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# How do Auditors Move from Skeptical Judgment to Skeptical Action? A Field Study

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# *The Essential Questions*

What runs through an auditor's mind when after gathering, evaluating and considering audit evidence, things don't add up?

How do auditors transition from the "things do not add up" phase, to action (e.g., questioning, challenging and possibly expanding audit inquiry and procedure)?

Skeptical judgment  Skeptical action

# *Study Motivation*

- PCAOB “continue[s] to observe instances in which the circumstances suggest that auditors did not appropriately apply professional skepticism in their audits.”
- Enforcement activities of the PCAOB and the SEC have focused on *auditor actions*
- A response to calls for *exploratory, inductive* approaches in audit research (Power and Gendron, 2015)

# *Study Motivation*

- Brown, Cohen, and Trompeter (2013) noted, “...there is limited research that examines the relationship between skeptical judgments and skeptical actions”
- A complement to existing skeptical action research from experimental and survey design

# *Literature Review*

# *Literature Review*

## *Pressures, Conflicts and Incentives*

- Auditors accommodating clients who could be future employers – Nelson (2009)
- Auditor client identification from long tenure – Bamber and Iyer (2007)
- Independence threat associated with auditor concern over risk of client loss – Blay (2005)

# *Literature Review*

## *Influence of Affect on Skeptical Action*

- Deliberate mindset condition increased skeptical action – Griffith et al. (2015)
- Negative mood condition increased skeptical action – Cianci and Bierstaker (2009)
- Positive mood condition decreased skeptical action – Chung et al. (2008)



# *Literature Review*

## *Other Influences on Skeptical Action*

- Audit management tone and work paper review emphasis – Carpenter and Reimers (2013), Turner (2001)
- Firm and professional audit standards – Griffith et al. (2012), Nelson et al. (2002), Ng and Tan (2003), Rasso (2015)
- Audit evidence attributes – Feng and Li (2014)

# *Literature Review*

## *Other Influences on Skeptical Action*

- Overall audit context (e.g., strength of the audit committee, past client relationship tone, going concern status) – Brown-Liburd and Wright (2011), Tucker, Matsumura, and Subramanyam (2003)

# *Theory*

# *Theory*

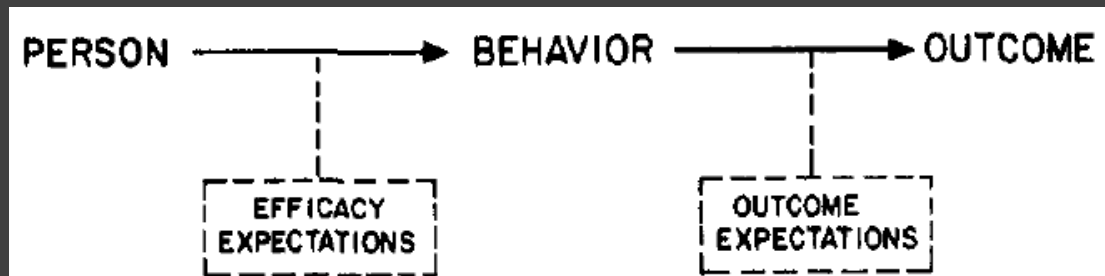
## *Behavioral Theory of Motivation*

- Self-efficacy, within Social Cognitive Theory (Bandura, 1977, 1986), situated in the audit context
- Focuses on perceptions of personal capability that precedes action in challenging circumstances

# *Theoretical Framework*

# Theoretical Framework

## Bandura's (1977) model

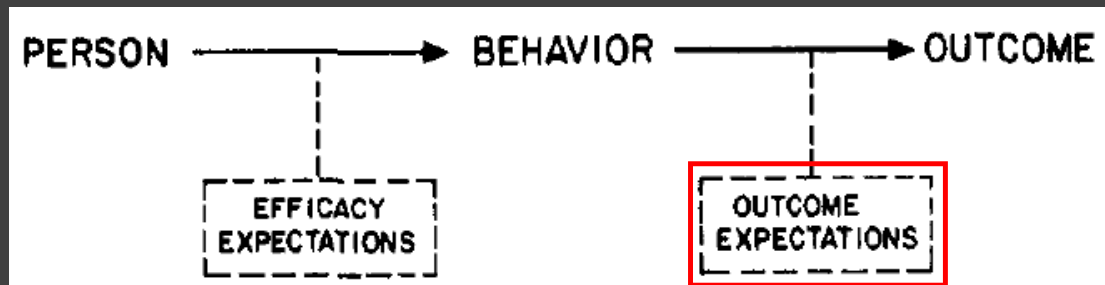


*Figure 1.* Diagrammatic representation of the difference between efficacy expectations and outcome expectations.

# Theoretical Framework

“An outcome expectancy is defined as a *person’s estimate* that a given behavior will lead to certain outcomes...

