

Long-term effect of economic status on auditors' professional skepticism

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ABSTRACT

The goal of the current study was to look into how financial stability affected auditors' professional skepticism. One of the elements that reflects the level of an auditor's professional skepticism in the auditor's choices is prior job experience. Regarding this, 759 businesses registered on the Iraq Stock Exchange were chosen between 2011 and 2021 using the systematic elimination approach. Due to the 2D structure of the logistic dependent variable, the research's regression model was put to the test. The outcome of the research hypothesis test revealed that the auditor's decision-making and judgment were significantly impacted by the economic climate at the start of their assignment. Additionally, it was discovered that businesses that have their financial reports audited by auditors during a recession are less inclined to do so. Our study supported prior research on a range of demographics, including economists, scientists, attorneys, investment bankers, and corporate executives, by demonstrating that the early career stage is a crucial era for auditors' formative development. Our findings may have wide-ranging repercussions for the auditing industry. Our findings imply that there may be a dearth of skeptic auditors in a region following extended periods of economic expansion. Our research serves as a first step in the direction of a deeper comprehension of the formation and recruitment of auditors in the labor market.

Keywords: Audit judgment, Downturn, Professional skepticism.

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1. Introduction

Financial crises' inception and spread in recent decades have affected many nations' economies both directly and indirectly. Therefore, in order to address this dilemma, it is essential that all of the nations that are directly or indirectly impacted adopt a set of consistent policies; otherwise, a slump will dominate the forecast for global economic growth. One of the phases of economic cycles is the downturn, during which we will observe a sharp decline in the output of economic activities like income, employment, and demand for goods and services, which will have an impact on the GDP [1], [2]. An economic downturn is characterized by a decline in demand for products and services. If the recession worsens, there will be more bankruptcies, unemployment, and issues for many businesses [3]. Due to shifting economic cycles, these companies will alter their financial reporting, which will ultimately lower the company's worth in the long run [4], [5]. The quality of firms' financial reporting has been under scrutiny in recent years, and financial reporting has been held accountable. because business managers have the ability to alter financial and profit statistics using various accounting techniques and variables like estimation, allocation, and judgment. Financial reports' clear and reliable information to play a significant part in users' ability to foresee, judge, and make well-informed decisions is one of the primary concerns of investors for ensuring that changes and interpretations of financial reports are dependable in assessments and decisions. In this regard, the evidence demonstrates that the annual audit of financial statements, which serves as a monitoring mechanism and a mechanism for identifying significant misstatements, is a tool that can increase the predictive power of financial information by enhancing the quality of financial information and result in a

decrease in investors' worries and risks associated with using financial reports [6], [7]. In fact, the evidence demonstrates that an independent and high-quality audit produces a double added value that enhances and more accurately reflects the company's specific information in the decisions of investors, in a way that significantly influences investor behavior in the capital market [8], [9]. It is plausible and logical to assume that as a result of increased investor confidence in auditing, the capital market will respond more favorably to independent audits of higher caliber. Because investors typically lack sufficient knowledge of a company's operations, they view audit services as reassuring [10]. The decisions auditors make on a daily basis are one of the most significant aspects of auditing. Despite many tools and techniques employed, auditing is a decision-making process, and auditors must make decisions and judgements in a variety of areas. For various organizations, including managers, creditors, etc., audit judgment is crucial. As a result, it is inevitable that auditors encounter a wide range of circumstances that call for discretion in the application of auditing standards. According to a recent report, auditors' types of activities may vary depending on the economy [11], particularly if they begin their work in a difficult financial scenario.

According to some academics, the beginning of a person's career marks a significant transition from the world of education to the world of work and is therefore a crucial time [12], [13]. When people first enter the workforce, they frequently suffer anxiety and cognitive freezing and are more susceptible to contextual cues [14].

Since this is the time when a person is most likely to establish a professional attitude, the environment in which he started his career will have an impact on his subsequent behavior. For a range of people, including economists, scientists, attorneys, investment bankers, and corporate executives, long-term events have consequences that last longer than a critical period [15]. Economic status has been linked to long-term repercussions on individuals joining the workforce. Given the value of professional skepticism in the face of extreme uncertainty during recessions, it is assumed in this study that auditors who enter the profession during those periods are likely to be exposed to a setting that emphasizes the value of professional skepticism and that auditors' activities in the years to come will also be influenced by the traces of their initial setting during their careers. Because the recession negatively affects businesses' revenue and because leaders frequently feel pressure to increase their financial performance during those times. Therefore, despite the many uncertainties present during a downturn, auditors should be more suspicious. This argument holds that as auditors can be expected to devote more attention to fraud detection during downturns (which is why we refer to these individuals as "downturn auditors"), they will heighten skepticism. They actively practice skepticism, regard it as a crucial aspect of the auditing profession, and exhibit traits indicative of beginning their first project in the future. Therefore, the purpose of this study was to determine if auditors who began their professions during a downturn exhibit a higher level of professional skepticism than their counterparts.

