



Professional Skepticism of Auditors

Thi My Linh Dang^{1*}, *Thi Lan Anh Do*²

¹² University of Labour and Social Affairs, Hanoi, Vietnam

Dolananh.kt@gmail.com

ABSTRACT:

When the demand for auditing is increasing, more and more auditing firms are established, the quality of auditing is increasingly concerning. The important factor contributing to the quality of the audit is the professional skepticism of the auditor. Although the concept of "professional skepticism" is mentioned in Vietnamese Accounting Standard 200, but when auditors work they usually only follow the rules in the auditing standards but less seriously and apply this concept in practice. The information as well as the seminars and discussions on this factor is very limited. This article would like to clarify the nature of the professional skepticism of the auditor, which factors will increase or decrease this attitude, the application and presentation of this attitude on the document. We also offer suggestions to maintain and promote professional skepticism in the auditing job in Vietnam.

Keywords: *Auditor*, *professional skepticism*

Introduce

Professional skepticism is an important component in auditing practice and in auditing standards. Auditors directly performing each audit need to maintain an attitude of professional skepticism throughout the audit, must be aware of the possibility that material misstatements may exist due to fraud, even in the audits. prior to the audit, the auditor was aware of the honesty and integrity of the board of directors and those charged with governance of the audited entity (Vietnamese Auditing Standard No. 240).

Although the importance of professional skepticism has been emphasized in auditing standards, in 2008, the Auditing Oversight Committee for U.S. public companies conducted audits in the United States. Domestic accounting firms have reported citing: auditors lack professional skepticism during one or more stages of the audit process. Research on factors influencing professional skepticism becomes important when auditors lack professional skepticism, leading to reduced audit quality.

Professional skepticism is an essential part and plays an important role in auditing, because the nature of professional skepticism is closely related to audit quality, independence and ethical issues. of auditors (Glover and Prawitt, 2014). Based on references to domestic and foreign research, the authors found factors affecting auditors' professional skepticism, thereby proposing solutions to enhance auditors' professional skepticism. auditors to independent auditing units, through which auditors and independent auditing units can self-adjust and increasingly improve audit quality, building reputation for businesses.

Concept of professional skepticism

According to VSA 200, "Professional skepticism is an attitude of always being suspicious and alert to specific situations, which may be signs of errors, mistakes or due to fraud and careful assessment of audit evidence". Thus, professional skepticism is basically the auditor 's thinking that creates a state of doubt, thereby controlling the auditor 's behavior in applying audit procedures, collecting and evaluating evaluate audit evidence to form an audit opinion.

According to Auditing Standard No. 200 issued together with Circular No. 214/2012/TT-BTC dated December 6, 2012 of the Ministry of Finance, professional skepticism is an attitude of always being suspicious and vigilant towards those who circumstances considered indicative of misstatement due to error or fraud and careful evaluation of the audit evidence.

Professional skepticism is a vigilant attitude toward issues such as: Conflicting audit evidence; Information that casts doubt on the reliability of documents and interview results used as audit evidence; Events that may be signs of fraud; Circumstances that require additional audit procedures beyond those required by auditing standards.

Auditors must plan and perform the audit with professional skepticism to identify circumstances that could lead to financial statements containing material misstatements. Auditors need to maintain a professional skepticism throughout the audit to minimize risks such as: Ignoring unusual events and situations;

Rushing to draw conclusions from mere observations; Using inappropriate assumptions when determining the nature, timing, and extent of audit procedures and evaluating the results of those procedures.

Also according to this Standard, auditors must have an attitude of professional skepticism to critically evaluate audit evidence. This includes questioning conflicting audit evidence and evaluating the reliability of documents, interviews and other information submitted by management and those charged with governance, provided by the auditor. Professional skepticism also includes consideration of the completeness and appropriateness of audit evidence obtained in each particular situation. For example, in cases where there is a risk of fraud but there is only one document serving as audit evidence for a material item on the financial statements, this document is susceptible to fraud or falsification. .

Applying professional skepticism to audit work

According to general regulations from VSA 200, auditors must plan and perform audits with an attitude of professional skepticism, to identify possible situations, resulting in financial statements containing material misstatements. Professional skepticism is a vigilant attitude toward issues such as: Whether audit evidence contradicts each other or not; Is there any suspicious information affecting the reliability of documents and interview results used as audit evidence? Are there any signs that give rise to fraud? Whether situations require additional audit procedures beyond those required by auditing standards are established.

The purpose for auditors to maintain an attitude of professional skepticism throughout the audit is to minimize the risks of overlooking unusual events and situations; Or hastily draw conclusions just from observation; Or use inappropriate assumptions when determining the content, timing, scope of audit procedures and evaluating the results of those procedures.