## Bandura’s (1977) model

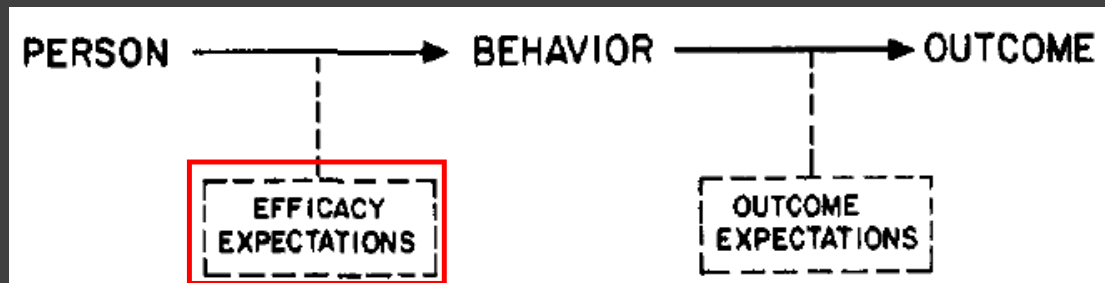


**Figure 1.** Diagrammatic representation of the difference between efficacy expectations and outcome expectations.

# Theoretical Framework

...An efficacy expectation is the conviction that one can successfully execute the behavior required to produce the outcomes” (Bandura, 1977, p. 193).

## Bandura's (1977) model



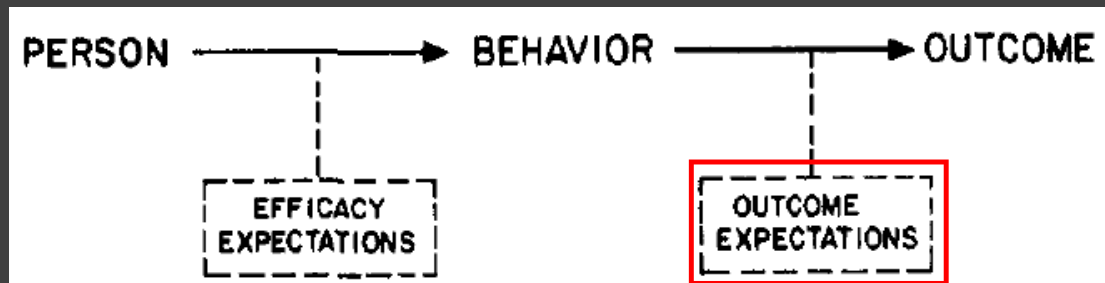
**Figure 1.** Diagrammatic representation of the difference between efficacy expectations and outcome expectations.



# Theoretical Framework

“...individuals can believe that a particular course of action will produce certain *outcomes*...

## Bandura's (1977) model

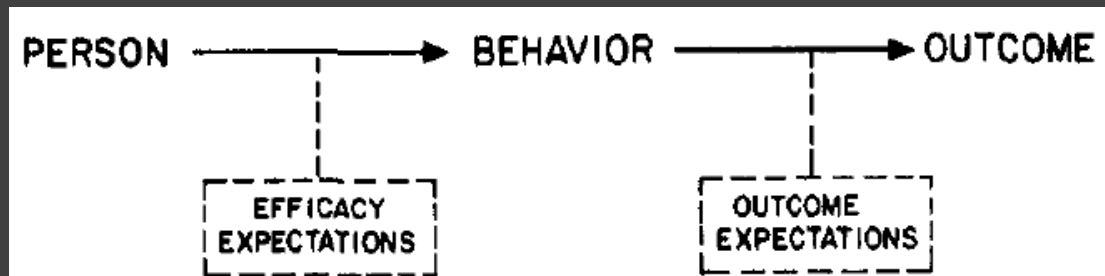


**Figure 1.** Diagrammatic representation of the difference between efficacy expectations and outcome expectations.

# Theoretical Framework

“...but if they entertain serious doubts about whether they can perform the necessary activities, such information *does not influence their behavior*” (Bandura, 1977, p. 193).

## Bandura's (1977) model

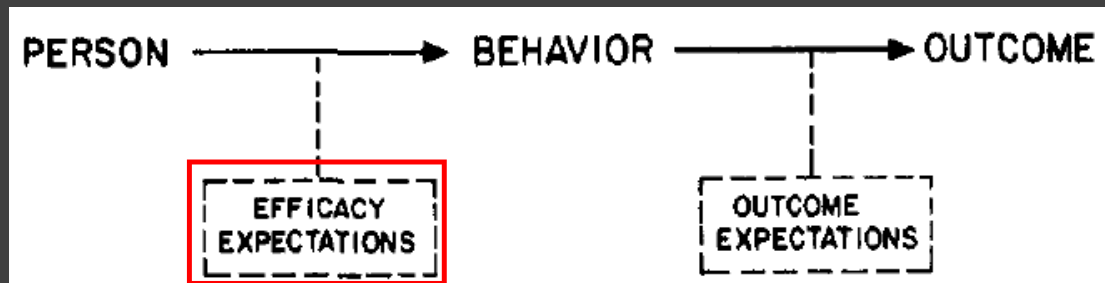


**Figure 1.** Diagrammatic representation of the difference between efficacy expectations and outcome expectations.

# Theoretical Framework

For this reason, we explored *what* influences auditor efficacy expectations and *how* it occurs.

