorough examination, often resulting in erroneous decisions during the audit. Therefore, audit firms should implement appropriate personnel rotation policies. Specifically, they should regularly rotate auditors so that auditors conduct audits for new client companies; rotate members within audit teams to prevent too much familiarity among team members. This approach will encourage auditors to consistently investigate thoroughly and maintain a questioning attitude in every audit.

Fourth, promote and support auditors in obtaining professional certification.

Today, Vietnam has gathered various international professional organizations, such as the CPA Australia, the Association of Chartered Certified Accountants (ACCA), and the Institute of Chartered Accountants in England and Wales (ICAEW). Increasingly, more auditors are obtaining professional certifications recognized by these organizations. These certifications help auditors enhance their knowledge and understanding of the profession, develop their professional ethics, and contribute to improving their professional skepticism. Therefore, for auditors who do not yet have professional certification, audit firms should facilitate and support them in terms of time and costs so they can complete these certifications.

Fifth, audit firms should have appropriate recruitment policies for auditors.

In each recruitment cycle, audit firms need to emphasize the importance of maintaining professional skepticism throughout the audit process. By doing so, audit firms can select candidates who not only possess technical knowledge but also have suitable personalities, such as perfectionism, confidence, and independent judgment, enabling them to become professional auditors with an appropriate level of professional skepticism. Additionally, firms should establish internship recruitment policies to help students gain early exposure to the auditing profession and environment, thereby understanding the importance of professional skepticism while still in school.

In summary: Based on the above results, the author has proposed solutions to help regulatory agencies, professional associations, audit firms, and auditors studying auditing maintain and

enhance professional skepticism, thereby improving the quality of auditing in Vietnam.

Competing interests

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Informed consent

Obtained.

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Data availability statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

Data sharing statement

No additional data are available.

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