Inhibiting and Driving Factors of Professional Skepticism from The Social Learning Perspective

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ABSTRACT

Prior studies suggest that higher professional skepticism among auditors can reduce the likelihood of material misstatements in companies' financial reports. Past research views the influence of auditors' skeptic mindset on audit work from the cognitive learning perspective. The cognitive learning perspective recognizes personality traits of individuals in addition to knowledge and experience to form professional skepticism. This study, on the other hand, argues that auditors acquire and manifest knowledge on skepticism through the social learning process. Based on data from focus group discussions, this study finds that auditors accumulate knowledge on professional skepticism through their experience, which they articulate and appropriate at the workplace. The working environment within the audit firm influences the way auditors assimilate professional skepticism in their actions. The different social learning environments in different audit firms result in the formation of knowledge on professional skepticism in the minds of individual auditors differently. The study suggests that audit firms need to facilitate the learning process among auditors to ensure that they gain proper knowledge on the concept and application of professional skepticism.

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INTRODUCTION

Professional skepticism is an attitude that auditors must uphold throughout the process of an audit particularly when assessing risks of fraudulent reporting of financial information (e.g., Grenier, 2010; Harding and Trotman, 2011; McCormack and Watts, 2011). The application of skepticism is found to reduce material misstatements resulting from fraud (Carpenter and Reimers, 2013; Quadackers *et al*., 2014; Carpenter *et al*., 2002). The effect of varying levels of auditors' skeptic mindset on audit work is explained based on the cognitive learning perspective. The cognitive learning perspective recognizes some personality traits of individuals in addition to knowledge and experience to form professional skepticism (Hurtt, 2010). According to Hurtt (2010): the skeptic mindset of an individual is a multi-dimensional characteristic, which comprises six components consisting of suspension of judgment, a questioning mind, searching for knowledge, understanding inter-personal relationship, self-confidence, and self-determination. Each dimension is expected to have an influence on the level of professional skepticism of auditors. The exercise of the different dimensions of professional skepticism is expected to increase the level of skepticism, which in turn reduces business improprieties (Bell *et al*., 2005).

However, Nelson (2009) postulates that auditors acquire and manifest knowledge on skepticism through the social process of learning. Based on the social learning perspective, professional skepticism in auditing is defined in terms of audit judgments and decisions reflecting a heightened assessment of risks of incorrect assertions on the information available to auditors (Nelson, 2009). Evidence shows that auditors accumulate knowledge on professional skepticism through their experience, which they articulate and appropriate in the workplace (Nelson, 2009) and influenced by work environment (Yee *et al*., 2014). The working environment within the audit firm influences the way auditors assimilate professional skepticism in their actions. This is evident from Bowlin, Piercy, and Hobson (2015): who show that the mandatory auditor rotation affects audit quality differently depending on the mental frame auditors adopt in evaluating management representations. Bowlin, Piercy, and Hobson (2015) argue that in practice, auditors can alternately frame their assessments of management representations in terms of their potential dishonesty, i.e., skepticism or potential honesty. They find that mandatory rotation does not improve audit quality when an auditor takes a skeptical frame. Thus, the use of a skeptical frame benefits auditors when they do not rotate. When using a skeptical frame, the rotation of an auditor may result in a reduction of audit effort. The discussions show that different environments of audit firms are expected to influence the formation of knowledge on professional skepticism in the minds of individual auditors differently.

However, there is a lack of evidence from the social learning perspective to explain the formation of knowledge on professional skepticism and the development of a skeptical attitude among auditors. This study attempts to provide explanations on how auditors accumulate knowledge on professional skepticism through their experience, which they articulate and appropriate at the workplace. On the basis of the social learning theory, this study suggests that while the promulgated standard on professional skepticism is important, audit firms need to facilitate the learning process among auditors to ensure that they gain proper knowledge on

how to apply professional skepticism at their workplace. This study posits that audit firms need to have a proper training program to ensure effective learning on the concept and application of professional skepticism by the auditors. In addition, the study identifies the inhibiting and driving factors of professional skepticism within the audit firms. The remaining of the paper discusses on literature review and methodology. Next, the paper presents data analysis and results. Lastly, the conclusion section is elaborated.