## Bandura's (1977) model



**Figure 1.** Diagrammatic representation of the difference between efficacy expectations and outcome expectations.

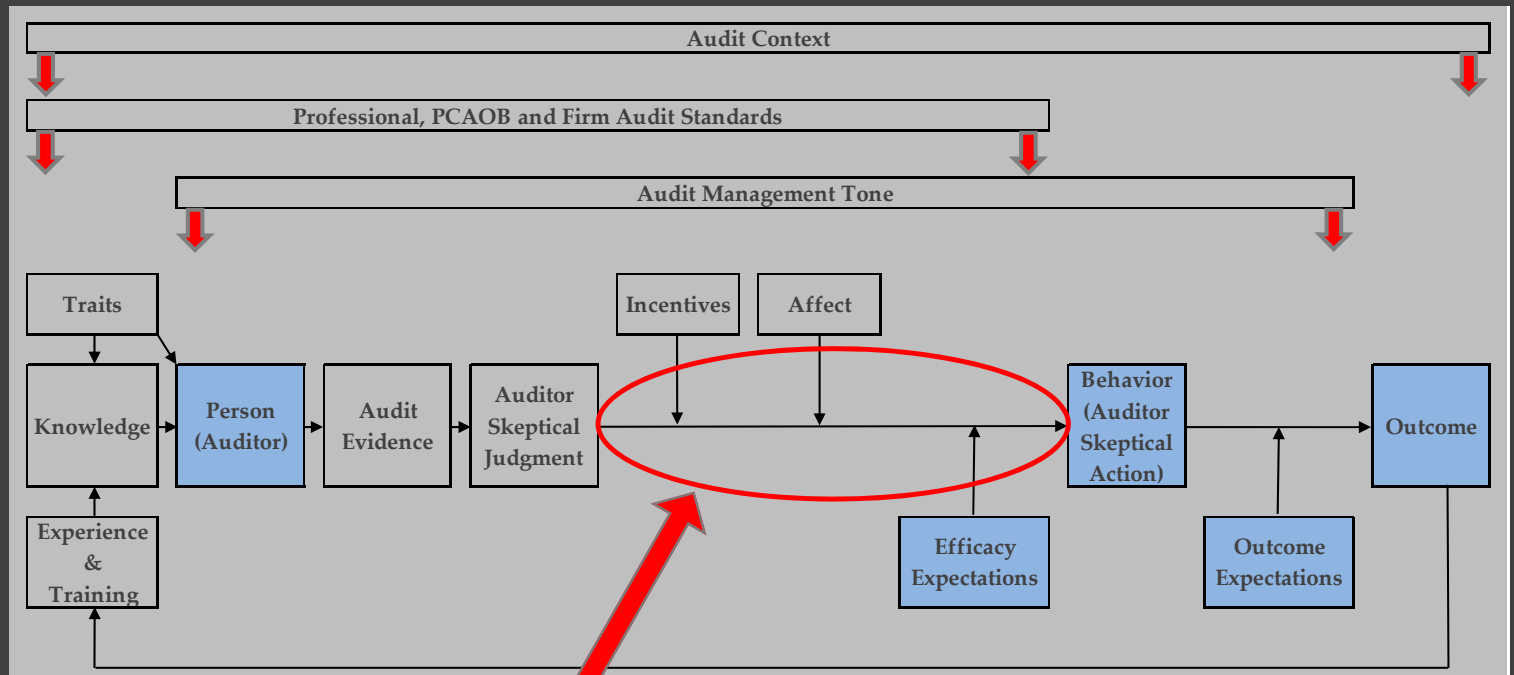
# *Theoretical Framework*

## *Nelson's (2009) model*

- IVs (e.g., incentives, traits and knowledge) modeled to affect DVs of skeptical judgment and skeptical action.
- The audit context (other than incentives) and a behavioral theory were not included in this model

*Proposed  
Self-  
Efficacy  
Model for  
Auditing*

# Proposed Self-Efficacy Model for Auditing



Skeptical judgment -----> Skeptical action

No color = the audit context and the auditor (literature and Nelson, 2009)

Blue = Bandura's (1977) self-efficacy construct

# *Method*

# *Method*

## *Prior to entering the field:*

- Gatekeeper approval; pre-interview meeting; pilot interview; purposeful selection of participants

## *In the field:*

- Two rounds of interviews
- Two types of interview protocols



# *Analysis*

# *Analysis*

## *Individual and Blended:*

1. Two rounds of coding
2. In-depth analytic memo and theoretical framework prepared for each participant
3. Individual analyses were combined into a blended presentation of themes in the adapted model

# *Study Execution*

# *Study Execution*

## *Semi-structured Interviews:*

- 12 of 16 were audio recorded and transcribed (others captured as typed notes during interviews)
- Held in private office spaces, primarily at firm offices

