

PRACTITIONER SUMMARY

“It Doesn’t Make Sense”: Professional Skepticism As Sensemaking

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SUMMARY: Professional skepticism is a fundamental yet complex aspect of auditing. To understand how auditors exercise skepticism in practice, Xu, Yang, and Fukofuka (2023) conducted qualitative research based on stories provided by auditors. The study identified that professional skepticism is like a sensemaking process. It is triggered and unfolded through auditors’ actions and interactions with their audit teams and clients. These findings highlight the importance of understanding how auditors act, converse, and interact with clients to effectively exercise professional skepticism, which has important implications for auditing firms and practitioners.

Keywords: professional skepticism; sensemaking; auditing.

I. PROLOGUE

I have a client, a small trust that holds a lot of heritage-type assets. Like a museum, people come to see those assets on display. In their accounts, they have to account for those assets at fair value based on their accounting policy, and this particular staff member that I'm thinking of was assigned to audit all of the assertions to those assets. So he obtained a valuation, got a listing of those, and said, “show me where these are.” Then he went and found some in the museum and said, “show me where they are on the listing.” He worked through all required procedures. Then he said, “**something just doesn’t quite feel right.**” I said, “Ok, tell me what you meant?” And he said, “Well, when I go and look at the valuation and when I look at the listing, some of them have different names, and the locations aren’t quite right. I’ve met all the required procedures but something just doesn’t quite feel right about this. When I went around with the curator, they weren’t that

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knowledgeable about some of their assets.” And I said: “Ok, what do you think we should do about this?” And he said “Well, let’s just ask the CEO what his view is.” So we asked about how long the curator had been there. What we discovered was that some of the assets in their books were on loan to them, and it was sort of a revolving cycle as opposed to them actually owning those assets, but they were recognizing them in their books.

We wouldn’t have discovered that through any of the normal audit procedures. It would have been very easy for him to go and tick the box and say—They’re there; they exist. If he hadn’t asked some of those broader questions and got the sense that it wasn’t quite right. When he’d been around with the curator, it would have been very easy to say—Ok, this asset here, show me where that is, and they said—That’s it there, and you tick it off. But what he actually did was he just started asking some questions about that asset. Purely from an engagement interest perspective, he said—Where did this come from, what’s its historical significance, that kind of stuff. And the curator just didn’t know, which you’d expect a museum curator to know. So that’s kind of what drove his questioning. Something doesn’t quite feel right about this, and we found out that actually their assets were overstated by a significant proportion because they had things on loan that shouldn’t have been in their books.

So that’s an example of where it [professional skepticism] works really well, and he’d been with us about eight or nine months, straight out of university, exercised really good professional skepticism. (Senior Auditor, emphasis added)

II. INTRODUCTION

The quote above is a story narrated by a senior auditor during an interview to understand how auditors exercise professional skepticism in their daily work. Professional skepticism is a fundamental attribute of auditors, defined as “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence” (International Standard on Auditing 200). However, demonstrating a questioning mind or critically assessing audit evidence can have different interpretations and applications in practice (Glover and Prawitt 2014). In audit practice, the questioning mind and critical assessment of evidence are embedded in frequent collaborations and negotiations between auditors and clients, as well as ongoing interactions among an audit team (Pentland 1993). Auditors’ “hunch and intuition...are formed from repeated collective interactions within the audit team” (Power 2003, 385). However, how professional skepticism is applied within these ongoing interactions is not well understood.

Xu, Yang, and Fukofuka (2023) linked professional skepticism to auditors’ seemingly mundane actions, making the concept more practical and tangible rather than a “buzzword.” They interviewed 35 auditors based in New Zealand. Most (33) were from the Big 4 accounting firms, with two from other large firms. The auditors were categorized into two groups: junior auditors (under five years of experience and below the position of Audit Manager) and senior auditors (over five years of experience and at or above the position of Audit Manager). See Table 1 for details.

Through analysis of the stories collected from the interviews, Xu et al. (2023) were able to study professional skepticism in an episodic fashion. They find that exercising professional skepticism resembles a recursive sensemaking process. Sensemaking, as explained by Weick (1995) and Maitlis and Christianson (2014), occurs when people encounter something unexpected or confusing and try to understand it by finding a plausible explanation. It starts with noticing something unusual and asking, “What’s going on?” This is called noticing a cue. Then, people try different actions to create an interpretation until they find a plausible one to explain the cue. Simply put, people take

TABLE 1
Interviewees' Profile

Interviewee Category	Junior Auditor	Senior Auditor	Total/Mean
Number of interviewees	18	17	35
Gender			
Male	8	12	20
Female	10	5	15
Average age (years)	22.8	34.6	29
Average length of work experience (years)	1.6	11.9	7
Positions held	<ul style="list-style-type: none"> • Graduate • Associate/Intermediate • Senior Associate 	<ul style="list-style-type: none"> • Manager • Senior Manager • Director • Partner 	

Source: Xu et al. (2023). Reprinted with permission.

action and see what happens next. The understanding accumulated from sensemaking efforts is retained to inform future sensemaking. However, people may miss subtle cues or ignore them, and no sensemaking will occur. Sensemaking emphasizes enactment, meaning our actions shape the reality or environment in which we work or live in. We make sense of the reality shaped by the results or consequences of our actions. Importantly, sensemaking can be a collective effort, building on individual sensemaking. It occurs when individuals try to construct a shared understanding by exchanging provisional understandings and agreeing on a course of action (Maitlis 2005).

