


Emotional intelligence as a key driver of the formation of professional scepticism in auditors



Author:
Sonja Cilliers¹ 

Affiliation:
¹University of Stellenbosch Business School, Faculty of Economic Management Sciences, Stellenbosch University, Bellville, South Africa

Corresponding author:
Sonja Cilliers,
ssc@usb.ac.za

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Purpose: Litigation against auditors has augmented as the number of corporate failures increased over the past decades. A failure to exercise professional scepticism has been cited as one of the main contributing factors to audit failure. This research establishes a link between professional scepticism and emotional intelligence (EI). Credence is given to the design of interventions promoting the development of auditor EI with the view of combating the incidence of audit failure.

Design/methodology/approach: A sample of United States (US) judicial opinions was examined where professional scepticism of auditors was considered. A dual coding system was applied where process elements of professional scepticism and components of emotional intelligence were identified and linked.

Findings/results: A significant overlap between elements of professional scepticism and facets of emotional intelligence was indicated, especially those of self-assessment, conscientiousness, organisational awareness, communication skills, leadership and managing influence.

Practical implications: Emotional intelligence competencies become part of the resources available to the auditor, which may be used to exercise their professional scepticism. Interventions designed to enhance auditor emotional intelligence may positively impact the levels of professional scepticism demonstrated, ultimately aiding in lowering the incidence of audit failure.

Originality/value: This research offers a new process perspective of professional scepticism which has been adapted from the works of seminal authors in the field. Using the data sample, the incidences of overlap between emotional intelligence and the process steps of professional scepticism are identified and categorised within this framework. This research contributes to the body of empirical research on emotional intelligence in the auditing field.

Keywords: professional scepticism; auditor emotional intelligence; audit failure; auditor behaviour; auditor performance; auditor communication; auditor independence; corporate failure.

Introduction

Litigation against auditors has augmented as the number of corporate failures increased over the past decades (Amoah et al., 2018). This, despite regulatory efforts to promote higher standards of corporate governance in public companies following corporate scandals such as Enron and Worldcom in the early 2000s, and auditors' implication that led up to the global financial crisis of 2008, with two of the largest United States (US) bank failures in history (Bear Stearns and Lehman Brothers).

Where corporate failures result in the financial loss suffered by stakeholders, audit failure is often alleged as a basis for litigation against auditors (Burke, 1995). Insufficient exercise of professional scepticism while applying auditor judgement has been identified as one of the root causes of audit failure (Beasley et al., 2013).

Limited research has been conducted extending emotional intelligence (EI) to the auditing field. This article aims to provide empirical evidence to support the notion that emotional intelligence competencies are intertwined with the exercise of professional scepticism by examining a sample of US judicial opinions. Demonstration of the link between professional scepticism and emotional intelligence could clarify associations and actions and may contribute to providing a scientific basis for interventions staged to develop emotional intelligence competencies as a way to reduce the incidence of audit failure.

Literature perspectives

Professional scepticism

A high number of sanctions imposed upon auditors are related to the failure to exercise the appropriate measure of professional scepticism. Beasley et al. (2013) examined the 87 cases in which the US Securities and Exchange Commission (SEC) imposed sanctions on auditors relating to alleged fraudulent reporting by US public companies during the 1998–2010 period. The lack of the required level of professional scepticism was present in 60% of the cases examined. Examples of such failures included the auditor not questioning suspected fabricated documents; the presence of numerous risk factors that should have led to a heightened sense of professional scepticism resulting in adopting appropriate audit procedures; failure to respond to apparent overstated valuations and assertions made by management; and failure to respond to warning signs and apparent inconsistencies.

In a seminal article, Nelson (2009) constructed a comprehensive model of professional scepticism. Peecher et al. (2013) argued that the concept of professional scepticism should be refined so that auditors could be better equipped to actively evaluate the quality of their judgement processes. Hurtt et al. (2013), in their literature synthesis of professional scepticism, observed that the relationship between auditor emotions and professional scepticism appears to be an under-researched, albeit important, area. Expanding on the work of Nelson (2009) and Hurtt et al. (2013), Nolder and Kadous (2018) were the first to apply mindset and attitude theories to examine the emotional responses of auditors in the exercise of professional scepticism. The authors found that auditors must be aware of their own biases at play so they can critically evaluate the quality of their judgement processes. As such, they posited that the emotional responses of auditors may be looked towards to aid in the conceptualisation of the professional scepticism construct. Several studies have extended emotional intelligence to the auditing field. Siagian and Karo (2018) found a significant relationship between emotional intelligence and auditor performance. Yang et al. (2018) suggested that emotional intelligence has a moderating effect on the pressures affecting auditor judgement. Rapina et al. (2020) found emotional intelligence to be significantly correlated to audit quality.

In as far as professional scepticism is concerned, researchers have found a positive link between emotional intelligence, professional scepticism and an auditor's ability to detect fraud (Amlayasa & Riasning, 2022; Awaluddin et al., 2019; Zaini & Musyarofah, 2020).

Emotional intelligence

The history of basic emotional theory was researched by Crivelli and Fridlund (2019) who argued that, despite 50 years of research, there appears to be little consensus as to the definition of emotion by scholars. On the contrary, Keltner et al. (2019) argued that basic emotional theory indeed

provides a basis for defining emotion. These authors defined emotion as a brief state that results from interpreting external and internal triggers and involves biological, signalling, precursory, action and evaluative elements that are related to those that can be observed throughout human evolution. This definition is similar to the one proposed by Mayer et al. (2008, p. 508) in their work on emotional intelligence where emotion is defined as 'an integrated feeling state involving physiological changes, motor-preparedness, cognitions about action, and inner experiences that emerge from an appraisal of the self or situation'.

Seminal authors Salovey and Mayer (1990) defined emotional intelligence as a skill set enabling the expression, evaluation and regulation of emotion by a person concerning themselves and others. An organising framework was subsequently developed by Goleman (Boyatzis et al., 2000). This framework identifies 18 competencies that are organised into categories relating to the awareness and management of the self and others.¹ It is worth noting that not all 18 competencies need to be present in a given situation, as the application of emotional intelligence competencies is context-specific (Livesey, 2017). The concept of emotional intelligence has been incorporated into a multitude of disciplines (Roberts et al., 2010).

In terms of its classification, emotional intelligence has been viewed as a trait by some scholars (Bar-On et al., 2007; Goleman, 1996) and as a processing ability by others (Mayer et al., 2016). Tett et al. (2005) suggested that emotional intelligence may be viewed from both a trait and a processing ability perspective.

Professional scepticism: Towards a process perspective

The concept of professional scepticism has been the subject of much academic research and the seminal works have been explored here. Despite the attention that has been afforded to this construct, there appears to be no definitive conceptual development of the notion of professional scepticism.

One of the most recent developments in the literature has been the idea that the auditor's feelings are of relevance to the notion of professional scepticism. Feelings and the awareness around those feelings have been categorised under the umbrella term of emotional intelligence. The construct of emotional intelligence and the development thereof have been briefly explored in this review.

From a reading of the literature, there appears to be several touchpoints between the constructs of professional scepticism and emotional intelligence, warranting further exploration of the relationship.

A theoretical framework to test whether a lack of professional scepticism could be identified as the primary cause of audit deficiencies has been provided by Nolder and Kadous (2018). They outlined the meaning of professional scepticism

¹For a brief description of the 18 competencies, see Appendix 1.

as being a function of both mindset and attitude, with attitude encompassing emotional response. A distinction was made between sceptical judgement and sceptical action. Sceptical judgement is considered to be an antecedent to sceptical action, the latter serving as a manifestation of the former. Several factors have been identified as influencing both sceptical judgement and sceptical action. These factors range from auditor characteristics such as personality traits, knowledge, experience, beliefs and incentives to factors external to the auditor such as client, evidential and environmental characteristics.

A process diagram was developed depicting the framework as developed by Nolder and Kadous (2018). Figure 1 illustrates that the pathway from the occurrence of a trigger circumstance to the appropriate sceptical response will move through the following stages:

- Trigger circumstance occurs.
- Cognitive processing by the auditor takes place.
- Sceptical judgement is formed.
- Intention to act is formed.
- Sceptical action occurs.

As illustrated, a series of processes need to be unlocked for the development of an appropriate response ('sceptical action') to circumstances that are present and known to the auditor ('triggers') to occur.