# *Study Execution*

## *Member Checking (Reliability):*

- First and second round transcripts
- Individual analytic memo / participant theoretical frameworks
  - Affirmed by all participants

# *Summary Findings*

# Summary Findings

## *Support/Collectivism*

- To enhance levels of self-efficacy, the participants sought the *support of others*
  - This provided the ability to more ‘comfortably’ pursue skeptical actions.
  - Otherwise, participants spoke of being ‘on an island’ and ‘operating in a silo’

# Summary Findings

## *Preparation/Homework*

- ‘Homework’ and advanced preparation *increased efficacy expectations* associated with the contemplated skeptical action.
- The support of others on the team, and the collective thinking of the team, were prominent inputs in preparation for skeptical action with increased efficacy.



# Summary Findings

## *The Relationship with the Client*

- A quality ('good') relationship provided the 'rebar' necessary to support skeptical action with *increased efficacy*.
- Participants 'sought to understand', to not be perceived as a threat, but rather as an interested party, desiring to learn.

*Select  
Participant  
Quotes*

# Select Participant Quotes

## *Support/Collectivism*

- Inventory obsolescence discussion
  - “I was extremely confident in the decision...I had the support from, at the time, the partner and all the other partners, and specialists that we had involved.”

# Select Participant Quotes

## *Preparation/Homework*

- When discussing the benefits of rehearsal
  - “...then, when I speak to the client, the words aren’t coming out of my mouth for the first time...the more prepared I am, the more confident I am...I thought it out, I spoke it out. Just all of that helped me get more comfortable so that I wouldn’t have that pit.”

# Select Participant Quotes

## *Relationship with the Client*

– When asked what contributes to skeptical action when lacking confidence

- “It’s the relationship, if I really don’t understand it [the issue at hand], but I’m comfortable with the client...where I can ask them, ‘Can you just explain this to me?’ and I don’t have a fear. With a good relationship, that helps.”

# *Theoretical Framework Discussion*

# Theoretical Framework Discussion

*How does Bandura's theory apply in the audit context?*

- *Performance accomplishments* and to a lesser extent, vicarious experience, emerged as factors that influenced perceived level of efficacy.
- Several other factors, not posited by Bandura, increased perceived efficacy within the audit context

# Theoretical Framework Discussion

*How does Bandura's theory apply in the audit context?*

- *Performance accomplishments and to a lesser extent, vicarious experience, emerged as factors that influenced perceived level of efficacy.*
- *In effect, Bandura's self-efficacy construct alone was not sufficient to explain how the participants persisted with skeptical action.*



# *Theoretical Framework Discussion*

## *Extension of self-efficacy theory in the audit context*

1. *Support/collectivism* anchored in a strong desire to obtain backing and input from others before taking skeptical action

# Theoretical Framework Discussion

## *Extension of self-efficacy theory in the audit context*

- Skeptical action is primarily an *individual* exercise in practice and through the Bandura lens
- Yet, in the audit context, participants expressed a heightened sense of efficacy *when skeptical action was preceded by support, consultation and collaboration with others*

# *Theoretical Framework Discussion*

## *Extension of self-efficacy theory in the audit context*

- 2. Preparation/homework, to be  
'comfortable' with skeptical action, was  
enhanced by the existence of support  
from others*

# *Theoretical Framework Discussion*

## *Extension of self-efficacy theory in the audit context*

- When considering preparation / homework, the perceived amount topical or situational experience was not a factor
- In difficult circumstances, advanced preparation / homework (e.g., rehearsal) was relied upon to increase efficacy, regardless of prior situational experience.