LITERATURE REVIEW

Social Learning Theory

The social learning theory postulates that knowledge is created at an individual level and not at the organizational or societal level. Knowledge is then amplified and crystallized at the organizational level (Nonaka and Takeuchi, 1995). This leads to the argument that human learning is inherently social and is bound by social practices.

The social learning theory suggests that learning occurs in the human but the mechanisms for learning come from social participation. Socialization processes are done through observation, imitation, practice, and shared experiences. An awareness of the skepticism concept is a form of knowledge that fits in this category. The concept of skepticism is a form of knowledge or mental state that exists within the individual auditor but it is shaped through the socialization process within a firm. The theory originates from Bandura's (1977) work on the concept of social learning, which focuses on learning from examples. The concept of social learning was later extended to the concept of Community of Practice by Lave and Wenger (1991): a profession where members share certain knowledge and experience, which enable them to learn from each other to develop them professionally.

Knowledge can be absorbed and internalized by individuals through the social process, which entails the interactions between humans (. The mental state of an individual is influenced through a membership in a specific community, which can be a firm or an organization. Stacey (2001) explains that knowledge is retained in an individual's mind and is tacit and expressed through professional skills. This knowledge can be transmitted from one individual to another.

The theory is relevant in explaining how auditors articulate and appropriate knowledge and experience at the workplace with the influence of social environment within the firm in developing their professional skepticism.

The 5A Model in Social Learning Theory

Based on the social learning theory, Tuomi (1999) introduced the 5A model that explains how humans acquire knowledge from the environment. The 5A model consists of 5 elements: articulation, appropriation, anticipation, accumulation, and action. The knowledge generation may be derived from three modes: articulation, appropriation, and anticipation. These processes will accumulate new knowledge, which gives rise to the fourth mode, which is accumulation. Action is the result of knowledge when it is transformed into action.

Articulation involves a simultaneous operation of generalization and abstraction (Tuomi, 1999). Articulation of concepts enables tacit components of knowledge to become explicit through constantly comparing the focal and subsidiary meanings related to the concept.

Appropriation happens in the same way as articulation, using the same meaning processing capabilities of the learner. However, the process of appropriation may happen through unintended socialization, or through sharing of a meaning structure using communication. In the appropriation stage, it is possible that the presence of another person brings a new perspective, enabling the learner to obtain knowledge in the learning process. Appropriation of knowledge happens through communication, tools, or action.

Anticipation refers to the process where knowledge is translated into habits or routines. Individuals will anticipate the action that is consistent with society's expectations.

Accumulation at the individual level produces what we commonly refer to as memory. Individuals accumulate what they learn through the articulation and appropriation processes and store them in their mind. This condition will change their previous knowledge base. Accumulation can also occur at the organization or community level. Accumulation at the organizational level comprises practices, tools, paradigms, thought, styles, and systems of concept shared by individuals in the organization. This is similar to the concept of community of practice where members of a group in the community share similar knowledge.

Action is the last stage of the 5A model where knowledge is translated into actions that can be observed and assessed. It is at the action stage where normally one's knowledge is measured and feedbacks are given on the effectiveness of the knowledge generation process.

METHODOLOGY

This study uses a qualitative methodology by adopting an interpretative approach. Four focus group interviews were conducted within a span of a month. The focus group interviews allow researchers to collect information through group interactions on the topic determined by the researchers. During the interviews, the researchers provide the focus of the discussions while the group interactions generate information (Morgan, 1997). The study attempts to gain an in-depth understanding of the auditors' perceptions on the concept of professional skepticism and the application of the concept in the auditing profession. The following sections provide discussions on question development, participants, data collection, and data analysis.

Question Development

Questions are developed to guide the discussions on professional skepticism in five main aspects. The first aspect relates to the interpretation of the concept of professional skepticism. The question requires participants to describe their understanding of the concept of professional skepticism. Participants are expected to provide their interpretation on the meaning of professional skepticism and the clarity of the auditing standard in providing such information.