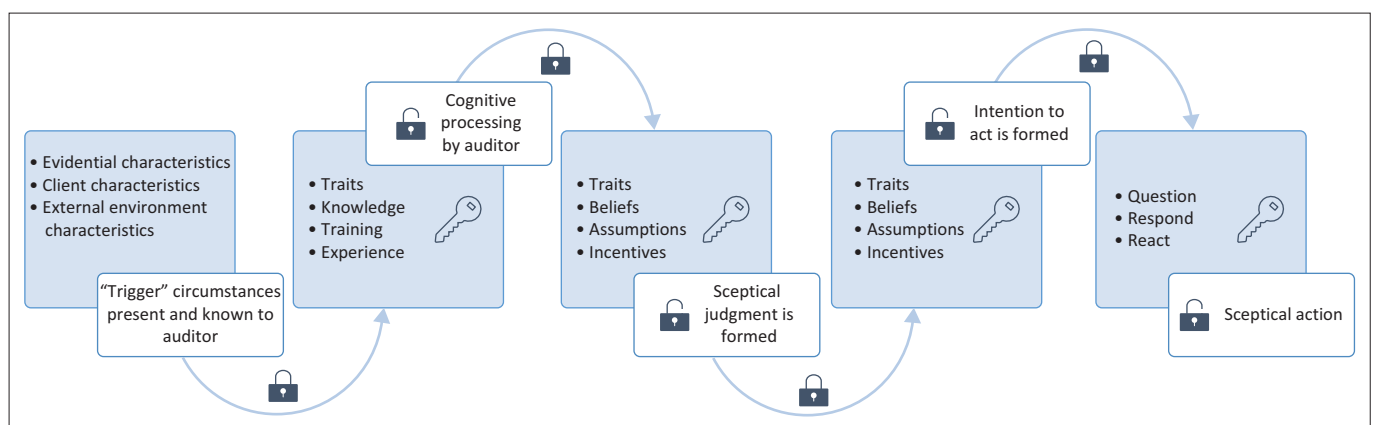
Professional standards provide illustrative examples of these trigger circumstances or so-called red flags, which may be indicative of a heightened risk of fraudulent financial reporting (PCAOB, 2017, 2041.85). The assessment of actual circumstances, however, has to be carried out by the auditor. Illustrative examples from professional standards appear to emphasise the incentive for potential fraudulent financial reporting arising as a result of conducive circumstances. For instance, role players are under pressure as a result of economic circumstances indicating that financial stability or profits are vulnerable, a decline in customer demand or increasing business failures in the industry or economy, or management being under pressure to meet third-party expectations that appear

aggressive or unrealistic. Other examples include the personal financial position of role players depending upon the outcome of financial results of the company; the nature of the business presenting opportunities for fraudulent financial reporting; and holding a dominant position in an industry and therefore being able to dictate terms. Further examples include making use of significant estimates to determine transactional values; conducting business in jurisdictions where different cultural and business values are present; and instability in organisational structure manifesting, such as a high turnover in management or board members (PCAOB, 2017, 2041.85).

The cognitive processing of these trigger circumstances by the auditor draws on aspects such as traits, knowledge, training and the experience of the auditor. It is indeed the cognitive processing that serves as evidence of the mindset of the auditor (Nolder & Kadous, 2018).

Once an understanding through the cognitive process is obtained, the auditor formulates a value judgement about this event. Nelson (2009) distinguished the formation of sceptical judgement (where the auditor becomes aware of a potential issue) and sceptical action (where the auditor acts on the awareness). Nelson proposed that similar elements may independently influence the sceptical judgement component on the one hand and the sceptical action component on the other hand. Indeed, the quality of the judgement may be impacted by several factors, such as the auditor's traits, beliefs and assumptions held and any incentives present (Ajzen & Sexton, 1999; Hurtt, 2010; Nelson, 2009; Nolder & Kadous, 2018; Russo et al., 2000).

Should a sceptical judgement be successfully formed, the next step in the process would be to form an intention to act (Nolder & Kadous, 2018). Once the attitude is formed by the interaction of belief, feelings and cognitive process, the intention is developed. Again, the intention to move to action may be impacted by similar factors. Citing the work of Ajzen (2005), who theorised about planned behaviour, Nolder and Kadous (2018) reasoned that intention formation is preceded by the impact of the feelings and beliefs of the auditor.



Source: Adapted from Nolder, C.J., & Kadous, K. (2018). Grounding the professional skepticism construct in mindset and attitude theory : A way forward. *Accounting, Organizations and Society*, 67, 1–14. <https://doi.org/10.1016/j.aos.2018.03.010>.

FIGURE 1: Professional scepticism formation process diagram.

It would appear that failure of professional scepticism may occur at any of the points in the model. For instance, if the required cognitive processing fails as a result of a lack of experience or application of knowledge, the process will end there and not progress to the next stage of forming a sceptical judgement. Likewise, even should a sceptical judgement be formed, but limiting beliefs or assumptions prevent the auditor from forming the intention to engage in sceptical action, the process will end there and not proceed to the formation of an appropriate response.

Research problem, design and methods

Research problem

A research gap exists in understanding the relationship between the exercise of professional scepticism by the auditor and their emotional intelligence. While viewing the exercise of professional scepticism as a sequence of process steps, the question then arises at which stage of the sequence emotional intelligence components play a part. To facilitate such categorisation, a process model of professional scepticism was derived from existing literature. The process model was then used to analyse a set of circumstances to identify the failure point of the exercise of professional scepticism and the most prevalent emotional intelligence competencies at each junction.

Research design

The objective of this study was to identify elements related to professional scepticism as reported on by the judiciary in cases associated with audit failure and ascertain the extent to which there is an overlap with elements associated with emotional intelligence. The selection of facts by the judiciary and the application of constructs to these facts are not of merely passing interest, but merit careful consideration because they constitute the opinions that become law and precedent (Hall & Wright, 2008). Insight may be gained from the way that judges apply the professional scepticism construct in cases of alleged audit failure. Despite the inherent limitation of any observer (in this case the judiciary) in ascertaining the true level of scepticism prevalent in the mind of an auditor, judicial opinions do offer a rich, unexplored resource that may be consulted to gain an understanding of the types of facts and behaviour considered to be associated with professional scepticism.

The aim of this research is not to unearth knowledge that is free of value judgements or even bias as reported by the judiciary but to attempt to understand the interpretations of auditor behaviour by these astute, experienced and knowledgeable observers. This is in line with the notion that data are always collected from some point of view, and observations are coloured by the discipline and experience from the vantage point of the observer. There will always remain a gap between the actual reality and the representation

thereof in the mind of the observer (Rehman & Alharthi, 2016). The evaluation of the sceptical mindset of the auditor by the judiciary is certainly not unique in the difficulty that presents – the same can be said about evaluating emotional intelligence. Crivelli and Fridlund (2019) noticed that this difficulty arises in many instances of emotional intelligence research, even in the case where an individual is interpreting his or her own emotions, as there is an inherent bias present because the method of identification of the emotion is based on the individual's self-report of their emotions and the dubious use of corroborating measures, such as verification by bodily gestures. In fact, Livesey (2017) observed that tests to measure emotional intelligence mostly rely on self-reporting, while indications are that the viewpoints of others about an individual's performance are oftentimes more dependable.

Data selection

The judicial opinions selected for analysis were sourced from the Google Scholar database. Google Scholar case law is an open-access database providing access to court opinions delivered in the United States since 2009 (Alfonzo, 2016). As the seminal authors on professional scepticism write from a North American legal perspective (e.g. Hurtt, 2010; Nelson, 2009; Nolder & Kadous, 2018), cases based in North America were considered to be complementary. Of course, not all audit failures in the North American territories where the lack of professional scepticism was a contributing factor in the period under review would have become the subject of litigation. Even in the cases that did progress to litigation, not all judicial opinions published and included in the database interrogated would necessarily include reference to the circumstances surrounding the failure of professional scepticism. The claims resulting from this study have, therefore, been limited to only speaking about the Google Scholar case law database sampling frame selected when the search criteria had been applied.

Google Scholar does not indicate the relative rank of cases – in other words, which cases constitute precedent – as is done by databases such as LexisNexis and Westlaw (Wisconsin State Law Library, n.d.) This was considered not to impede the study design, as the aim of the research was to analyse content as it relates to a specified term. All cases were treated as of equal value, as suggested by Hall and Wright (2008) when discussing the use of content analysis in legal research. Alfonzo (2016) further observed that even though the completeness of published case law is not guaranteed, Google does update its database continuously. Of the 65 judicial opinions retrieved including one or more references to the term 'professional scepticism', 30 opinions were selected for coding purposes based on the prominence of the case, the number of references to the term 'professional scepticism' and the most recent reported year. It is worth noting that well-known cases of audit failure such as Enron,²

2. In re Enron Corp. Securities, Derivative & Erisa Lit., 762 F. Supp. 2d 942 (S.D. Tex. 2010).

Worldcom,³ Bear Stearns⁴ and Lehman Brothers⁵ were included in the selection.

Data analysis

As the field of law is primarily characterised by documentary evidence, it is conducive to content analysis. A mixed method approach was selected by conducting both quantitative and qualitative content analysis for purposes of triangulation (Naganathan & Islam, 2015; Oleinik, 2011; Tight, 2019). A complementary analysis from both a descriptive and an interpretive perspective was thus achieved from the same data set, allowing researchers to gain a greater understanding of the individuals and groups represented through the records subjected to examination (Stan, 2012).