2. Literature review

2.1. Professional judgment in auditing

Judging in courts is extremely similar to the profession of auditing. Both the judge and the auditor are presented with claims; they gather and assess the evidence in support of the claim; and lastly, based on the standards given, they render a judgment. Both of them ought to be impartial in their remarks and conclusions [10]. To the best of our knowledge, there is no standard method for using professional judgment, although doing so correctly is a crucial component of carrying out an auditor's responsibilities. Professional judgment is the act of making a decision about a financial reporting-related issue that is analytical, based on experience and knowledge (including knowledge of one's own limitations and pertinent standards), fair, prudent, and accompanied by trustworthiness and an understanding of responsibility towards the people who will be impacted by the decision's results [16]. In complicated, ambiguous, and constantly-changing circumstances, especially when standards aren't ideal, professional judgment is most useful. To exercise professional judgment, one should speak with informed individuals, take into account the decision's potential repercussions, and record the analytical steps taken to arrive at the decision [16].

2.2. Professional skepticism of the auditor

Skepticism is a crucial attitude that improves the auditor's capacity to use professional judgment in spotting and handling potential misstatement situations. Professional skepticism entails a critical assessment of audit evidence and entails issuing a minor caution for evidence that conflicts with other audit evidence [17] or raising concerns about the veracity of data gleaned from management and those in charge of governance. For auditors to draw the right conclusions from their job, they must continually exercise professional skepticism [17].

2.3. Reasons for the importance of professional skepticism

Accounting regulations and company activities are becoming more complex. Management must use discretion and be more involved in the estimates and accounting of significant amounts reported in financial statements as a result of accounting standards that are based on principles, the widespread application of fair values, and subjective accounting measurements and estimates [18]. It is not surprising that there is a lot of interest in the idea of the application of professional skepticism by auditors and others in the financial reporting chain given the rising complexity and subjectivity as well as the ongoing emphasis on reliable financial reporting [19]. Some contend that elements like non-auditing services or the employment of auditors for an extended period of time might lower audit quality over time by lowering professional skepticism, implying that under these circumstances management statements are more likely to be accepted without investigation. This prompts more inquiries and emphasizes the need for the auditor to use professional skepticism [20]. The worry of auditors' use of professional skepticism is frequently highlighted in quality control audit reports from auditing institutions around the world. The auditing of financial statements must include professional skepticism. However, initiatives and recommendations to encourage professional skepticism are successful when there is a shared grasp of its fundamental idea.

It is required to go over a number of variables that affect professional skepticism at various structural levels. Identifying the standards that have already been applied to enhance professional skepticism is also crucial [21]. Therefore, recommendations and solutions that do not take into account the theories and elements influencing professional skepticism cannot aid in enhancing audit quality. To make sound professional judgment, one must be professionally skeptical. However, it is simply one of the requirements for the auditor to use sound professional judgment. For instance, skepticism alone, without prior accounting and auditing knowledge in the target industry, is insufficient [22]. Reviewing related but dissimilar definitions of professional skepticism in academic literature and auditing standards led to the discovery of these terms. For instance, both US and international auditing standards place a strong emphasis on the review of audit evidence. Questioning, assessment, explanation, and documentation in various situations with various risks at the level of accounts and claims should, however, be specifically stated because the phrase "questioning mind and critical evaluation of audit evidence" is somewhat ambiguous [23]. In order for the auditor to ensure that the proper level of professional skepticism has been used to gather and evaluate audit evidence, the concept of professional skepticism as a spectrum necessitates an accurate initial assessment of risk and its re-evaluation throughout the audit [9]

2.4. Economic uncertainty

Economic entities, including businesses, investors, financial institutions, and the government, make decisions with a short decision horizon and adjust them based on the worst case scenario to minimize damage in the event of unfavorable events [24]. Because of uncertainty, economic entities are cautious to make long-term decisions because the future outlook is unclear. Since their decision-making horizons in such circumstances will be significantly shorter, the corporations will need to reevaluate their investment choices, which are typically long-term ones [25]. In contrast, if investors perceive a decline in the ratio of their savings to consumption in the future, they will alter their consumption patterns and may decide to consume more now or transfer their savings to asset markets that can account for uncertainty in the future [25]. Economic uncertainty can exacerbate the information asymmetry between economic actors and lead to an increase in the bias in their conduct, according to [26]. According to the initial circumstances before the occurrence of uncertainty, economic units adopt a different perspective of the economic conditions, which in turn causes the allocation of economic resources to change and be affected by the state of macroeconomic variables [25].