III. KEY FINDINGS

Noticing Cues That Trigger Professional Skepticism

Let us use the story in the quote above to illustrate the importance of noticing a subtle cue that triggers professional skepticism. The protagonist is a first-year auditor. While auditing the artworks, he *noticed* that the curator was not knowledgeable about the art in their collection, which triggered his skepticism. Although the junior auditor completed all the required audit tests for the assets, none of the tests provided a plausible explanation. He then shared his concerns with his senior manager (the interviewee). The manager listened, acknowledged the junior auditor’s cue, and guided him to ask the client’s CEO for more information. This led them to discover that some artworks were not the client’s assets.

This story reveals two important aspects of professional skepticism. First, professional skepticism may not be premeditated but can emerge from interactions, such as between the junior auditor and the curator. The junior auditor did not know he would find a misstatement; he was simply curious about the art. He noticed the curator’s unsure responses and reported it to the senior auditor. Second, professional skepticism is not necessarily an individual effort. The senior auditor affirmed the junior’s skepticism and guided him to further sensemaking efforts, even if it was a subtle cue. The senior auditor could have dismissed the concern, causing the junior auditor to drop the issue, and the sensemaking effort could have ceased prematurely. Furthermore, the story indicates that exercising professional skepticism requires auditors to improvise as situations arise rather than merely following the prescribed audit procedures.

Creating Interpretations of the Triggered Skepticism

Once professional skepticism is triggered, auditors need to create a plausible interpretation. Obviously, clients are a primary source of information when auditors question the cues they notice, but some stories indicated that skepticism could be settled prematurely when clients give reasonable answers, which turned out not to be the case. So many interviewees focused on the importance of substantiating clients' claims without "taking their word for it" in their stories.

I get the financial statements, which are all prepared and completed. I just scanned down—it is a private company—and the one line that is different is the employee expenses and it was much higher than the year before. And I thought—Oh, what's going on here? Everything else in the financial statements is where you'd expect it to be. But this just stood out as the one item that was unusual. So I asked the staff member—Did you enquire? Yes. What was the answer? Oh, they'd [the client] paid a bonus to the General Manager. Have you got any documentation for that? No. Right, dig further. The outcome is that the debit in the P & L was actually a loan to the employee. So no PAYE¹ was deducted, no interest and no FBT² were charged. Just because the guy [the General Manager] had asked the owner of the business if the business would support him. He'd said—Yes. And then he [the General Manager] managed to convince the accountant that this could just be pushed through the financial statements. So my young accountant just thought—Of course employees can get paid bonuses, that's Ok. But didn't ask the next question for the evidence. It's not until you ask for that, that you find out it is completely unexpected. (Junior Auditor)

This story illustrates a junior auditor who questioned a client about increased employee expenses but initially accepted the client's explanation without substantiating it. The client claimed the increase was due to a bonus paid to the General Manager, which seemed reasonable. However, professional skepticism requires corroborating explanations with evidence. Furthermore, this story also indicates the collective sensemaking of the two auditors. The junior auditor's insufficient skepticism was strengthened by the question from the senior auditor. Correspondingly, the senior auditor did not know the reason for the increased expenses until the junior auditor went back to the client for further evidence. Digging further into evidence led the auditors to create a plausible explanation that settled their skepticism.

Most stories concluded with auditors validating clients' explanations with further evidence or finding out clients were wrong, thus completing the sensemaking process. Auditors retained the understanding from one incident of exercising skepticism, which informs subsequent exercise of skepticism. For example, auditors learn which clients' quality of work is consistently poor or which clients tend to make things up. When they work with those clients again, their skepticism is heightened.

Sensegiving to Clients

A few stories reveal that professional skepticism is demonstrated in persistent questioning, particularly when clients are adamant. These stories emphasize the grit driven by their skepticism to push back their clients. The story below shows that after the junior auditor determined their client was wrong in recording an accrual, he challenged the client.

We have a client who has a two-week payroll cycle. At year-end, they had a large accrual payroll. Based on his [a junior auditor] maths, it should be a pre-payment, and the client

¹ PAYE, which refers to "pay as you earn," is an income tax that organizations must deduct from the salaries and wages of employees and pay on their behalf.