Qualitative content analysis is appropriate to use in the interpretation of the data in this study as it involves a reading of the judicial opinions from particular perspectives, namely through the lenses of professional scepticism and emotional intelligence. Content analysis is used, for example, to code cases to identify emerging trends and determine which factors contributed to certain outcomes (Hall & Wright, 2008).

A dual coding process was applied to the elements of professional scepticism and emotional intelligence. The process model (Figure 1) formed the basis of the coding of the selected cases related to auditor behaviour and judiciary commentary relevant to auditor professional scepticism. When coding for emotional intelligence elements, the emotional intelligence cluster and competency framework of the Goleman-Boyatzis model (Goleman et al., 2013) was applied. This model has found wide application in various business contexts. For instance, Livesey (2017) found the model to be highly relevant to research where context-specific emotional intelligence competencies are required.

A deductive process was used to code instances of reported auditor behaviour and judiciary commentary relevant to auditor professional scepticism. It became clear that the courts followed a holistic approach where all facts were evaluated in context and professional scepticism had a pervasive impact on auditor behaviour. It was therefore decided to code all observed instances that might be associated with emotional intelligence – references that appeared to co-occur directly with professional scepticism categories and those which might be indirectly related. The purpose hereof was to provide a more comprehensive picture as to the import of aspects relating to the impact of emotional intelligence characteristics of the auditor.

The aim of applying the scientific method to research questions is to show that the information and data obtained is reliable

3. In re WorldCom, Inc. Securities Litigation, 352 F. Supp. 2d 472 (S.D.N.Y. 2005).

4. In re Bear Stearns Companies, INC., 763 F. Supp. 2d 423 (S.D.N.Y. 2011).

5. In re Lehman Bros. Securities and ERISA Litigation, 799 F. Supp. 2d 258 (S.D.N.Y. 2011).

and valid, and various tests are performed on the data for this. However, as the nature of qualitative data is not quantitative, showing the reliability (trustworthiness) and validity (credibility) of data are complex, challenging and onerous. Two researchers identified the themes that appeared to relate to professional scepticism process steps and emotional intelligence elements and coded them using Atlas.ti software. Codes were compared with one another as they developed and revised based on evidence, resulting in 207 initial concepts. A second round of analysis of the data isolated these to 72 codes that were used for further analysis. Of the groupings, 54 related to professional scepticism and 18 related to emotional intelligence elements. The data were given to a third researcher who reviewed the process and repeated the process to ensure that the themes identified were trustworthy.

Discussion of results

Descriptive analysis

Using the search terms 'professional scepticism' and 'audit*', 65 cases were identified. The years in which the cases were reported ranged from 1995 to 2020. It is interesting to note that despite reforms in regulations pertaining to auditors since the early 2000s, there appears to be no diminution in the frequency of cases where the professional scepticism of auditors is under scrutiny.

The majority (71%) of petitioners were private individuals or organisations and mostly part of class action suits whereby investors were attempting to recoup losses suffered because of company failures.

In 45% of cases, the claim basis was securities fraud as perpetrated by company representatives. Auditors were typically added as defendants in these cases. In another 28% of cases, auditors were party to negligence claims against them. What is interesting about both of these claim bases is that no contractual obligation between the auditor and the claimant exists. This indicates that in 73% of cases in which 'professional scepticism' was at issue, there was a party who claimed to have suffered financial loss or damages at the hand of auditors who stood outside of a contractual agreement with them.

Where the claim base was securities fraud, a higher pleading standard to plead *scienter*⁶ was required for a claim based on negligence. What is of interest to note was that in many securities fraud cases where action against the auditors was dismissed (thus favouring the auditor), the court indicated that the actions of the auditors might potentially be viewed as negligent (but as negligence was not the action before the court, the claim against the auditors was dismissed). This indicates that in cases of corporate failure where losses had been incurred by stakeholders, even if the auditors were not found to be liable in terms of the stricter pleading requirements of *scienter*, one might still find valuable information as to the conduct of auditors where a duty of care might have been

6. The term 'scienter' refers to a mental state in which the intent to 'deceive, manipulate or defraud' is present (Honigsberg et al., 2019, p. 7).

breached (which would constitute negligence). An example hereof was:

Notably, if an auditor is 'not aware of facts indicating that a transaction was suspicious, or part of a fraud, the auditor's failure to investigate the transaction – *even if negligent* – does not provide a basis for a fraud claim'. (D [Document] 13)

Courts follow a holistic approach

The courts proclaim to follow a 'holistic' approach, as is evidenced in these examples:

The inquiry is *holistic*, i.e. [*that is*] the allegations going to scienter are to be *evaluated collectively*. (D18)

The court's job is not to scrutinise each allegation in isolation, but to *assess all the allegations holistically*. (D56)

The application of the holistic approach is nowhere more clear than in the assessment of whether the existence of trigger circumstances or the so-called red flags is sufficient to impute awareness (and subsequent scienter or negligence) to the auditor, for example:

As to the remaining 'red flags', which *make more sense* when construed collectively and in context ... (D41)

In scrutinising the cases included for coding purposes, consideration was given to any mention of guarding against potential hindsight bias as observed by Anderson et al. (1997). It was of interest how the courts differentiate between the doctrine of hindsight bias and a holistic approach to the evaluation of 'red flags' as illustrated by the following examples:

The key *distinction* between cases relating to *hindsight* and the allegations here is that *multiple GAAP and GAAS violations* have been described and *red flags* alleged. (D51)

Facts *merely supporting an inference* that an audit could have been done better constitute 'fraud by hindsight' and do not support the requisite scienter. (D13)

The vast majority of Miller's allegations of red flags fail for the simple reason that 'an unseen red flag cannot be heeded'. (D49)

There appears to be a fine line in this distinction, and as such, it supports the argument that the more the auditor can raise their awareness of trigger circumstances and the potential implications thereof, the better the chances are of fulfilling their duty of care.

Complementing this holistic or 'collective' approach is the indication that the courts consider the magnitude of the problem, for example:

Given what McBride *knew*, and *given the seriousness* of the problems that were evident in early November 1994, we agree that ... (D21)

[T]he *magnitude of the alleged fraud* provides some *additional circumstantial evidence* of scienter. (D51)

Pervasiveness of professional scepticism

The courts refer to exercising this duty of care with the appropriate modicum of professional scepticism in many

instances and concerning a great variety of auditing standards, for example:

In exercising *professional scepticism*, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest. AU\$ 230.07-09 (1998); AU\$ 316.16-21 (1997). (D25)

Furthermore, it was clear that professional scepticism is not a separate factor, but rather a quality that is to be present throughout the auditing process. This is important because it allows for the examination of the auditors' behaviour by the court from a contextual perspective – reading between the lines, so to speak:

Rather, in identify[ing] what qualities are characteristic of the work of an accountant, we looked at accounting tasks generally to conclude that 'central to the profession [*of accounting*] is the application of appropriate professional scepticism'. (D6)

It is also useful to note the interpretation by the courts as to the meaning of the term 'professional scepticism' as can be illustrated by the following quotations:

Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. (D7)

The critical question, rather, is whether the undisputed facts demonstrate that Audit Associates *practice professional scepticism, in the sense of the judgment characteristic of accountants*. (D1)

the exercise of such questioning, informed by the mindset of a trained accountant, utilised in the performance of core accounting tasks, is the very definition of the professional scepticism of an accountant. (D1)

Pervasiveness of emotional intelligence

Of the emotional intelligence occurrences coded, the relationship between those that co-occurred with professional scepticism (PS) process steps and other emotional intelligence occurrences that were not specifically linked to professional scepticism (named 'other') has been summarised in Table 1. In this article, only the co-occurrences with professional scepticism have been further analysed, but future deductive thematic analysis of the other emotional intelligence occurrences would be valuable to inform researchers and practitioners. A cursory review of the 'other' occurrences revealed themes such as staff matters, duties to stakeholders, individual and collective responsibilities, professional standards requirements (such as independence) and imputed knowledge.

Analysis of co-occurrences between professional scepticism and emotional intelligence

Trigger circumstances

The first process step in the formation of professional scepticism is that a trigger circumstance occurs (see Figure 2), which should be known to the auditor. Of the 150 instances were identified as trigger circumstances. The majority were evidential (55%), followed by client characteristics (29%) and, lastly, triggers relating to the external environment (16%).

The two highest co-occurrences of emotional intelligence competencies with PS triggers were that of auditor conscientiousness (EI self-management) and organisational awareness (EI social awareness), followed by influence (EI social management), communication (EI social management) and leadership (EI social management).

Table 2 provides illustrative examples of these co-occurrences (own emphasis added).

Cognitive processing

The second process step is that the auditor cognitively processes the trigger circumstance by using one or more of the resources available to them (see Figure 3). Of the 125 occurrences of cognitive processing were identified. The

TABLE 1: Analysis of emotional intelligence occurrences coded.