2.5. Auditor's professional skepticism despite the economic uncertainty

Studying the macro-factors influencing investments, such as economic, political, social, cultural, and technological factors, is necessary for market security in order to draw in more capital. By accurately estimating potential risks and returns, investors should then make the right decisions [27]. We can list the state of the economy and the associated uncertainties among these issues. In the actual world, there is a great deal of economic uncertainty, which increases the risk associated with making decisions about economic aspects and influences people's behavior [28]. When future events are either unclear or unknown or, even when they are known, their propensity cannot be forecast, there is uncertainty. In other words, a lack of predictive knowledge is the primary source of uncertainty. Making future judgments in such a circumstance is challenging and difficult, which has an impact on the choices made by economic actors [29]. Therefore, there is a need for the

auditor's professional skepticism because different economic conditions and information asymmetry between investors inside the company and those outside the company create a demand for it. Professional skepticism lowers managers' motivation and ability to manipulate accounting numbers, which in turn reduces information asymmetry and results in loss.

Due to the potential for worsening operating performance, increased external supervision, and restricted access to capital, periods of economic uncertainty present difficult circumstances for businesses. To meet the expectations of the capital market, creditors, or potential investors, these circumstances may raise the incentives for businesses to adopt practices that may be erroneous or incongruent [30]. We should also inquire about the role of auditors, who may have received millions of dollars in compensation for their assessments of the financial accounts of businesses. In uncertain economic times, auditing is difficult. As a result, auditors need to exercise the proper amounts of professional caution and skepticism. The status quo should be questioned in these situations and professional skepticism should be raised [16]. Throughout the audit, the auditor should maintain a professional skepticism. Professional skepticism entails speculating as to whether audit data and findings support the existence of a significant misrepresentation. The auditor should take into account situations like the heightened risk linked with the probable rise in external pressure that management faces in times of downturn [17], even though the auditor neither assumes that management is dishonest nor assumes unquestionable honesty. When verifying management statements, a healthy dose of professional skepticism is necessary. Management justifications ought to make sense. Wherever possible, the auditor may also need to speak with members of the board of directors or the audit committee in order to confirm management's answers with additional evidence [24]. When there are major risk factors or a high likelihood of a critical mistake, it is fair to have some suspicion. In the case of undetected errors, cautions, or other risk factors that suggest the potential for a significant inaccuracy. Continued usage of potential claim skepticism can result in unwarranted costs being placed on the employer and ultimately investors [17]. On the other side, overusing the impartial technique prevents sufficient evidence from being obtained in areas that are more susceptible to fraud or severe misrepresentation. There will be more uniformity in the application of the proper level of professional skepticism if audit institutions, standard developers, legislative authorities, and quality control inspectors take the word into consideration and provide useful guidance [31]. According to the amount of risk, practical guidelines should reflect variations in the application of professional skepticism as well as variations in the type and scope of audit evidence and documentation [16].

The foundation of Levin's field theory (1917) is the idea that the field that is present at any one time shapes behavior. According to this hypothesis, factors like the person's hatred of dirt are significant factors that have an impact on them in their current state. As in Gestalt theory, attention is given to perceptual phenomena, and the force field is taken into account because the person along with the environment, is a structure which is divided into various dimensions, according to another principle of Levin's theory. Friends, aspirations, self-image, wants, aptitudes for resolving different issues, and activities that he engages in in various ways are some of the characteristics of a person [17]. Levin was inspired by this notion to think about how a person's thoughts operate inside a psychological setting, which he dubbed their "life space." All events—past, present, and future—that might have an impact on us are included in our life space. From a psychological perspective, each of these incidents can influence how someone behaves in a particular circumstance. As a result, each person's requirements interact with his psychological environment to form his life space. The amount and type of experience that a person has gathered determines the different levels of growth that are visible in their life space. Levin contends that a person's actions are always influenced by the circumstances of his existence, which are ultimately the result of interactions between that individual and his environment. He therefore believes that behavior and action are the product of the interplay and effect of the individual and the environment rather than being purely produced by the person or the factors that determine the environment. According to him, a person should be examined in light of the group to which they are connected. Levin makes a distinction between "internal" and "external forces" that have an impact on changes in the person's living space when it comes to the group's influence on a person's conduct. "External forces" are those brought on by pressures from outside the person while "internal forces" are those brought on by the person's own demands. Levin (1917) claimed that a person is affected by both internal and external influences that result in social changes in their environment. As a result, it is simpler and more successful to affect social change through the group than it is through an individual. The behavior of auditors can be seen as a product of their interactions with the physical and social environments in which they function, according to this view, rather than being explained by their nature. According to [32] for instance, the auditor's experiences in the environment have a beneficial impact on his professional skepticism. As a result, the nature of auditors may not be independent of the current social field.

