

CITY UNIVERSITY OF HONG KONG

香港城市大學

**A Study of Auditors' Professional Skepticism: Evidence
from Examining Different Mindsets on Auditors'
Assessment of Complex Accounting Estimates**

對核數師專業懷疑態度的研究：
分析核數師採用的思維方式對評估複雜會計估計的影響

Submitted to

College of Business

商學院

in Partial Fulfillment of the Requirements

for the Degree of Doctor of Business Administration

工商管理博士學位

by

Linda Leigh Biek

May 2023

二零二三年五月

Abstract

The purpose of my research is to study the effect of different mindsets on an auditor's consideration of incidentally presented information when assessing management's complex accounting estimates, to determine whether certain mindsets may be more alert to this information. Research and regulatory findings highlight audit quality issues in area of fair value measurements, specifically assessment of complex accounting estimates, and point to auditors' lack of professional skepticism as a contributing factor. Research has also shown that certain mindsets may enhance skepticism, a finding that may have contributed to the decision of the International Ethics Standards Board for Accountants® (IESBA®) to incorporate mindset into the International Code of Ethics for Professional Accountants, effective 31 December 2021.

I investigate the above research issues through conducting an experiment that utilized a randomized control online study, beginning with random manipulations that prompted one of three mindsets – deliberative mindset, questioning mindset, and the combined effect of manipulating both mindsets (i.e., synergistic effect). Participants who did not receive any manipulation were classified as the control group. After the manipulation phase of the experiment, participants (N=118) progressed to the next phase of the online experiment in which they read a case about goodwill impairment and responded to questions pertaining to their assessment of fair value under the circumstances set out in the case. As professional skepticism is a concept that does not lend itself to measurement, responses to nine questions relevant to participants' judgmental assessment of potentially biased information in the fair value scenario served as proxies for assessing whether certain mindsets enhanced participants' level of skepticism.

Analysis of the association between different mindsets and participants' assessment of constructs related to fair value measurement - reasonableness of complex accounting estimates, identification of target issues, and correct responses regarding incidentally presented information - revealed some significant findings which provided some support for my main theme. In particular, regression analysis revealed that participants with a deliberative mindset were more likely to correctly answer questions about incidentally presented information than their counterparts. However, results showed that none of the different mindsets resulted in participants' assessment of the reasonableness of complex accounting estimates being less likely than their counterparts. Furthermore, they did not show that any of the mindsets improved participants' ability to identify target issues that may contribute to a biased estimate.

Interestingly, supplementary ANOVA tests revealed statistically significant findings that participants who chose to suspend their conclusion and contact a manager urgently would assess

the reasonableness of complex accounting estimates as less likely than their counterparts. They were also more likely to identify target issues and correctly answer the three questions pertaining to the incidental information that was relevant to the complex accounting estimates contributing to the reporting unit's overall fair value measurement. Based on these findings, additional testing was performed. Regression analysis revealed statistically significant findings that participants' suspension of conclusion and urgency to contact their manager positively influenced the effect of interventions on participants' assessments of fair value measures. These findings support my main theme that mindset effects auditors' assessment of complex accounting estimates and recognition of incidentally presented information about target issues.

Overall, the findings have both research and practical implications. As previously noted, the IESBA[®] has included mindset as part of the conceptual framework for the Code of Ethics for Professional Accountants, effective 31 December 2021. The current study appears to be one of the only studies on the effect of mindset on auditors' assessment of complex accounting estimates since implementation of the amended standard, so the findings are important in establishing a foundation for further research on mindset in auditing. The findings also contribute to research on professional skepticism by demonstrating that auditors' cognitive processing is positively impacted by mindset, as demonstrated by the decreased likelihood that auditors under certain mindset conditions would accept a biased complex accounting estimate as reasonable.

Furthermore, studies have posited that auditors' ability to suspend judgment, in search of sufficient persuasive evidence, enhances professional skepticism. My study, demonstrating the effect of participants' decision to delay their conclusion and urgently contact a manager, contributes to extant research on the suspension of judgment as a component of professional skepticism (Hurt, 2010). From a practical perspective, the findings alert audit firms to the benefit of cultivating certain mindsets and issuing professional skepticism reminders during the performance of audit engagements, especially in high-risk areas. They also highlight the need for audit firms to communicate the importance of suspending conclusions and urgently contacting the auditor in charge when faced with concerns about fair value assessments, as participants indicating their intent to urgently contact their manager demonstrated a higher level of skepticism in their responses.

My study results are consistent with findings that support the positive effect mindset can have on an individual's assessment of information and, by extension, an auditor's application of professional skepticism, which is critical as researchers and practitioners strive to advance their understanding of this illusive concept.

Keywords: mindset, complex accounting estimates, fair value, goodwill impairment, professional skepticism, suspension of judgment, sense of urgency, cognitive processing