EI Cluster	Co-occurring with PS		Other		Total
	N	%	N	%	
Self-awareness	22	51	21	49	43
Self-management	68	55	55	45	123
Social awareness	56	46	67	54	123
Social management	80	47	91	53	171

EI, emotional intelligence; PS, professional scepticism.

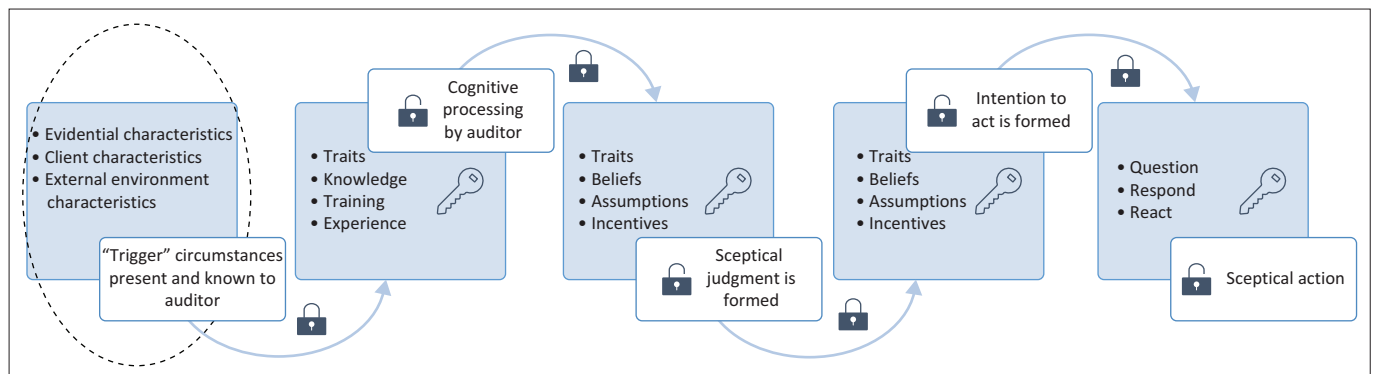
most prevalent factor was the use (or failure) of technical knowledge (68%), followed by experience (19%), use of traits (8%) and training (5%).

The highest co-occurrence with emotional intelligence sub-codes was related to knowledge application, followed by drawing on experience. The highest frequency of EI sub-codes observed was that of organisational awareness (EI social awareness) and conscientiousness (EI self-management), followed by communication (EI social management), accurate self-assessment (EI self-awareness) and leadership (EI social management).

Table 3 provides illustrative examples relating to these co-occurrences (own emphasis added).

Formation of sceptical judgement

The third process step is that the auditor forms a sceptical judgement about the presenting circumstances (see Figure 4). Of the 142 instances were identified where the formation of sceptical judgement was either supported or hindered. The largest categories were attributable to the role of assumptions (42%) and the presence of incentives (25%), followed by beliefs held (18%) and auditor traits (15%).



Source: Adapted from Nolder, C.J., & Kadous, K. (2018). Grounding the professional skepticism construct in mindset and attitude theory : A way forward. *Accounting, Organizations and Society*, 67, 1–14. <https://doi.org/10.1016/j.aos.2018.03.010>

FIGURE 2: Professional scepticism process step: Trigger circumstances.

TABLE 2: Illustrative quotations relating to professional scepticism trigger circumstances and EI sub-codes.

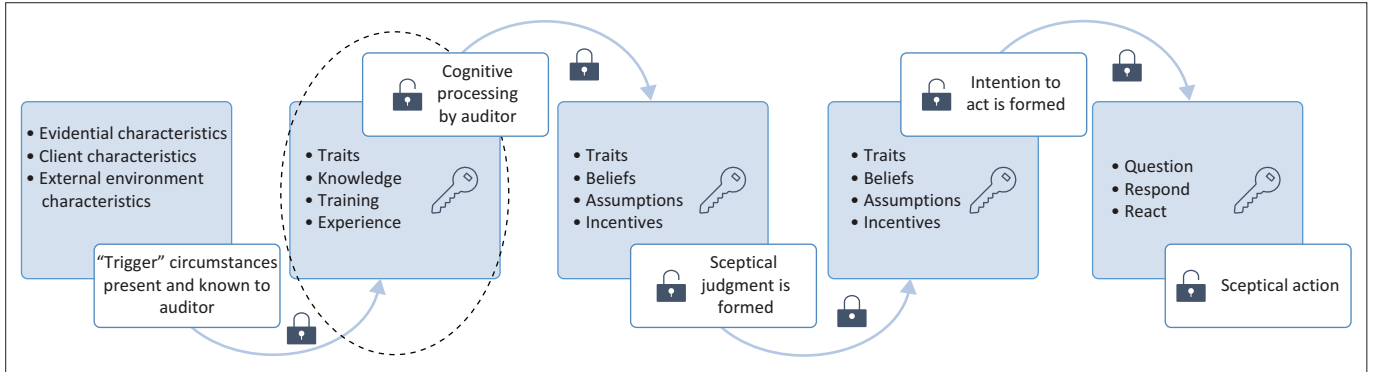
Document	Quotation
63	'Carl Bass was replaced as an Enron engagement partner [T] at Enron's request because of his criticism of Enron's proposed accounting tricks [EI confl. EI infl, EI lead] and Duncan's disregard [EI team, EI comm] to Bass' assessment of the Raptors as this "whole deal looks like there is no substance".'
40	'Although C & F learned [T] during the 1997 Audit that more than \$1,000,000 in related party transactions had not been recorded in Sunpoint's books, C & F did not review [EI consc] the operating account check register to determine if there were additional undisclosed related party transactions.'
6	'McCurdy recognised [T] that the receivable was material and would require special scrutiny. In analysing the probability of collecting the receivable, he relied on the board's decision [EI consc] to allow Bagwell time to repay his obligation. He read the minutes of the meeting. He also spoke to the fund's attorney, who was present at the meeting. But he did not speak [EI comm] with any board member or with Bagwell ... to confirm that the receivable existed, and he neither examined nor tested the financial data Bagwell presented to the board.'
15	'Prudently, E & Y should have exercised – but did not – a heightened professional skepticism in performing the search since during performing the search, E & Y found unrecorded liabilities [EI org] ... E & Y recorded in its work papers that [T] ... according to John O'Brien, the controller [EI infl] of CBI, the subject invoices had not been accrued ... E & Y did not ask [EI consc] the purchasing department either if they had...'
65	'Although Lehman's audit committee allegedly had instructed E&Y to report to it any allegations of financial improprieties, E&Y allegedly failed to relay [EI comm, EI lead] Lee's concerns [T] or investigate [EI consc] them itself.'
15	'... he also told Scerra that he wanted Paul O'Neill, the E & Y manager on the 1993 audit, off the CBI account [T]. Scerra considered this request a "red flag." Notwithstanding his suspicion, Scerra submissively [EI selfC; EI infl] acquiesced [EI lead, EI consc; EI conflict] to Castello's request to remove O'Neill from the CBI engagement ...'
15	'Castello's bonus was tied to earnings targets [EI org] ... the placing by the company of "undue" emphasis on earnings was a recognized possibility [T].'
20	'[P]laintiff alleges that [the auditor] ignored the fact [EI org] that material amounts of advertising revenue came in at the end of each quarter just in time to permit [the client] to hit its advertising revenue targets [T].'
63	'Jennifer Stevenson demonstrates that Arthur Andersen, LLP was aware [EI org] that "a senior officer of Enron serves as the GP of LJM2 and is therefore in control [T] of all the affairs of the partnership".'

T, trigger; EI consc, conscientiousness; EI comm, communication; EI confl, conflict management; EI infl, influence; EI lead, leadership; EI org, organisational awareness; EI selfC, self-confidence; EI team, teamwork and collaboration.

The highest co-occurrence with emotional intelligence sub-codes was related to the role of assumptions, followed by beliefs held. The highest frequency of EI sub-codes observed was that of organisational awareness (EI social awareness) and conscientiousness (EI self-management), followed by

influence (EI social management) and communication (EI social management).

Table 4 provides illustrative examples relating to these co-occurrences (own emphasis added).