² FBT refers to fringe benefit tax, which is a tax on benefits provided to employees.

said—Well, no, because we then make a payment early in the year, so this is the accrual for that payment. The client did a good job of trying to bamboozle this graduate with chat, and the number was just on materiality, so it was the kind of thing that could have slipped, but he was very adamant in terms of getting his calendar out and drawing the dots. So this is when you last paid, and that gets you up to 31 December, so at 31 December, you shouldn't have any accrual. You should have a slight pre-payment, not an accrual. The client just fobbed him off but he just kept going with it, so they just escalated it to make sure he got a result. In terms of the response he was getting from the client, he was extremely skeptical because, as he understood it, he was pretty confident he was right, and that's what you want to see from your grads. (Junior Auditor)

The story shows the outcome of the junior auditor's sensemaking process, leading him to conclude that the client's treatment was incorrect but bamboozled him. Withstanding the pressure from the client, the auditor guided the client through his sensemaking process by showing them a calendar and counting the number of days. His skepticism is shorn through his actions to give sense to his client.

Overall, [Xu et al. \(2023\)](#) find that exercising professional skepticism begins with noticing "this does not make sense." They show the cues that trigger skepticism are emergent when auditors perform mundane audit tests, converse with clients or review audit workpapers. Noticing a cue is often impromptu and fleeting. This means cues can be dismissed or genuinely overlooked. Auditors then figure out "what to do next" to create a plausible explanation. However, exercising professional skepticism could be ceased at any point due to pressures with deadlines and budgets.

IV. PRACTICAL IMPLICATIONS

Professional skepticism is commonly accepted as an inquiry mindset or a questioning mind. However, this perception can be ambiguous because a mindset is not directly observable. As an interviewee said, "how have we demonstrated—what did we **do** that was professionally skeptical" (emphasis added). From a sensemaking perspective, auditors' everyday, seemingly mundane checks and conversations are crucial in triggering and settling their professional skepticism. The sensemaking process provides significance and meaning to auditors' microlevel actions, thus encouraging them not to treat these acts as mere box-ticking exercises. It also directly links auditors' professional skepticism to their more observable and tangible actions. This perspective is likely to make professional skepticism more readily comprehensible. Our practical implications are discussed from the following two aspects for auditing firms and practitioners.

Actions and Interactions in Professional Skepticism

[Xu et al. \(2023\)](#) show that professional skepticism is fluid and dynamic, making it easy to overlook or dismiss cues. Appropriate skepticism is reflected in how auditors notice and respond to cues arising from their actions. Auditors must recognize that their mundane checks are important as misstatements and errors do not reveal themselves. Conversations can yield cues that otherwise would not be available. Some stories even show auditors going beyond prescribed audit procedures; otherwise, nothing would have been found. This underscores the need for auditors to remain attentive to subtle cues that emerge from their actions and interactions rather than relying solely on predetermined procedures.

The focus on actions suggests that the failure to exercise professional skepticism may not solely be a mindset issue but also a matter of effort and attentiveness. Auditors who see themselves as naturally trusting can develop greater confidence in their skepticism. Conversely, auditors naturally skeptical should remain cautious and attentive to the outcomes of their actions and interactions. Furthermore, this indicates that auditing firms should promote attentiveness to

enhance professional skepticism. This is particularly relevant in the social media era, where auditors may have shorter attention spans. Accounting firms could introduce training to enhance attentiveness and raise auditors' awareness of the importance and consequences of their actions. This may contribute to the development of professional skepticism.

Collective Sensemaking in Professional Skepticism

Xu et al. (2023) find that professional skepticism is not solely an individual endeavor but involves collective sensemaking efforts within an audit team. This aspect reinforces the collaborative approach to audit work. Each team member holds a different piece of the puzzle, encouraging junior auditors to share their cues with their seniors. Junior auditors frequently interact with clients and source documents, allowing them to notice cues that might otherwise go unnoticed. Therefore, senior auditors should be open to the observations and questions of their junior colleagues, recognizing them as valuable “eyes” and “ears” in the field. Practically, this means junior auditors should raise issues even when unsure, and senior auditors should not quickly dismiss these observations. Instead, senior auditors should work with junior auditors to determine whether further sensemaking is warranted.

Recognizing the important role that junior auditors play in coconstructing skepticism may increase their confidence and make them feel more empowered. This is likely to contribute to a culture that encourages them to raise cues without fear. Additionally, firms should provide feedback, recognizing and rewarding auditors who demonstrate professional skepticism. Linking the behavior of being skeptical to performance appraisal outcomes can encourage juniors to express their concerns more comfortably, thereby fostering a culture that values sensemaking and continuous learning and ultimately enhancing professional skepticism across all levels of the audit team.

Clients play an important role in directing auditors' sensemaking efforts. Xu et al. (2023) reveal that subtle cues are more observable during face-to-face interactions with clients. This indicates the importance of fostering a collaborative relationship with clients to enhance auditors' professional skepticism. In-person interactions can encourage clients to be more open, allowing auditors to observe nuances in body language, tone, and hesitations. In a post-COVID-19 world, the prevalence of flexible working arrangements has increased reliance on remote interactions and electronic communications. Consequently, auditors have fewer opportunities to engage with clients directly, which may hinder their ability to notice important cues. Therefore, it is essential to encourage auditors to work on clients' premises, whenever possible, to facilitate meaningful interactions and the identification of subtle cues.

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