According to [33] it is important to note that a heavy workload causes auditors' professional skepticism to decline. As a result, we can only successfully predict the conduct of auditors when we can take into account the social environment and the dynamics present at a particular time, such as the high workload of auditors in a scenario where the company had a poor economic condition. Therefore, a poor economic situation in which an auditor first began his work is referred to as a social field, and by understanding it, one can gain insight into how auditors behave. Auditors who enter the profession at those times are probably exposed to a setting that values professional skepticism, and these auditors are also impacted by the impact of their early professional environment in the years that follow. Due to the downturn's detrimental effects on businesses' revenue, leaders are frequently under pressure to increase their financial performance during those times [16]. Despite great uncertainty, auditors should be more skeptical during a recession. This argument states that during a recession, fraud detection should receive increased attention from auditors. Therefore, it is presumed that auditors who enter the field during a recession (referred to as "downturn auditors") view skepticism as a crucial attribute of the audit profession and actively adopt a skeptical mindset, as well as having characteristics of beginning their primary work in the future. Accordingly, the following research hypothesis will be put forth: The auditor's professional skepticism (detection of fraud) is impacted by the fact that his career began during a recessionary period.

This research has two significant ramifications. It starts by looking at the auditor's personality attributes, namely his or her professional skepticism, which hasn't gotten much attention in Iraq. Second, by supplying data about the initial and delicate stages of auditors' work, this study will add to existing research in the area. We are seeking data that demonstrates how the auditor's judgment and decision-making in the year and even years later will be influenced by the current economic situation at the time of his entry into the labor market.

3. Methods

The regression model for testing the research hypothesis will be as follows:

$$PH_{it} = \alpha_0 + \beta_1 Downturn_{it} + \beta_2 BS_{it} + \beta_3 DUALITY_{it} + \beta_4 AC_{it} + \beta_5 MEET_{it} + \beta_6 SAF_{it} + \beta_6 AMA_{it} + \beta_6 AF_{it} + \beta_6 LEV_{it} + \beta_6 SIZE_{it} + \varepsilon$$

Professional skepticism: If the company has detected fraud, it will be equal to 1 and otherwise zero. Downturn: If the auditor's starting year is downturn, it will be equal to 1 and otherwise zero.

3.1. Control variables

BS: The size of the board of directors: It is equal to members of the board of directors

Duality: the duality of CEO: a two-faceted variable that will be equal to 1 if the CEO is also the chairman of the board of directors, otherwise zero.

AC: Audit committee: if there is an audit committee, it will be equal to 1 and otherwise zero.

MEET: the number of board meetings

SAF: If the company has a subsidiary, it will be equal to 1 and otherwise zero.

AMA: If the company has a purchase of more than 20% compared to the last year, it will be equal to 1 and otherwise zero.

AF: Logarithm of the auditor's fee for the current year.

LEV: Financial leverage calculated by dividing total liabilities by total assets.

SIZE: Company size calculated by the market value of assets.

4. Results and discussion

All companies admitted to Iraqi Stock Exchange. The sampling method was random by the method of systematic elimination and it is considered by the researcher in the data analysis. The following conditions are regarded for sample selection:

1. The companies were listed on the stock exchange before 2005, prepared and submitted their financial statements to the stock exchange organization during 2011-2020, and data and information related to the variables selected in this study are available.
2. The financial year of the companies should end at the end of March of each year and they should not have a trading halt.
3. During the years studied by the research during 2011-2020, their trading symbol was not removed from the stock market and their financial year ends on December 31 (continuous and stable activity in the capital market).
4. It must not be part of banks and financial institutions (investment companies, financial mediation, holding companies, banks and leasing companies), because the nature of management, activities and financial reporting are different.