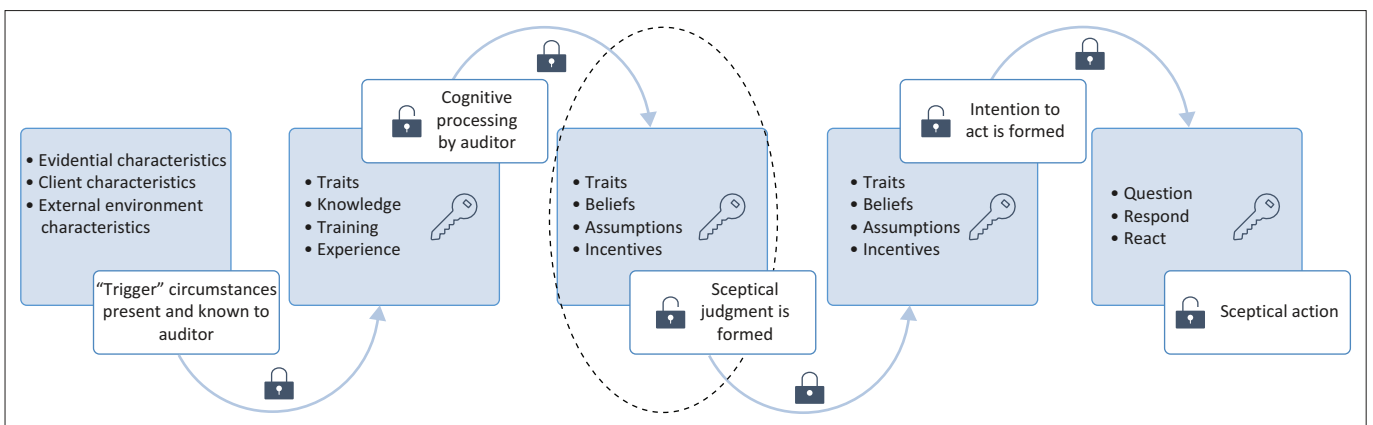
Source: Adapted from Nolder, C.J., & Kadous, K. (2018). Grounding the professional skepticism construct in mindset and attitude theory : A way forward. *Accounting, Organizations and Society*, 67, 1–14. <https://doi.org/10.1016/j.aos.2018.03.010>

FIGURE 3: Professional scepticism process step: Cognitive processing.

TABLE 3: Illustrative quotations relating to cognitive processing and emotional intelligence sub-codes.

Document	Quotation
40	'Cheshier's failure to perform an adequate audit reflects a <i>lack of experience [EXP]</i> in conducting the audit of a clearing broker-dealer and a <i>lack of professional judgment in electing to lead [EI lead]</i> the audit team <i>despite his lack of experience [EI org]</i> .'
19	'KPMG had <i>actual knowledge [KNOW]</i> of the <i>discrepancies</i> discovered by Arthur Andersen and the deficiencies in the tests performed by Arthur Andersen' because '[t]hree of the four principal members of the Arthur Andersen audit team, including the audit partner [EI infl] who had been in charge of the 2001 Audit [EI org], also performed the 2002 Audit, <i>initially as employees of Arthur Andersen and then as employees [EI team] of KPMG</i> .'
13	'Courts may infer circumstantial evidence of scienter [KNOW] from an auditor's failure to uncover a large-scale fraud, " <i>just as failing to detect a large boulder in front of your face qualifies as circumstantial evidence of blindness [EI org]</i> ".'
13	'... where auditor allegedly (1) <i>knew "selling prices were below their inventory cost [KNOW]</i> , thereby resulting in a loss," <i>yet did not undertake testing [EI consc]</i> that otherwise would have been required; (2) <i>was aware [EI org]</i> of blatantly false financial information, <i>but failed to investigate [EI consc]</i> , then certified that financials complied with GAAP...'
42	'Yet Defendants <i>were aware [EI org]</i> that the Four Funds continued to make interest payments to investors, despite those interest payments supposedly being derived from the profitability of the Funds ... This evidence <i>is sufficient to support a conclusion</i> that Defendants <i>knew or should have known [KNOW]</i> that ...'
6	'Because it is not possible to give each transaction the fullest scrutiny, professional auditing standards have come to recognise, through <i>decades of experience [EXP]</i> , particular factors that <i>arouse suspicion [EI selfA]</i> and call for focused investigation [EI init, EI lead]. These factors are the so-called "red flags" for which all auditors are trained to <i>remain alert [EI org]</i> .'
1	'... Audit Associates must <i>deploy advanced knowledge [KNOW]</i> and <i>practice professional judgment</i> precisely to <i>identify</i> the unique circumstances that <i>necessitate seeking further advice [EI init, EI comm, EI team]</i> .'
40	'A <i>reasonably prudent [EI trait]</i> auditor would have <i>gained an understanding [EI consc]</i> of the mechanics of the Alliance sweep arrangement directed by Sunpoint, given the <i>magnitude</i> of those transactions.'
1	'... role expected of Audit Associates – performance of tasks which may be significantly predetermined, <i>but with perpetual diligence</i> founded in <i>specialised knowledge</i> that can <i>compel informed deviation</i> from such guidelines.'
13	'[a]n auditor is a <i>watchdog [EI consc]</i> , <i>not a bloodhound</i> . As a matter of commercial reality, audits are performed in a <i>client-controlled environment [EI org]</i> .'

EXP, Experience; EI trait, Emotional intelligence trait; KNOW, Knowledge; EI consc, Conscientiousness; EI comm, Communication; EI confl, Conflict management; EI infl, Influence; EI lead Leadership; EI org, Organisational awareness; EI selfA, Self-assessment; EI team, Teamwork & collaboration.



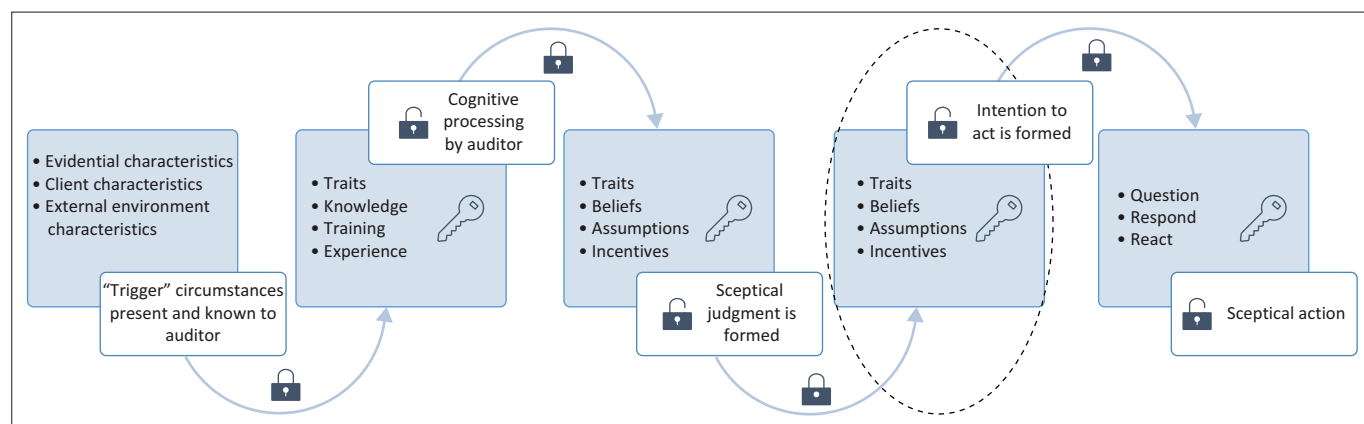
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FIGURE 4: Professional scepticism process step: Sceptical judgement.

TABLE 4: Illustrative quotations relating to sceptical judgement and emotional intelligence sub-codes.