The second aspect relates to the sharing of participants' experience in sustaining the attitude of professional skepticism during the audit practice. Participants are asked to share views on the characteristics of skeptical auditors they observe during the audit work. This aspect is

important in the absence of a specific definition for professional skepticism in the auditing standard to provide guidance to auditors.

The third aspect links with the measurement of professional skepticism attitude. Participants are asked on how the professional skepticism of an individual auditor is measured. The information on the measurement of professional skepticism is important in order to promote consistencies in its adoption during the conduct of an audit.

For the fourth aspect, participants are requested to identify relevant factors that they believe may influence auditors' attitude of professional skepticism.

Finally, discussions were focused on the way forward for an effective implementation of professional skepticism in the organizational context. Participants were to give opinions on whether the exercise of professional skepticism meets the requirements of the standards and to share views for improvements.

Participants

A total of nineteen auditors comprising audit seniors, managers, and partners from Big4 and non-Big4 audit firms in Malaysia participated in the focus group discussions (see details in Table 1). This study selected participants using a purposive sampling technique based on their accessibility and ability to contribute to the research (Cavana *et al*., 2001). A selection guideline was used to determine names of potential participants through contact persons of the identified audit firms. Written permissions for participation were obtained from the managers or partners of the respective firms. The researchers subsequently sent confirmation letters on the date, venue, and purpose of discussions.

Table 1 Participants' Description

Group	Participant	Audit Firm	Number of Participants	References of Participants
1	Seniors	Big4	2	G1-R1 & G1-R2
2	Managers/Partners	Big4	4	G2-R1 to G2-R4
3	Seniors	Non-Big4	4	G3-R1 to G3-R4
4	Managers/Partners	Non-Big4	5	G4-R1 to G4-R5

Data Collection

During the discussion sessions, participants were informed of their voluntary participation and the confidentiality of information obtained from the discussions. The discussions were recorded with the permission from the participants. Notes were also taken throughout the discussions. For the purpose of data collection, participants were divided into four discussion groups. The first group comprised two audit seniors from Big4 firms. The second group consisted of four partners and managers from Big4 firms. The third comprised four audit seniors from the non-Big4. The fourth group comprised five partners and managers of the non-Big4 firms.

The first and second groups met on the first day, whereby the first discussion session was held in the morning for the first group and second session was held in the afternoon for the

second group. The third and fourth sessions were held on the second day for the third group in the morning and the fourth group in the afternoon. Each session lasted on average for two hours. The discussions were held mainly in English.

DATA ANALYSIS

For the analysis of data, this study uses the 5A model of social learning theory consisting of articulation, appropriation, anticipation, accumulation and action of professional skepticism. Data from the interviews are transcribed verbatim immediately and analyzed using the thematic analysis approach. The themes were developed based on the 5A model of social learning theory espoused by Toumi (1999). During the data transcription, particular attention is given to maintaining the participants' original meaning. The study employs a thematic analysis method to analyze the data. Thematic analysis refers to the process of identifying and coding transcripts according to themes derived from the theory used (Patton, 2002; Berg, 2006). The objective of the analysis is to establish the relationship between concepts and discussion data. This thematic analysis has been applied in previous research to summarize the rich qualitative data in auditing and accounting studies (Siltaoja, 2006).

The data analysis involves three main steps namely open coding, axial coding, and selective coding (Cavana *et al*., 2001; Neuman, 1997; Morgan, 1997; Strauss and Corbin, 1990). Open coding is described as the first pass through the raw data when the researcher identifies themes and sub-themes of the raw data, and assigns initial codes to the data in an attempt to condense the data categories (Neuman, 1997). The themes are subsequently converted into categories.

Next, during the axial coding review phase, researchers examine and develop the initial themes obtained from the open coding phase. During this phase, the researchers investigate causes and consequences, conditions and interactions, strategies and processes, and look for categories or concepts that cluster together (Neuman, 1997). Themes and sub-themes are subsequently compared, justified, and contrasted for the selective coding (Morgan, 1997). The findings are frequently reviewed in order to enhance reliability.