# *Theoretical Framework Discussion*

## *Extension of self-efficacy theory in the audit context*

3. The nature of the *relationship with the client* ('good' or 'not good') contributed to the level of efficacy

# Theoretical Framework Discussion

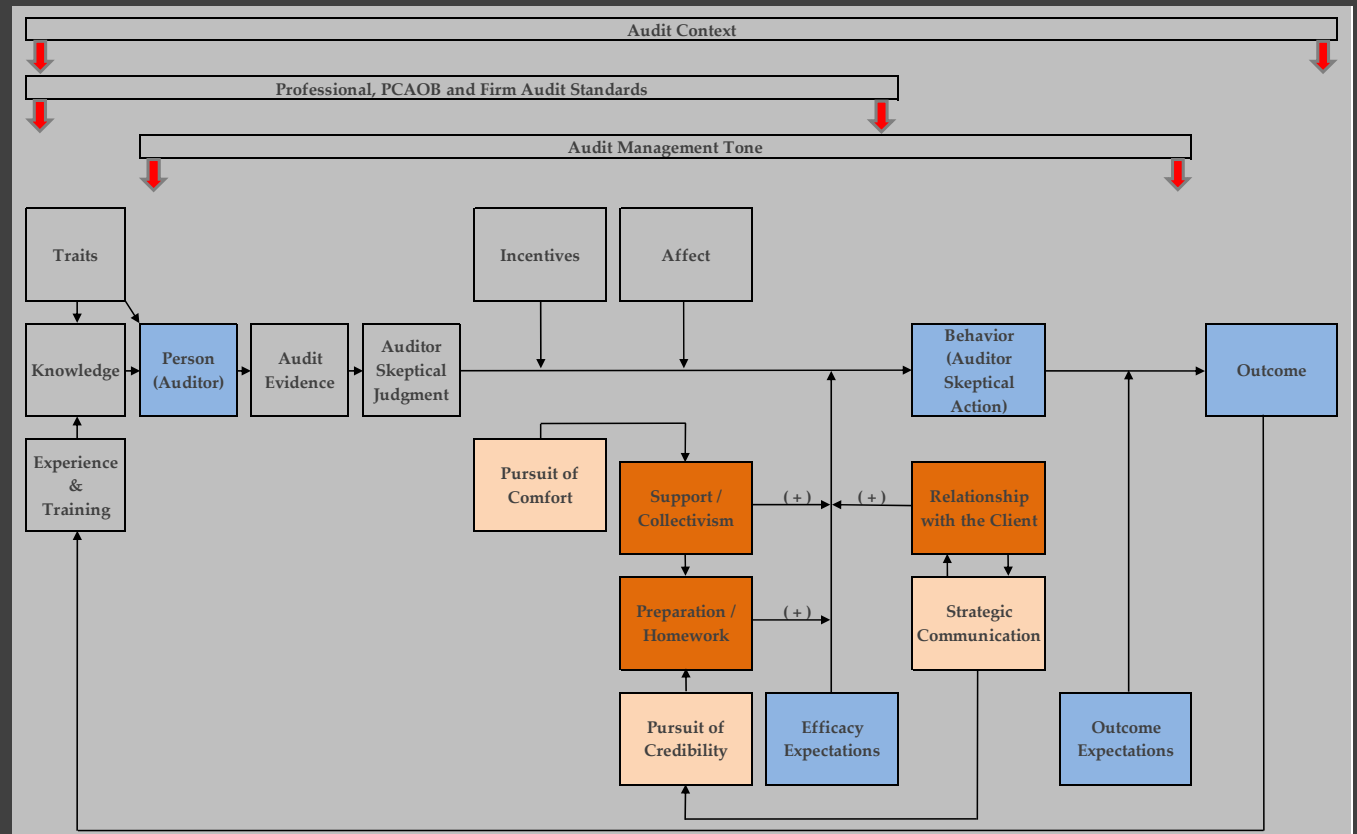
## *Extension of self-efficacy theory in the audit context*

- Participants sought to build ‘good’ relationships through *communication strategies* to enhance the relational pathway to skeptical action
- When the client relationship was described as ‘good’, increased efficacy levels at the time of skeptical action were reported