Document	Quotation
7	'Buenger <i>never made any inquiry</i> about what the investor numbers meant. She <i>was not aware of the significance</i> of the investor numbers ... A <i>thorough and skeptical [TRAIT]</i> auditor would have determined [EI consc] what the investor numbers meant.'
7	'Buenger <i>should have called [EI comm]</i> Ramirez back after receipt of the e-mail to <i>determine why [ASSUME]</i> the email reflected that the loans were owned by United and <i>requested that Ramirez confirms in writing ...</i> Buenger failed to take either step; in fact, <i>she never spoke [EI consc, EI lead]</i> with Ramirez again after receipt of the e-mail.'
19	'Arthur Andersen had a <i>duty to inform [EI serv]</i> Allou's audit committee of any and all material discrepancies that they discovered during the course of the accounting service ... a claim may lie where an accountant engaged to perform services other than audit services negligently <i>ignored suspicious circumstances [EI]</i> and <i>did not inform [EI comm; EI serv]</i> its client of missing invoices, <i>permitting an employee's defalcation to go unnoticed [EI]</i> .'
51	'...has further alleged that the Deloitte failure resulted from the fact that Deloitte <i>disregarded specific "red flags"</i> that would have placed a reasonable auditor on notice that the Company was engaged in wrongdoing ... Those alleged "red flags" included: the fact that the Company <i>had persisted [EI infl]</i> ... models that the SEC had <i>repeatedly criticised [EI]</i> ... as inaccurate or outmoded.. the Company had <i>been warned by the SEC ...</i> there were " <i>multiple risk alerts</i> " [ASSUME] that related to the Company's ..., Bear Stearns <i>failed to disclose weaknesses [EI consc]</i> ...
15	'... the second general standard which requires that in all matters relating to the assignment, an <i>independence in mental attitude [EI selfA]</i> is to be maintained by the auditor.'
20	'DNTW <i>was aware</i> of problems with Subaye's internal controls but nevertheless " <i>relied [EI consc]</i> almost exclusively on Subaye and its management [ASSUME], particularly Crane [EI infl]'
63	'Regarding the Arthur Andersen Defendants, the complaint represents that the <i>accounting firm and Enron</i> had an <i>extensive relationship [EI infl]</i> going back to the creation of Enron in 1985 [INCENT; ASSUME].'
18	'... a Longtop officer informed a DTTC employee that <i>obtaining direct confirmation</i> of Longtop's major revenue contracts <i>would unduly delay the filing</i> of Longtop's Form 20-F ... <i>After a back-and-forth [EI conf]</i> between the Longtop officer, Palaschuk, and the DTTC auditor, during which the DTTC auditor <i>initially insisted [EI lead]</i> that "confirmation is a required procedure[.]" the DTTC auditor <i>eventually acceded [EI infl]</i> to Longtop's request...'
40	' <i>Knowing</i> that multiple representations contained in that letter were false [BELIEF], C & F should have been skeptical of the propriety of relying [EI] on the other representations [ASSUME] contained therein.'
37	'... it appears that Andersen last checked for top-side adjustments [EI consc] in 1999, and found none, or at least no questionable adjustments...in the following years, Andersen <i>simply accepted [ASSUME]</i> management's oral representations that no such adjustments had been made [EI org].'
37	'... the report of Andersen's expert consists of a litany of the <i>tasks Andersen performed</i> without a <i>meaningful analysis [EI selfA]</i> of whether those tasks <i>actually fulfilled Andersen's obligation [EI consc]</i> to conduct a GAAS-compliant audit [ASSUME].'
21	'... we agree that McBride's <i>passivity [EI trait]</i> was indeed an " <i>extreme departure</i> " from what an independent auditor should have done [EI achieve].'
32	'... alleges that EY <i>failed to exercise professional skepticism</i> while conducting the audits ... despite <i>knowing</i> that Ryan exercised a dominant influence [EI consc] over the Bank's lending and financial statement process, including ... <i>recklessly advancing</i> tens of millions of dollars to borrowers <i>without meaningful controls.</i> '

BELIEF, PS Belief; TRAIT, PS Trait; ASSUME, PS Assumption; INCENT, PS Incentives; EI, Emotional intelligence; EI achieve, Achievement orientation; EI consc, Conscientiousness; EI comm, Communication; EI conf, Conflict management; EI infl, Influence; EI lead, Leadership; EI org, Organisational awareness; EI selfA, Self-assessment; EI serv, Service orientation; EI team, Teamwork and collaboration.



Source: Adapted from Nolder, C.J., & Kadous, K. (2018). Grounding the professional skepticism construct in mindset and attitude theory : A way forward. *Accounting, Organizations and Society*, 67, 1–14. <https://doi.org/10.1016/j.aos.2018.03.010>

FIGURE 5: Professional scepticism process step: Intention to act.

Formation of intention to engage in sceptical action

The fourth process step is that the intention to act on the judgement made is formed (see Figure 5). Of the 23 instances were identified where the formation of the intention to act was either supported or hindered. The largest category was the presence of incentives (61%), followed by the role of assumptions (17%), the presence of traits (13%) and beliefs (9%).

The highest co-occurrence with emotional intelligence sub-codes was related to the role of incentives, followed by traits. The highest frequency of EI sub-codes was that of influence (EI social management) and leadership (EI social management), followed by conscientiousness (EI self-management) and organisational awareness (EI social awareness).

Table 5 provides illustrative examples relating to these co-occurrences (own emphasis added).

Sceptical action (or omission)

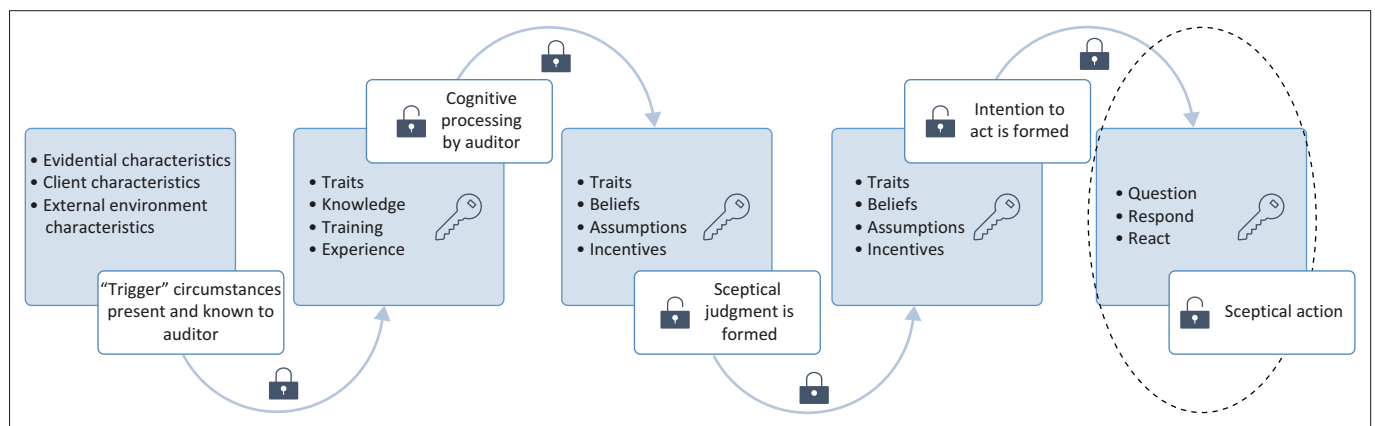
The fifth and final process step in the professional scepticism process is that sceptical action is taken (see Figure 6). Of the 72 instances of sceptical action (or omission) were identified. The largest category was a catch-all addition coded as 'other' (56%), followed by further questioning required (31%) and corroboration required (13%).

Examples of sceptical actions that were categorised into 'other' included the following: issuing a qualification in the audit report [D141] and reporting the issue as a material

TABLE 5: Illustrative quotations relating to intention formation and emotional intelligence sub-codes.

Document	Quotation
6	'... McCurdy pledged [EI infl] in his engagement letter to keep fees and expenses to a minimum [INCENT] in his audit ...'
18	'DTTC observed that its planned response to the audit risks that it had identified at Longtop would be to "[i]ncrease professional skepticism of all personnel involved in the audit engagement ..."
13	'... where auditor allegedly (1) knew [EI org] "selling prices were below their inventory cost, thereby resulting in a loss," yet did not undertake testing that otherwise would have been required; (2) was aware [EI org] of blatantly false financial information, but failed to investigate [EI consc], then certified [INCENT] that financials complied with GAAP ...'
42	'Defendants made no additional inquiry [EI] into these irregularities [EI consc], though they knew that the transactions were unlawful ... Instead, Defendants allegedly concealed [EI trust; EI lead] those transactions "and perpetrated the fraud." Defendants also allegedly made false accounting entries for McGinn Smith and the Funds and Trusts... Defendants also knew of misuse of investor funds by the principals for luxury purposes. [EI infl]'
7	'Buenger did not notify [EI trust] Keystone's management, the OCC, or even. Quay of the \$236 million discrepancy. Buenger testified it kind of got put on the "backburner" [INCENT; EI consc; EI comm; EI team; EI lead].'
15	'Scerra wanted to speak to Young in order to ask him whether his leaving the post of Chief Financial Officer and his allegations of "grey accounting" [EI org] had anything to do with the financial statements that E & Y had just certified; however, Scerra obligingly allowed himself [EI consc; EI infl] to be put off. As much as Scerra wanted to speak to Young ... he was more concerned about ensuring E & Y's fees [INCENT] than he was about speaking to Young.'
15	'E & Y's egocentric desire to get the reaudit work [EI; INCENT] is illustrated by the fact that it prepared an audit program for the reaudit two days before [EI trust] E & Y met with the CBI Board of Directors and one day before they withdrew their opinion.'

BELIEF, PS Belief; TRAIT, PS Trait; PS; ASSUME, Assumption; INCENT, PS Incentives; EI, Emotional intelligence; EI achieve, Achievement orientation; EI consc, Conscientiousness; EI comm, Communication; EI confl, Conflict management; EI infl, Influence; EI lead, Leadership; EI org, Organisational awareness; EI selfA, Self-assessment; EI serv, Service orientation; EI team, Teamwork & collaboration; EI trust, Trustworthiness.



Source: Adapted from Nolder, C.J., & Kadous, K. (2018). Grounding the professional skepticism construct in mindset and attitude theory: A way forward. *Accounting, Organizations and Society*, 67, 1–14. <https://doi.org/10.1016/j.aos.2018.03.010>

FIGURE 6: Professional scepticism process step: Sceptical action.

weakness [D127]. Examples of omissions that were categorised into 'other' included: failure to report fraud to authorities [D92], failure to design audit procedures that would adequately address risks identified [D176] and not performing adequate procedures to test risks identified [D134].