RESULTS

The 5A model posits that an individual acquires the attitude of skepticism through the socialization process of learning and practice whereby the individual articulates, appropriates, anticipates, accumulates, and acts in learning the knowledge. The social learning theory suggests that learning occurs in humans but the mechanisms for learning come from social participation.

Results of this study are presented in three parts. The first part presents the findings on the development of the attitude of skepticism through the social learning process. The second part describes the driving and inhibiting factors of professional skepticism. The third part provides recommendations on the application of professional skepticism.

The Development of the Skepticism Attitude

Articulation

The concept of skepticism is given an emphasis throughout the career life of an auditor. Auditors are trained to articulate the meaning of professional skepticism. The articulation of professional skepticism begins to occur while an individual is undergoing training as an accountant. The articulation becomes more apparent once the individuals start their working career as auditors. The self-learning, on-job coaching by the audit seniors, and formal training given to them by the audit firms are examples of constant bombardment of activities that help shape the articulation of professional skepticism by individual auditors.

Results of focus group discussions in this study show that for many auditors, the attitude of professional skepticism is inherent in them and tacit in nature. Through the experience of working as auditors, their knowledge of skepticism becomes explicit. This is strongly articulated by several respondents. The idea is supported by an audit partner from a Big4 firm who states that:

> *"…when we take an audit job…we got this skeptical from…the moment we start the job…It is something that has been pounded onto me. It is supposed to be part and parcel of who we are as auditors" G2 -R4.*

> *"Your foundation and your basic building block as auditors. Even after four to five years, it (skepticism) should already been there" G2-R3.*

> *"They (the standards) use a lot of may be vague terms that are a little subject to interpretation as say sufficient appropriate audit evidence without defining where that line is because there isn't a clear line for sufficient appropriate audit evidence. So, I think that kind of blank needs to be filled in with either the culture of the firm, the training that we go through, some of our internal standards, and our audit guides" G5-R2.*

Appropriation

The appropriation of professional skepticism for auditors occurs primarily during the course of the audit engagement. Auditors discuss and communicate among themselves to share their perceptions on the level of skepticism required for each engagement. This is normally done during the planning and the fieldwork phase of the audit.

> *"In each of our engagement, we have a planning event, so we sit down with the partners to discuss through the issues and then the partners challenged our views and ask us to look into it and we have another round, post interim, the partners would go over the files, and they will give more information and start to challenge, that's where we learn" G1-R1.*

Discussions between the different ranks in the audit firms provide an avenue for auditors to consider how much evidence to collect for a specific engagement.

"...the seniors sometimes are more skeptical than the partners, because as seniors in the field, they see a lot of things, and the things that we discuss are those highly material items" G1-R1.

"I think it's important to take in all the facts and just don't take it at face value, [and] make sure you understand the big picture, [and] what the objective is, and if there is any reason for you to doubt the answers you're given or documentation you're given [then] kind of discuss it with your team members. [And] I guess that brings into everyone's professional skepticism" G5 -R3.

Audit firms also provide training to ensure their staffs have the necessary knowledge of the ways of applying professional skepticism. The evidence suggests that training is important to assist auditors, particularly the junior auditors, to learn about professional skepticism.

"Receiving the trainings, working with the seniors, other staff members helped me understand what this is through experience and trainings. It really helped me understand, like somehow when I read this it's completely different, it has a lot more meaning to it. A lot of the ambiguities have gone now. It is getting a little clearer for me as I continue to work" G5-R4.

"When we train our people, when we review their work - the senior and staff are always looking for whether there was enough evidence on what they were auditing to come to a conclusion, so I think it's pretty clear." G5-R1.

"We've all had numerous trainings on this: self-study, live sessions, at our university here locally—so we've all seen this many times, [and] practice it every day. It is kind of ingrained, I would say, into each of our attitudes as we do our audit work" G5 – R1.