Auditors must exercise professional skepticism to critically evaluate audit evidence. This includes questioning conflicting and contradictory audit evidence, and evaluating the reliability of documents, interview results and other information provided by the Board of Directors and Management, unit value provided by the audit. Professional skepticism also includes consideration of the completeness and appropriateness of audit evidence obtained in each particular situation. For example, in cases where there is a risk of fraud but there is only one document serving as audit evidence for a material item on the financial statements and this document is susceptible to fraud or falsification, auditors need to be skeptical about the sufficiency of this evidence.

Furthermore, auditors can use their past experience and understanding of the honesty and integrity of the Board of Directors and those charged with governance of the entity being audited. However, belief in the honesty and integrity of the audited entity's management should not affect the auditor's working attitude, reducing the auditor's professional skepticism, or allow the auditor to be satisfied with audit evidence that is not sufficiently convincing to obtain reasonable assurance.

In addition, professional skepticism is also necessary when auditing areas that are complex, important or require high judgment, such as:

- Auditing accounting estimates, for example accounting estimates of fair value and related disclosures;
- Going concern considerations, for example when assessing management's plans for future activities in connection with the going concern assessment, for Although these plans may improve the situation or be feasible, there must still be doubt about the ability to continue operations and may be stated in the audit report;
- Review operations with relevant parties, for example must Maintain a vigilant attitude about information that may indicate incomplete or incorrect professional reporting to relevant parties;
- Review regulations and laws, for example, be alert when you see Non-compliance or suspected non-compliance with legal regulations materially affects the information to be checked;

Using experts, for example, managers or auditors can use experts to assist in some special areas such as financial instrument accounting. The auditor must then use judgment in evaluating the ability to use the expert's results as audit evidence.

Thus, being skeptical in the right place and at the right time will help auditors collect more convincing audit evidence as a basis for their audit opinions.

Factors affecting the attitude of professional skepticism

According to previous studies, factors affecting the attitude of professional skepticism include: Incentives for auditors (Brazel & al., 2015) (Quoted from Joseph F. Brazel & Tammie Schaefer): This factor includes having a clear reward and punishment policy for auditors, rewarding when auditors promote good professional skepticism and punishing when they do not. Practicing a good attitude of professional skepticism affects the quality of work. For example, when there are inconsistencies in audit evidence that the auditor still does not suspect to detect errors or fraud, materially affecting the information to be inspected, there will be a penalty.

Pressure on accountability for audit quality and pressure on time to perform the audit (Westermann & associates, 2015) (quoted from Joseph F. Brazel & Tammie Schaefer): This factor shows when auditing Accountants responsible for audit quality will increase professional skepticism and vice versa, auditors Under pressure on time to perform the audit and time to complete audit documents will reduce professional skepticism.

Auditor's workload (Persellin & al., 2015) (quoted from Joseph F. Brazel & Tammie Schaefer): An auditor undertaking a fairly large amount of work in a limited period of time will also affect affects their professional skepticism and thereby affects audit quality. In particular, for the auditing profession, lack of human resources will be a high risk leading to auditors not exercising proper professional skepticism.

In addition, according to observations in Vietnam, the following factors will also affect professional skepticism: The current student training process in accounting and auditing at many universities hardly addresses have not paid much attention to the concept of professional skepticism", while this is a mandatory element that an auditor must apply when practicing. Therefore, in the higher education environment, students studying accounting and auditing who may become auditors in the future have not received in-depth training in this content. It is not until students graduate and officially work that they begin to have more exposure to auditing work and gradually form a skeptical professional attitude. In addition, every year the Professional Association organizes updates on knowledge for auditors , however these updates rarely contain content related to professional skepticism. This factor can be called Auditor Training .

Each auditor may have a different personality. Those who are careful or skeptical are often suspicious and wary when conducting information research, collecting and evaluating audit evidence; People with long-term auditing experience will usually have a better professional skepticism than new auditors . Thus, the auditor 's personality or experience also largely influences professional skepticism. This factor can be called Auditor Characteristics,

A longer audit period for a client may further reduce professional skepticism, as long periods of working together increase familiarity with the audited firm's management, thus causing Auditors become subjective because they already understand the activities of the audited enterprise. Normally, an auditing company can sign an audit contract for a client company continuously for three years. And in reality, there are many small-scale auditing companies with only a small group of auditors , so this group can continuously perform audits for the same client for many years, from which the group of auditors This person has a lot of knowledge about the customer company, so he sometimes pays little attention to signs of suspected errors or fraud. The impact of this factor is not small, it is called Audit term.

Due to competition and many other factors, some auditing companies (usually small auditing companies) have signed audit contracts with very low fees, greatly affecting the quality. of the audit. Because they receive low prices, they perform poor audit work and when releasing the audit report, they almost accept it completely, do not strictly comply with procedures and regulations and of course have no attitude. Proper skepticism. This factor can be called Audit Fee.