The highest co-occurrence with emotional intelligence sub-codes was related to the 'other' category, followed by questioning and then corroboration. The highest frequency of EI sub-codes observed was that of conscientiousness (EI self-management) and communication (EI social management), followed by organisational awareness (EI social awareness).

Table 6 provides illustrative examples relating to these co-occurrences (own emphasis added).

Implication of results

Research implications

The findings of this study indicate a proliferation of emotional intelligence competencies co-occurring with the process steps of professional scepticism. As a result, these findings support the notion of Nolder and Kadous (2018) that the emotional responses of auditors may be looked towards to aid in the conceptualisation of the professional scepticism construct.

Implications for process elements of professional scepticism

The findings are indicative that cognitive processing, the 'first key' to unlocking the proper processing of professional scepticism, is linked to the emotional intelligence of the auditor. The highest co-occurrence with an emotional intelligence sub-code was that of organisational awareness. This implies that cognitive processing of the implications of 'trigger' circumstances may fail in cases where the auditor does not have a sufficiently developed understanding of the intricacies of the organisation. The courts, in certain cases, would even impute the intention to defraud the auditor when 'a refusal to see the obvious ...if sufficiently gross, may furnish evidence leading to an inference of fraud' [D19]. In other cases, it appeared that the court had taken the actual awareness of certain circumstances as sufficient evidence that cognitive processing of the implications thereof had occurred.

The second highest co-occurrence was with that of the conscientiousness of the auditor. Cognitive processing may fail in cases where there is a lack of this particular self-management trait. Communication was also associated with cognitive processing. This may imply cognitive failure in several scenarios, for instance, if the auditor fails to

TABLE 6: Illustrative quotations relating to sceptical action and emotional intelligence sub-codes.

Document	Quotation
39	'During this process, Audit Associates are <i>expected to modify their prepared interview questions if necessary [QUES], ... note and interpret body language [EI org] ...</i> '
6	'He read the minutes of the meeting. He also spoke to the fund's attorney, who was present at the meeting. <i>But he did not speak [EI consc; EI comm] with any board member or with Bagwell ... to confirm ... [COR]</i> '
22	'Moreover, an auditor is <i>not free to disregard red flags [OTH], but instead must "acquire additional evidence [COR] as necessary ... rather than rationalise [EI infl] or dismiss" suspicious information [EI consc].</i> '
42	'Defendants allegedly <i>did not question [QUES] the absence of documentation for transactions; failed to question fraudulent bookkeeping entries; ... did not question commingling of assets in the Trusts; failed to obtain confirmations and other documents about transactions by the Trust [COR]; ignored the deteriorating financial position of McGinn Smith; filed false [EI trust] returns; concealed [EI trust] improper commissions, ... and failed to report "anomalies" to authorities [EI consc; EI comm].</i> Plaintiffs allege that by <i>failing to issue at least a "qualified" if not "adverse" opinion [OTH], Defendants' actions sent signals [EI infl] to investors that their money was safe.</i> '
37	'It points to an <i>over-reliance on the integrity of management [EI infl] ...</i> , including the <i>sharing [EI consc] with management of the materiality limits for its auditing tasks.</i> It offers evidence that Andersen ... <i>did not adequately consider [OTH] the need for an impairment analysis as WorldCom's financial condition deteriorated.</i> It places particular emphasis on Andersen's <i>failure to maintain a proper [OTH] set of work papers.</i> '
32	' <i>EY identified false statements made by Ryan but failed to investigate [QUES] the falsehoods or report them to the Audit Committee [EI comm; EI consc].</i> '
19	'In addition, the Third Amended Complaint states that Mayer Rispler <i>accepted [EI consc] the "special dating" explanation for \$24.5 million in uncollected accounts receivable without any of the required evidential support [REQ].</i> '
21	'[t]hroughout this time, Respondent McBride <i>never advised OCTA [EI comm; EI consc] regarding any of the information she had learned ...</i> The extent of Respondent McBride's inquiry was to ask Assistant Treasurer Raabe how Treasurer Citron planned to deal with this major market value decline and to <i>accept his answers without question [QUES; EI lead].</i> '
18	'... DTTC <i>informed [EI comm] Palaschuk that it had to perform "additional [audit] procedures" based on the CFO's hearsay statements ... DTTC did not recklessly ignore the third-party information [EI org] ...</i> Furthermore, DTTC <i>suggested [EI init] that Longtop hire an independent investigator to look into the hearsay allegation ...</i> '
39	'First, nothing in the record suggests that Audit Associates are circumscribed, by any KPMG manuals or policies, <i>in what they can say to clients [EI comm] while out on an audit, or in the kind of questions they can ask [QUES]. They are not given a script to follow in their contact with clients.</i> '

QUES, PS Question; REQ, PS Require; COR, PS Corroborate, OTH, PS Other; EI, Emotional intelligence; EI achieve, Achievement orientation; EI consc, Conscientiousness; EI comm, Communication; EI confl, Conflict management; EI infl, Influence; EI init, Initiative; EI lead, Leadership; EI org, Organisational awareness; EI selfA, Self-assessment; EI serv, Service orientation; EI team, Teamwork & collaboration; EI trust, Trustworthiness.

check their understanding of the trigger circumstance with a team member or with the client. Accurate self-assessment was also ranked highly – the implication being that cognitive processing may fail if the auditor is unable to self-assess his intuition or feelings about a trigger circumstance. Finally, the emotional intelligence trait of leadership was prevalent – this points to the need for leadership in managing communications with either team members or client representatives, 'standing your ground' so to speak, and ensuring that the auditor makes themselves heard.

The formation of sceptical judgement represents the second key to unlocking the professional scepticism process. It is noteworthy in this regard that the courts had, in certain cases of apparent lack of judgement, imputed awareness of trigger circumstances to auditors based on their duty.

It follows that the emotional intelligence attribute of conscientiousness is of particular importance in the process of forming sceptical judgement, as one would imagine that the conscientious auditor would be focused on performing their duties to a much greater extent than an auditor with a less developed sense of duty. In a similar vein, the importance of organisational awareness is brought to the fore when considering that the courts have imputed beliefs held to the auditor based on circumstantial evidence – again, being more an objective than a subjective parameter.

Furthermore, instances were found in which the auditor was dissuaded by client representatives from performing procedures that were initially planned. It is submitted that being influenced by clients in this manner may point to several emotional intelligence competencies, such as self-confidence, organisational awareness, conflict management, self-assessment, communication, influence and leadership. These competencies, if left underdeveloped, may lead to a failure of the process of judgement formation.

It is also apparent that a low display of emotional intelligence characteristics does not only plague junior staff members but also plague auditors on the partner level. It is equally clear that knowledge and experience alone are not sufficient to exercise judgement with discernment. This is in line with the findings of Zaini and Musyarofah (2020) who found auditor emotional intelligence to have a moderating effect on the detection of fraud in their analysis of the role that the level of knowledge, experience and professional scepticism plays in the auditor's ability to detect fraud. The third key to unlocking professional scepticism, namely forming the intent to act, proved more challenging to identify than the other process elements. Where coding of intent was administered, it was typically co-occurring with the lack of sceptical action taking (the fourth key) place and intent had to be inferred. Indeed, with both the intent to act and the action (or omission), the most prevalent emotional intelligence sub-codes again were those of conscientiousness, communication, organisational awareness, influence and leadership.

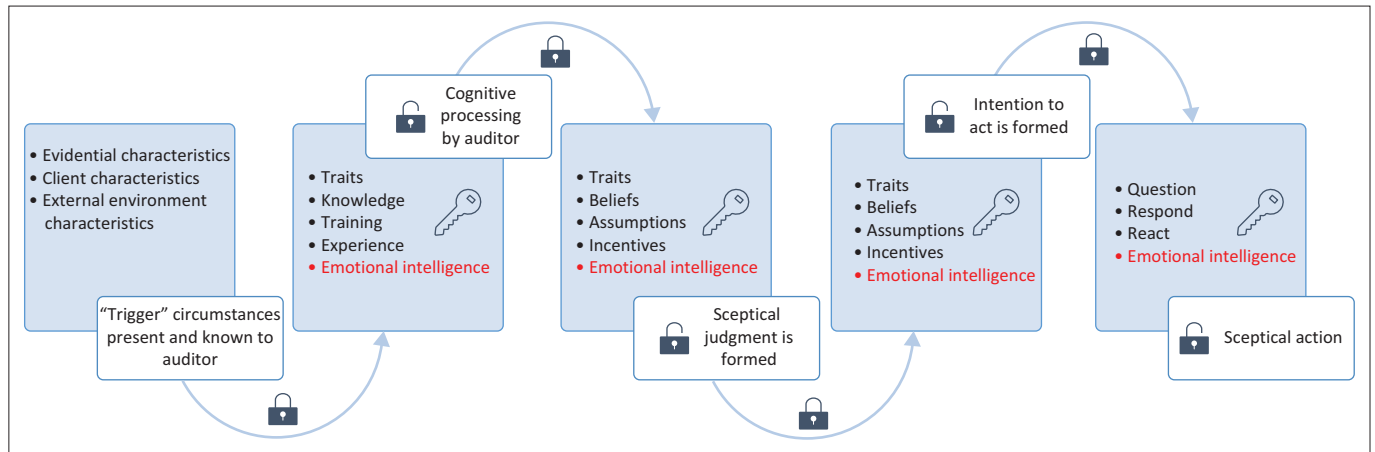
Expansion of a process model of professional scepticism

Based on the findings of this study, it is proposed that the process elements of professional scepticism illustrated in Figure 1 as adapted from the work of Nolder and Kadous (2018) be expanded to include the emotional intelligence of the auditor as can be seen in Figure 7.