Anticipation

Auditors apply their professional skepticism in their judgment of how much evidence to collect in the engagement. This process can be influenced by many factors including the client's risk level, trust that you have on the client, nature of the transactions, and culture of a firm.

"If you are talking about fresh graduates, sometimes when they build trust with the clients, they may be over radical but higher experience auditors, you should be able to know what to expect from clients and you need to educate your junior colleagues" G1-R2.

"Just working with our auditors in Asia and not just in Asia in general, I mean if you're in India versus Pakistan or Australia or even Fiji -where we have a practice

- it means different things. And it not only means different things, but it's going to be applied differently" G5-R1.

Time is reported to be a factor that can have a negative influence on the anticipation of professional skepticism of auditors. Auditors are pressured to complete their audit work on time and to prepare the audit report quickly in order to meet the dateline. This time pressure would in turn hamper their skepticism attitude. It is evident from the focus group discussions that auditors' professional skepticism is reduced when they work under pressure.

"Sometimes auditors are pressured (time pressure): and the level of professional skepticism will go down a bit" G1-R1.

"You know right now the problem we have is—if I could draw this on the chart—there's skepticism on the vertical axis and there's time on the horizontal" G5 –R1.

Auditors would normally learn to adapt to these outside forces in order to maintain their professional skepticism. This is done through close supervision by audit superiors. The works of junior auditors will be reviewed by senior auditors, and later reviewed by audit managers. Decisions made by audit managers will later be reviewed by the audit partners. This review process allows auditors of various ranks to align their mindset on professional skepticism to that of the firm.

Accumulation

The accumulation of knowledge on how to apply skepticism when carrying out an audit task is done by each individual auditor. Some audit firms have established ways to measure their employees' level of skepticism through a survey instrument. This exercise enables audit partners to gauge the skeptical level of their employees and assess the training needs to raise the skeptical level.

The respondents reveal that individual auditors accumulate information they gained from the review of audit working papers and audit findings.

"We look at the working paper; we know the quality (level of professional skepticism) of the staff. ...if they never write any of this opinion, their thinking is not critical" G4-R1.

"...(evaluate skepticism) sometimes it can be based on the type of queries ...what to using, what your opinion…so you have to measure how the person is thinking of engagement" G1-R2.

The knowledge of skepticism continues to accumulate within the individual auditors as they progress in their career in the line of auditing. Even if some auditors leave the audit firm, the knowledge stays with the individual auditors. The accumulation stage implies that as the auditors learn more through this social learning process, they will know more on how to apply a skeptical mental attitude as auditors.

Action

Knowledge of professional skepticism should be translated into action. These actions are documented in the audit working papers. The different level of the review process established within an audit firm enables the level of skepticism of an individual auditor to be assessed by their superiors.

At the firm level, regulators play a role in ensuring that audit firms exhibit professional skepticism in their practice. In Malaysia, through their review process, the Audit Oversight Board (AOB) has made a requirement for audit firms to be explicit about their professional skepticism in the audit working papers.

Pressures from clients impede the application of professional skepticism in making audit judgment for small audit firms. In Malaysia, evidence shows that bundling the audit service with other more lucrative non-audit services has made it challenging for partners of small audit firm to be objective in issuing the audit opinion. This situation is exacerbated by the low audit fee in this country and lack of monitoring by the regulators for the small audit firms.

Driving Factors of Professional Skepticism

This section focuses on potential opportunities that the profession could consider to enhance the application of appropriate professional skepticism. The focus group discussion revealed that the application of professional skepticism at each different level of audit may be explained based on the reputation of the audit firms, monitoring by regulatory bodies, requirement on audit engagement, and experience and self-confidence of auditors.

Audit Firm's Reputation

Big4 firms tend to be more professionally skeptical than the non-Big4 firms. Audit partner of a Big4 firm agrees that:

> *"At the partner level, it is very much a business decision. You cannot afford not to be skeptical. What happen if you fail? It can be very costly, we are not only talking about dollars and cents but for any larger firm, the impact from the filth accusation is far greater than the dollar and cents" G2-R2.*

The political costs hypothesis stipulates that firm size affects the choice of accounting policy or strategy a firm would undertake (Watts and Zimmerman, 1978; Monem, 2003; Zhang, 2008). Big4 firms have higher public reputation than the smaller firms. Thus, the Big4 firms have higher reputational risks than the non-Big4 firms. In order to manage reputational risks at the minimum level, Big4 firms tend to have a different perspective on professional skepticism.