Presenting professional skepticism on audit documents

Presenting professional skepticism on audit documents is a complicated issue, not expressed clearly because professional skepticism is just a thought, The auditor's feelings should be presented in some cases by the auditor, and in other cases not presented in the audit records . For example, when there is a problem that needs to be discussed, evaluated or doubted about information and audit evidence, auditors often discuss with each other or with customers and managers to come up with solutions. Minutes of these discussions will be evidence that the auditor has an attitude of professional skepticism. However, there are many situations where it is just a short conversation so the auditor does not make a minutes or keep records. Therefore, this is an issue of general concern for audit work, because retaining these minutes in the audit file proves that the auditor has expressed professional skepticism in the audit file. . This is not only evidence if audit risks occur, but also reference documents for auditors conducting future audits to have a basis for evaluation, learning and drawing experience.

Solutions to maintain and promote professional skepticism in Vietnam today

Professional skepticism is influenced by individual behavioral characteristics, i.e. attitudes and ethical values as well as knowledge of auditors. This attitude is mainly influenced by education, training, practical experience as well as work pressure. Therefore, to maintain and promote a good attitude of professional skepticism, it is necessary to synchronously implement the following solutions :

For management agencies

- Continue to research, review and improve regulations related to auditing standards in general and professional skepticism in particular, in which, paying attention to Focus on researching and accessing international auditing experiences and standards.
- Strengthen inspection and examination to contribute to improving the quality of independent auditing, including focusing on checking the implementation of Vietnamese auditing standards such as: Professional skepticism, professional judgment ...
- Propagate and strictly implement administrative sanction regulations in Decree No. 41/2018/ND-CP dated March 12, 2018 of the Government stipulating regulations on sanctioning administrative violations in the field of accounting , independent audit, thereby raising awareness of laws related to the field of auditing; At the same time, it deters auditors from violating the law...

For professional associations

- Encourage members to apply professional skepticism in audit activities. Have a reasonable way to honor companies and individuals who perform well, increasing the position of auditing companies and auditors in the market. Thereby, contributing to motivating businesses to continuously improve the application of professional skepticism towards auditors.
- Regularly organize seminars, trainings or share experiences related to professional skepticism, so that auditors have the opportunity to share and learn from practical experiences.

- Coordinate with management agencies and auditing firms to strengthen audit quality control. Currently, every year, the Professional Association only checks the accounting records of a number of auditing companies.

For auditing companies

- In an auditing company, professional skepticism is influenced by the company's leaders and operating environment. Therefore, auditing companies need to build a working environment, as well as bonding activities between audit staff and leaders, to cultivate an attitude of professional skepticism.

- Transparent and public reward and punishment policy for auditors who well implement standards of professional skepticism. Auditors tend to work better when they have good benefits associated with them, so auditing companies should establish policies and procedures to evaluate auditors' work performance, paying special attention to Pay attention to the ability to apply professional skepticism to create rewards, punishments, salary increases or reductions...

- More frequently rotate auditors in charge of audit contracts so that auditors always perform audits at new client companies. From there, it makes them always research carefully and always ask questions when considering an unusual situation or event.

For auditors

Auditors must exercise professional skepticism to critically evaluate audit evidence. This is a mandatory requirement to avoid possible risks. Auditors must always be skeptical about the accuracy of documents and reports that may be falsified.

Understanding professional skepticism in mathematics is not easy, properly applying professional skepticism is even more difficult, and the process of applying and promoting professional skepticism takes a long time. Therefore, more than anyone else, auditors must cultivate their own experience to improve their skills in applying professional skepticism in all assigned cases.

Conclusion

Professional skepticism poses many challenges for auditors. Although it is inherently present in all audit activities, it is not clearly shown on audit records, making it difficult to prove. is whether the auditor has professional skepticism throughout the audit process. Understanding professional skepticism in auditing is not easy, properly applying professional skepticism is even more difficult, and the process of applying and promoting professional skepticism takes a long time. Researching the factors affecting professional skepticism is necessary to contribute to the process of improving audit quality today./.

References

VSA 200 and No. 240.

Dr. Ha Thi Ngoc Ha (March 2011), *Discussing the Law on Independent Audit project: Regarding auditor rotation*, Auditing Magazine

Australian Government, Auditing and Assurance Standards Board (2012), *Professional Scepticism in an Audit of a Financial Report*

http://www.auasb.gov.au/admin/file/content102/c3/Aug12_AUASB_Bulletin_Professional_Scepticism_in_an_Audit_of_a_Financial_Report.pdf

Joseph F. Brazel, Tammie Schaefer (October 31, 2016), *Research Insights Auditor*

Professional Skepticism Part I: Incentives and Time, International Federation of Accountants

<https://www.ifac.org/global-knowledge-gateway/audit-assurance/discussion/research-insights-auditor-professional>

<http://www.accaglobal.com/ie/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/scepticism.html> .

National Assembly (2011), *Law on Independent Auditing* ;

Government (2012) Decree No. 17/2012/ND-CP guiding the implementation of the Law on Independent Auditing;

Scientific research on: *Professional skepticism of auditors*, Vietnam Association of Certified Public Accountants website.