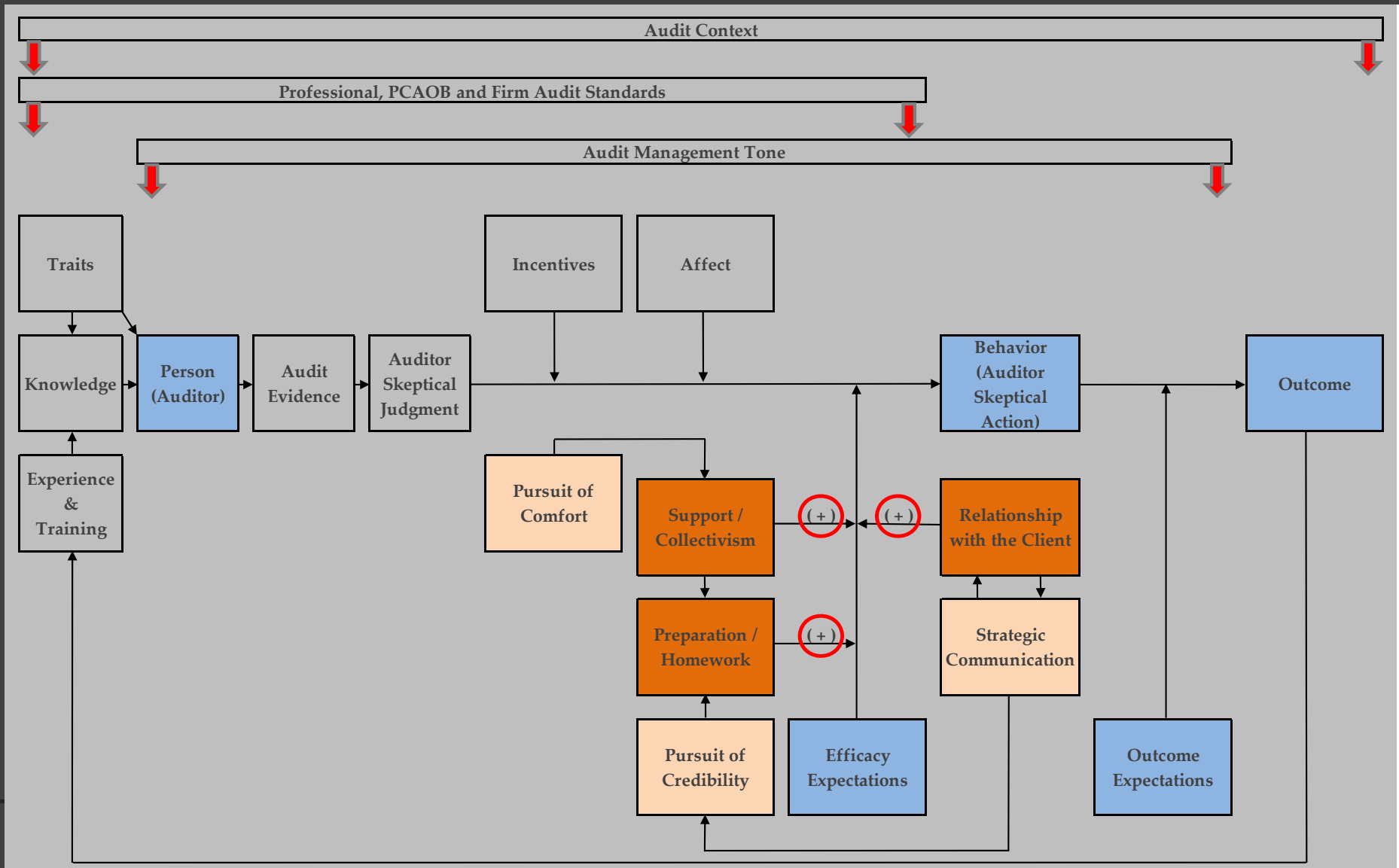
*Adapted  
Self-efficacy  
Model*

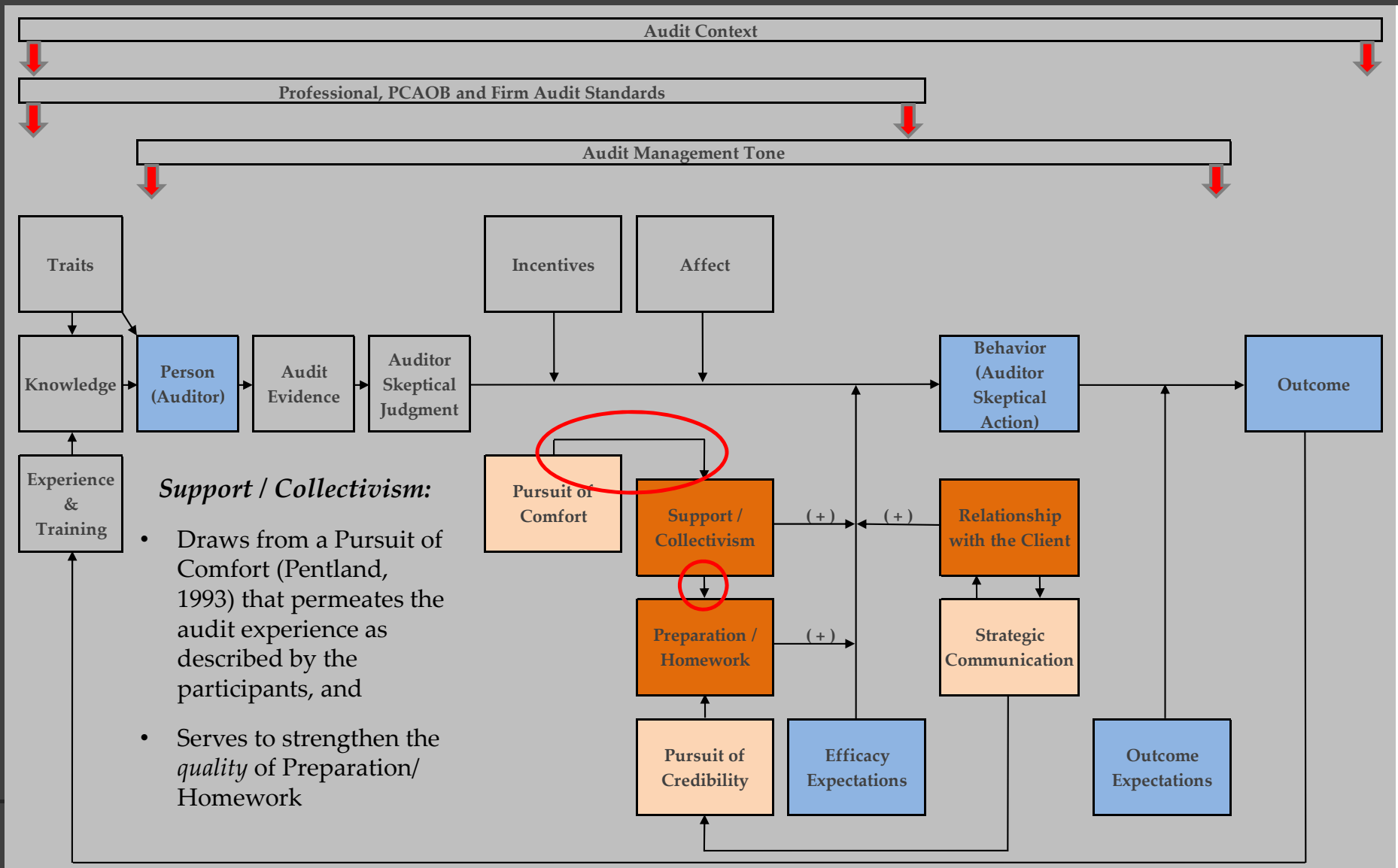
# Adapted Self-efficacy Model

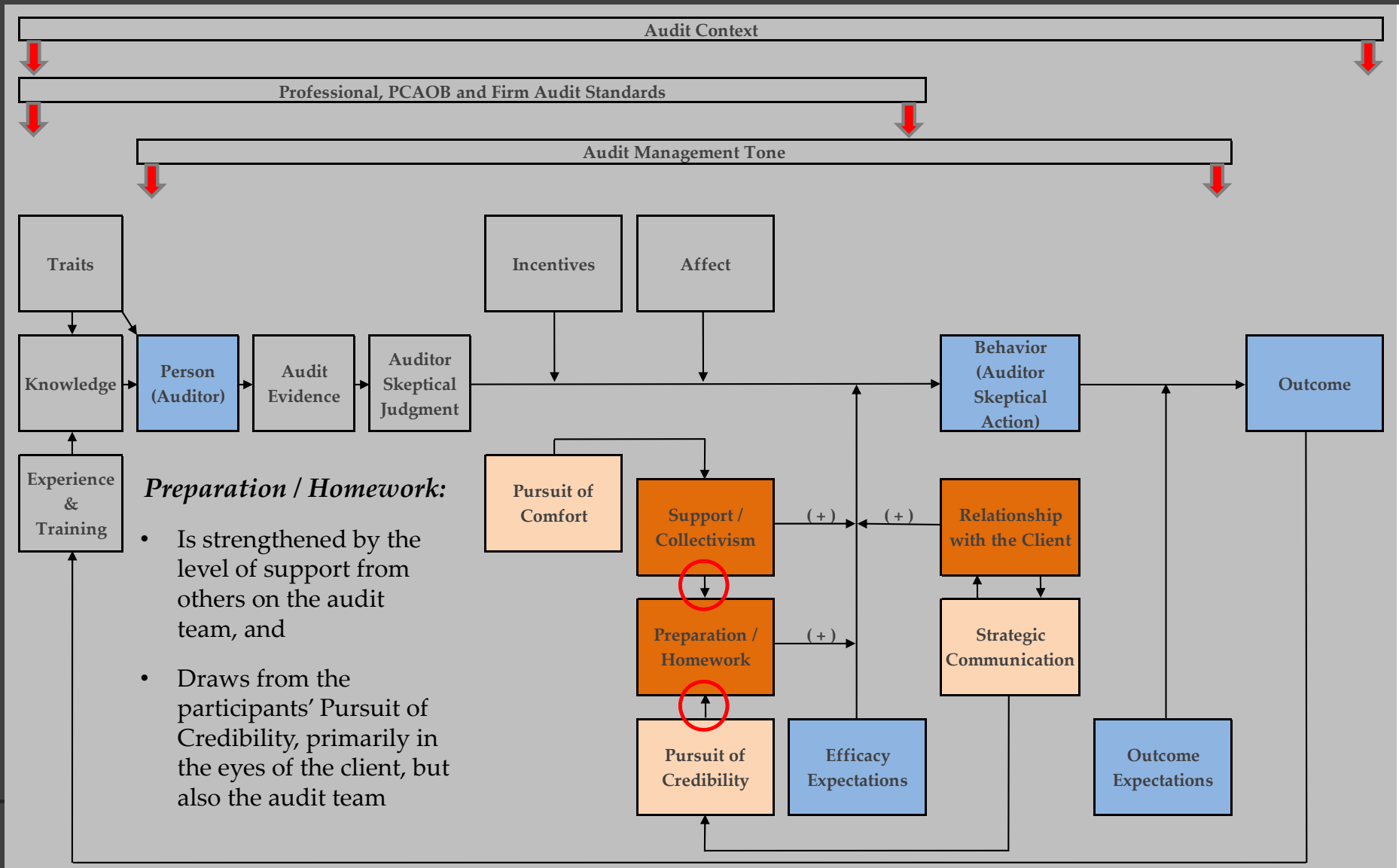
- No color = the audit context and the auditor (literature and Nelson, 2009)
- Blue = Bandura's (1977) self-efficacy construct
- Dark orange = the primary extensions / themes of the Proposed Self-Efficacy Model
- Light orange boxes = secondary extensions / themes.