One of the partners for the non-Big4 firm illustrated that:

> *"60% of our clients are SME directors (who) are owners of the companies. We cannot afford to be skeptical" G4-R3.*

The idea is supported by a partner from another non-Big4 firm:

"As long as the clients are paying for your fees, you cannot be independent, so you cannot fully apply skepticism" G4-R5.

Monitoring by the Regulators

An audit manager from a Big4 firm acknowledged that:

"Whenever we have inspection from the regulators, always comes the topic of skepticism. The most important thing when they review the working paper. You have to show them skepticism and that is the most difficult part of it" G2-R4.

The manager confirmed by saying:

"One of my clients has certain risk factors; the regulators are asking what has the auditors done to address some of these risks, whether we have considered notwithstanding that we have been auditors already, there needs to be a demonstration that we have applied skepticism in the working papers" G2-R3.

The Big4 firms control 70% of the audit market of public interest entities in Malaysia. Big4 firms are subjected to monitoring under the AOB requirement (AOB, 2012). The close monitoring process by the AOB in Malaysia has forced auditors particularly the Big4 firms to heighten their focus on professional skepticism in carrying out their audit engagement (AOB, 2012). In addition, the increase in the number of financial scandals has resulted in more attention given to professional skepticism of auditors by the public and the regulators (Bell *et al*., 2005). The auditors are now expected to be more explicit about how they apply professional skepticism in their work.

Types of Audit

This fact is revealed by an audit partner of a non-Big4 firm in the following statement:

"ln due diligence or investigative audit, we can apply skepticism but not in financial statement audit" G4-R2.

The different types of engagements warrant different levels of professional skepticism. Auditors perform review, audit, compiling of financial reports, investigation, and due diligence services. Certain services such as forensic or fraud investigation require the individuals who perform the service to be more skeptical than those performing the review or audit services. Bell *et al*. (2005) assert that an auditor assumes some level of dishonesty by management unless evidence indicates otherwise. This view is consistent with that of forensic auditors who generally assume dishonesty unless there is evidence to the contrary. Similarly, McMillan and White (1993) state that a skeptical auditor will focus on error-related evidence. This presumptive doubt is visible in the auditing standards concerning fraud, ISA 240 since those standards focus on the possibility of an intentional material misstatement due to fraud.

Experience and Self Confidence

As auditors gain more experience, they are more likely to have a higher professional skepticism. The result suggests that as auditors become more experienced, they tend to have a better sense of judging the sufficiency of the level of professional skepticism. Interactions with other more senior members of the audit teams, to some extent, would enable auditors to have a more complete picture of the appropriate level of professional skepticism.

As mentioned by one of the participants:

"That is a true experience…if you believe the client; again it about understands the client…if you know that… if we suspected fraud and the level of professional skepticism would be higher. We have to ask more questions" G1-R1.

Self-confidence enables the auditor to challenge another's assumptions (Hurtt, 2010). This often necessitates face-to-face interaction and willingness on the part of the skeptic to explicitly identify and acknowledge explanations other than those offered by an individual. Therefore, skepticism requires a level of self-confidence that is necessary for the skeptic to take action upon the doubts or questions that she or he experiences.

One participant mentioned that:

"Where the clients challenged you on something that you are asking for, with self-confidence you can actually state your facts and state your view points on why actually you need certain things" G1-R2.

Inhibiting Factors of Professional Skepticism

The participants also highlighted issues relating to inhibiting factors of professional skepticism among auditors. Some of the related issues are low audit fee, bundling of services, tasks not legally within the job scope, preparation of audit report as a routine task with no thinking process, and the collectivistic societal cultural environment in Malaysia. Malaysians have inherited the values that respect others and are not prejudiced (Karim and Rezo, 2012). It implies that auditors tend to be nice to everybody during audit work.