In terms of relative importance, a hierarchy of emotional intelligence competencies, as it relates to the process steps of professional scepticism, is suggested based on a quantitative analysis of the frequency of findings. The hierarchy can be seen in Table 7.

Practitioner implications

Based on the findings herein presented, there is a clear association between the exercise of professional scepticism



Source: Adapted from Nolder, C.J., & Kadous, K. (2018). Grounding the professional scepticism construct in mindset and attitude theory: A way forward. *Accounting, Organizations and Society*, 67, 1–14. <https://doi.org/10.1016/j.aos.2018.03.010>

FIGURE 7: Professional scepticism process steps with emotional intelligence inclusion.

TABLE 7: Hierarchy of emotional intelligence sub-codes co-occurring with professional scepticism process steps.†

Emotional intelligence element	Professional scepticism process step				
	Trigger	Cognitive processing	Sceptical judgement formation	Intention to act formation	Sceptical action taken
Achievement orientation	nc	nc	14	nc	10
Adaptability	12	14	15	11	nc
Building bonds	nc	nc	nc	nc	nc
Change catalyst	nc	nc	nc	nc	nc
Communication	4	3	4	6	2
Conflict management	6	11	13	7	nc
Conscientiousness	1	2	2	3	1
Empathy	nc	nc	nc	nc	nc
Emotional self-awareness	14	12	12	14	nc
Influence	3	7	3	1	4
Initiative	11	8	11	10	9
Leadership	5	5	6	2	5
Organisational awareness	2	1	1	4	3
Self-assessment	10	4	5	9	6
Self-confidence	13	10	10	13	11
Service orientation	8	13	7	12	nc
Teamwork and collaboration	7	6	9	8	8
Trustworthiness	9	9	8	5	7

nc, not coded.

†, Scale range from 1 (highest frequency) to 15 (lowest frequency); ‡, not coded.

and the emotional intelligence of auditors. As the lack of professional scepticism has been identified as a potential root cause of audit failure, the development of emotional intelligence of the auditor provides a doorway to improving the exercise of professional scepticism. As a consequence, it is submitted that the development of emotional intelligence competencies will contribute to the lowering of the incidence of audit failure.

It is recommended that educational institutions, standard setters and firms alike incorporate at least the following aspects of emotional intelligence in their quest to develop the professional scepticism of the auditor:

- Development of self-awareness, in particular self-assessment abilities.
- Development of self-management, in particular that of conscientiousness.
- Development of social awareness, in particular that of organisational awareness.

- Development of social management, in particular communication and leadership skills, as well as the ability to manage sources of influence.

These aspects of emotional intelligence may aid in enhancing cognitive processing of trigger circumstances or 'red flags', improving the ability to form sceptical judgement, and forming the intention and ultimately the taking of sceptical action.

Limitations of the study

The study was subject to the following limitations:

- The documents reviewed contained a report of only the facts about the findings of liability as viewed from the perspective of the courts. The reported judgements do not contain a record of the complete testimonies of auditors, although in certain cases their *ipse dixit*⁷ is referred to.

⁷Own words.

- As the nature of the documents examined did not contain many references to the *ipse dixit* of auditors, there were certain aspects of emotional intelligence in the realm of self-intelligence, which could only be observed indirectly through the perspective of the court (such as self-control, emotional self-awareness, self-confidence and adaptability).
- In a similar vein, certain characteristics of emotional intelligence in the realm of social intelligence were not observed (such as empathy, building bonds and change catalyst), as well as other aspects that were observed mostly indirectly and in limited instances (such as developing others).
- Several cognitive biases have been indicated as having influenced the decisions of the judiciary such as outcome bias (Burke, 1995; Peecher et al., 2013), overconfidence bias (Lind, 2003) and hindsight bias (Donelson, 2012). One of the tasks that judges are required to perform is that of mentally recreating the decision-making environment that the defendant faced before (*ex ante*) the outcome of the decision was apparent. The difficulty lies therein that the judge has to do so *ex post* the event that led to the alleged decision-making failure (Kinney, 1994).
- The interpretation of the facts presented by the parties requires the exercise of judicial discretion. As such, the uncertainty created by potential biases held by the judiciary remains a matter for consideration. Burke (1995), for instance, noticed that it appears from the results of litigation against auditors that the judiciary tends to afford less weight to compliance with professional standards and relatively more weight to the financial loss suffered by users of financial statements.

Conclusion

One of the most prevalent causes of audit failure is a lack of the exercise of an appropriate modicum of professional scepticism by auditors while applying their judgement. Regulators make reference to the term professional scepticism, but it has largely fallen to scholars to attempt to conceptualise the notion. Scholars have pointed to the potential of future research in the area of the emotional responses of auditors in the understanding of auditors' judgement to inform both practice and regulators.

Against the aforementioned backdrop, this study was designed to examine the relationship between professional scepticism and emotional intelligence. A sample of 30 judicial opinions was examined where professional scepticism of auditors was considered to obtain empirical evidence of a possible association between the elements of professional scepticism, when viewed from a process perspective, and the characteristics of emotional intelligence. A significant overlap between the elements of professional scepticism and the characteristics of emotional intelligence was detected. In addition, the characteristics of emotional intelligence identified appeared not to be limited to co-occurrences with the elements of professional scepticism. This is suggestive of

a wider scope of application of emotional intelligence as it pertains to auditor behaviour.

The findings of this study support the notion that emotional intelligence characteristics, whether manifesting as traits or processing abilities, are associated with the exercise of professional scepticism by auditors. As such, emotional intelligence competencies become part of the resources available to the auditor, which may be used to unlock a particular process step in the application of professional scepticism. It would follow that interventions designed to enhance the emotional intelligence of auditors may have a positive effect on the levels of professional scepticism demonstrated by auditors and, as such, may ultimately aid in the prevention of audit failure. This research, therefore, gives credence to the inclusion of interventions promoting the development of emotional intelligence of auditors with the view of combating the incidence of audit failure.

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Competing interests

The author(s) declare that they have no financial or personal relationship(s) that may have inappropriately influenced them in writing this article.

Author's contributions

S.C. is the sole author of this article.

Ethical considerations

Ethical clearance to conduct this study was obtained from the Stellenbosch University Research Ethics Committee: Social, Behavioural and Education Research (REC: SBE) (no. USB-2020-16844).

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Data availability

The data that support the findings of this study are available upon request from the author. These data were derived from the following resources in the public domain: Google Scholar Case Law at <https://scholar.google.com/>.

Disclaimer

This research received no specific grant from any funding agency in the public, commercial or not-for-profit sectors.

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Appendix 1

TABLE 1-A1: Description of emotional intelligence competencies.

Variable	Description
Achievement orientation	Endeavouring to better or maintain high standards
Adaptability	Ability to manage and embrace change
Building bonds	Ability to strengthen relationships with others
Change catalyst	Conduit for bringing change through managing the emotional state of others.
Communication	Ability to effectively exchange information and ideas
Conflict management	Ability to resolve and manage conflict
Conscientiousness	Ability to approach a situation in a responsible manner
Empathy	Awareness and concern for others' perspectives and feelings
Emotional self-awareness	Recognition of own emotions and their effect on own actions or omissions
Influence	Ability to persuade
Initiative	Inclination to take action to take advantage of opportunities
Leadership	Ability to guide and inspire others
Organisational awareness	Awareness of organisational dynamics
Self-assessment	Awareness of own limits and strengths
Self-confidence	Awareness of own capabilities and sense of self-worth
Service orientation	Awareness of and willingness to meet customer needs
Teamwork and collaboration	Managing shared and collective goals within a group
Trustworthiness	Exercising honesty and integrity

Source: Boyatzis, R., Goleman, D., & Rhee, K. (2000). Clustering competence in emotional intelligence: Insights from the emotional competency inventory. In R. Bar-On & J.D.A. Parker (Eds.), *Handbook of emotional intelligence* (vol. 99, no. 6, pp. 343–362). Jossey-Bass