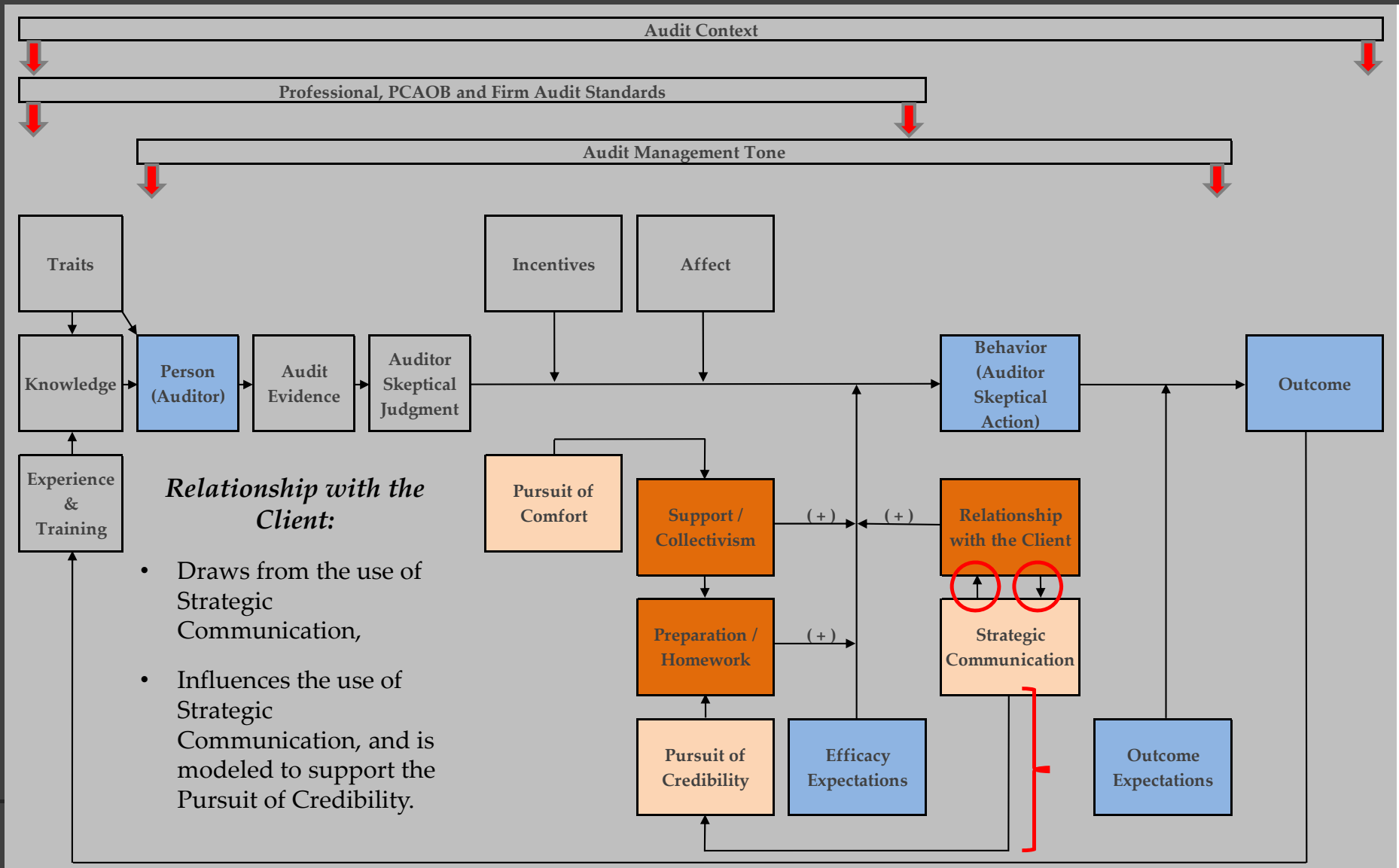












# *Possible Implications*

## *Possible Implications*

- Improved understanding of the distance between skeptical judgments and actions
- May lead to development of grounded theory of auditor efficacy
- Development of training and situational simulations for audit firms
- Auditing curriculum enhancement

*Possible  
Future  
Research  
Directions*

# *Possible Future Research Directions*

## *Experiential Questionnaire (EQ)*

- Development of a skeptical action EQ
  - To capture additional qualitative data among a broader population of auditors
- Development of additional skeptical action variables to test through experimental design
  - Refinement of the adapted model



*Possible  
Future  
Research  
Directions*

*Development of Grounded Theory*

- Case studies to move toward development of a grounded theory of auditor efficacy

*International Replication*

*Possible  
Future  
Research  
Questions*

# *Possible Future Research Questions*

## *Absence of Support*

- How are auditors impacted when considering skeptical action in the absence of a support network?
- How do they compensate when support is not present?

# *Possible Future Research Questions*

## *Use of Communication Strategies*

- What conditions allow auditors to most effectively use strategic communication strategies to affect skeptical action with increased efficacy?
- Are there certain attributes present in auditors who can more successfully apply these strategies? What context factors affect this ability?

*Questions?*

*Thank You*