Low Audit Fee

Audit practitioners from non-Big4 firms mentioned that the practice of professional skepticism by auditors in Malaysia is being threatened due to the low amount of audit fees. According to practicing auditors, audit fees in this country are the second lowest in the ASEAN region. In order to survive, auditors would not undertake unnecessary audit processes or procedures beyond what have been stipulated in the audit engagement letter. They will spend minimum effort to collect additional evidence to support audit finding.

One partner from a non-Big4 firm highlighted that:

"We want to meet (professional skepticism) at 100%, but in practice, I don't think we can meet 100%...one way to improve, revise the audit fees" G4-R2.

Bundling of Services

Despite the low amount of statutory audit fee, practitioners from non-Big4 firms are willing to accept the audit engagements. Their willingness to take audit jobs with a low audit fee is driven by the stiff competition in the audit market. Furthermore, practitioners of smaller firms consider statutory audit engagements as an impetus for other high-margin non-statutory audit services. Thus, statutory audit engagements come as part of bundling of services with other services including management consultancy, tax advice, accounting services, and human resources consultancy.

The practice of bundling services from the same client may pose a threat to the auditors' independence. Auditors' involvement in different types of bundling services may result in auditors knowing too much about the clients. In addition, auditors are relying on the same clients for their source of income. This would have a negative effect on the objectivity of their decision-making and may consequently inhibit the practice of professional skepticism in doing their audit tasks. Therefore, the attractiveness of a non-audit fee charged to clients may impair the independence of auditors and threaten their ability to practice professional skepticism effectively.

Audit partner from a Big4 firm mentioned that:

"Yeah actually, there's too much emphasis on auditors, the accountants should be responsible as well" G4-R1.

Preparing Final Financial Statements

In performing the audit work and preparing the audit report, auditors are also expected to prepare a complete set of financial statements. Practitioners from non-Big4 firms raise their concerns on this issue. According to them, the responsibility of preparing a complete set of financial statements should be the director's responsibility. Therefore, auditors face unnecessary burden to perform tasks that are legally not within their job scope. This issue, together with the issue of low audit fee mentioned before would threaten the professional skepticism practices particularly among small sized audit firms.

An audit partner from a non-Big4 firm highlighted that:

"(In terms of) preparation account according to FRS, companies pass to auditor, but audit fees is still the same" G4-R2.

Fulfilling Statutory Audit Requirement

Participants of the focus group discussion consider that audit process is similar to that of a production line process. The audit process may produce similar audit reports without involving much thinking process. This nature of audit engagement inhibits the practice of professional skepticism attitude as auditors are expected to perform task routine within the job scope. This scenario occurs in both Big4 and non-Big4 firms as highlighted by partners during the discussion.

Audit partner from a Big4 firm stressed that:

"I think another characteristic of Malaysia is also the nature of our audits. It's all statutory audits. It's all required by Companies Act, and sometimes because of that, I think…that…that…there is sort of what we would call a production line audit. But like in other countries, there could be companies which are within certain thresholds. If they are below certain threshold, it doesn't require audit at all" G2-R2.

Audit partner from a non-Big4 firm mentioned that:

"I think (applying professional skepticism) depends on the task, if only a statutory audit, once a year …not necessary to apply, that skeptical" G4-R1.

Malaysian Collectivism Culture

Understanding the cultural characteristics and its influence on audit work within the auditing profession of a particular country would help to enhance professional skepticism practices through trainings, field supervisions, mentoring, and work review. It is therefore necessary to address cultural characteristics or patterns that may have potential effects on the application of appropriate professional skepticism in a particular country (Endrawes and Monroe, 2012).

This point was highlighted by an audit manager of a Big4 firm during the focus group discussion:

"I do agree that (professional skepticism) partly its culture" G2-R2.

According to the Hofstede Centre (2014): Malaysia with a score of 26 out of 100 is characterized as a collectivistic society. Collectivism culture emphasizes close long-term relationships and commitment between members of the group or society. People in collectivism cultures tend to have a less skeptical view of others. That is, a person in a collectivistic culture is likely to be less skeptical than someone in an individualistic culture. Collectivism has an impact on the practice of professional skepticism attitude among audit practitioners. In a collectivism environment, auditors would try to be nice to clients and less likely to confront clients in an unpleasant manner. They would prefer to examine documents rather than confronting clients because confrontation is considered rude and embarrassing to both the client and the auditors.

Audit partner from a Big4 firm stated that:

"But here I think it's because Malaysians as a whole tend to be…they like to be nice to each other" G2-R1.

CONCLUSION

This paper articulated professional skepticism from the social learning perspective. The paper argued that professional skepticism is a form of knowledge that auditors accumulate through their experiences. Auditors acquire and manifest knowledge on skepticism through the social learning process. The knowledge is absorbed and internalized by individuals through

the social process, which entails the interactions between humans. The social process, which involves interactions between individual auditors helps to absorb and internalize knowledge. This assertion is in line with the social learning theory, which suggests that the learning occurs at the human level but the learning mechanisms come from the social participation of an individual and interactions between individuals. Thus, the accumulation process of knowledge is influenced by the social contexts including interactions with peers, superiors, the clients, and the regulators.

This paper documented the factors that could enhance or impede the development of professional skepticism among auditors. Participants of the focus group discussions suggested that the application of professional skepticism might be enhanced by introducing different ways, which include revising audit fees structure, increasing the competency of the accountants, improving the clarity of auditing standards, using real cases as educational materials, and conducting more in-house training programs. The results contribute to the enhancement of the theoretical understanding of professional skepticism.

Results suggest some practical implications on the application of appropriate professional skepticism. The focus group discussions revealed that the application of professional skepticism at different levels of audit is explained based on the reputation of audit firms, monitoring by regulatory bodies, requirement on audit engagement, and experience and self-confidence of auditors. Audit firms may need to develop a skeptical attitude among individual auditors by designing staff training programs and stimulating articulation of the attitude during the on-job coaching. The training programs and on-job coaching initiatives help each individual auditor accumulate the knowledge on the concept of skepticism and its application while conducting audit tasks. Individuals reinforce the development of their skeptical attitude while gaining and accumulating information from the review of audit working papers and audit findings. The mechanism enables auditors to translate knowledge of professional skepticism into actions, which are documented as audit evidence in the audit working papers.

Results also indicated that auditors' skepticism attitude might reduce when auditors are working under a time pressure or any type of pressures from the clients. They might fail to perform certain audit procedures in an attempt to complete the audit work on time and prepare the audit report by the dateline. This situation is common among small audit firms, which are engaged in other non-audit services in addition to the audit service. As a result, the application of professional skepticism among auditors and partners of these small audit firms is difficult to maintain.

Thus, it is necessary that the profession develops a monitoring mechanism on audit firms to ensure that they practice professional skepticism and document the evidence in the audit working papers. Malaysia has made a step forward by the establishment of the Audit Oversight Board (AOB): which plays the role of a monitor on audit firms in order for the firms to ensure high audit quality. Unfortunately, at present the purview of AOB is only on auditors of public interest entities and not on auditors of other companies.

This study has some limitations in the generalization of results. The use of focus group interviews to collect information prevents the results from being generalized to other groups of auditors or in other environmental settings. Results only represent the views of the participating auditors on their perceptions of the concept of professional skepticism and the application of

the concept in the auditing profession. Furthermore, the views may be limited to participating auditors within the auditing environment in Malaysia. Results may not represent views of auditors practicing in other countries. In addition, the interviews were conducted in a laboratory setting; hence, it may not represent a natural interaction in a real work setting. Similar studies may be replicated in other settings to include different countries, auditors from other firms, or different time frames. Other personality variables of auditors such as goal orientation (Sanusi and Iskandar, 2007) and ethics (Harun, Ismail, Ibrahim and Na, 2014) may be investigated together with professional skepticism in order to understand how they affect audit judgment performance.

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