As a result of using noted conditions, 69 companies were selected from the statistical population to perform the tests. The research period is 11 consecutive years, including 759 companies. The scope of the research is all the companies admitted to the Iraqi Stock Exchange during 2011-2020. Knowing the descriptive statistics for the variables is important in order to assess the general traits of the variables and their precise examination. The data relating to the variables employed in the research are shown in Table 1 with their descriptive statistics.

Table 1. Descriptive statistics of research variables

variable	symbol	mean	Median	maximum	minimum	SD	skewness	kurtosis
Board size	BS	7.159	7	13	5	1.390	1.204	6.794
Board meeting	MEET	9.140	9	28	4	3.072	2.329	12.132
Audit fee logarithm	AF	1.867	1.609	5.598	0.000	1.572	0.070	1.550
Financial leverage	LEV	0.505	0.357	44.339	-0.005	1.692	23.105	594.174
Company size	SIZE	10.073	9.104	15.097	5.111	2.592	0.263	1.632

The mean, which denotes the distribution's equilibrium point and center of gravity and is a useful indicator of centrality, is the primary centrality metric. For instance, the average financial leverage number is 0.505, which shows that the majority of the data are centered around this figure. Dispersion parameters are, in general, a way of measuring how far apart two things are from one another or how far apart they are from the average. The standard deviation is one of the most crucial parameters for dispersion. Board meeting and board size have values of this parameter in general descriptive statistics that are equivalent to 3.072 and 1.390, respectively, suggesting that these two variables have the highest and lowest standard deviations. A measure of the distribution function's symmetry or asymmetry is skewness. The skewness is 0 for an entirely symmetric distribution, positive for an asymmetric distribution with kurtosis toward higher values, and negative for an asymmetric distribution with kurtosis toward lower values. In general, a variable is considered to be near to a normal distribution if its skewness is between -0.5 and +0.5. The size of the company and the audit fee's logarithm have skewnesses that are relatively near to those of the normal distribution among the research variables. A distribution's height is indicated by kurtosis. In general, a variable's kurtosis of 3 indicates that it will be near to the normal distribution. None of the research variables had skewness greater than 3. The nominal and rank scales, which are employed for qualitative variables, are part of the level of measurement for particular variables. Since these variables are frequently two-dimensional or multidimensional, the terms mean, standard deviation, skewness, and kurtosis are inappropriate for describing them. Since using these indicators for qualitative factors is illogical. The mode and frequency percentage should be used to characterize such variables. A 2D variable's frequency % shows what proportion of its data have a code of 1 and what proportion have a code of 0.

Table 2. Variable frequency distribution (professional skepticism (PS))

title	F	%
Failure to renew the financial statement	351	46.25
Renew the financial statement	408	53.75
total	759	100

Table 3. Variable frequency distribution (bad economic status, downturn)

title	F	%
economic boom	345	45.45

Downturn	414	54.55
total	759	100

Table 4. Variable frequency distribution (dual role of the CEO)

title	F	%t
Companies without dual role of the CEO	748	98.55
Companies with dual role of the CEO	11	1.45
total	759	100

Table 5. Variable frequency distribution (audit committee)

title	F	%
Companies without audit committee	250	32.94
Companies with audit committee	509	67.06
total	759	100

Table 6. Variable frequency distribution (commercial group)

title	F	%
Companies without a subsidiary	220	28.99
Companies with a subsidiary	539	71.01
total	759	100

Table 7. Variable frequency distribution (increased purchase)

title	F	%
Companies without an increased purchase (at least 20%)	442	58.23
Companies with an increased purchase (at least 20%)	317	41.77
total	759	100

The frequency distribution of qualitative characteristics is displayed in the tables above. For instance, it can be shown that 41.77% of the businesses have increased their purchases by at least 20% from the previous year. Verifying the relevance of the study variables is one of the things that should always be taken into account before fitting the models. The computed regression model is falsified by the variables' non-stationarity, or, to put it another way, their random time series. It will result in inaccurate conclusions about the link between the variables if the time series variables used to estimate the model coefficients are unstable and there is no conceptual relationship between the model variables.

Table 8. Stationarity of research variables

variable	statistic	significance	result
BS	65.920	0.000	<i>stationary</i>
MEET	4.847	0.000	<i>stationary</i>
LNAF	5.142	0.000	<i>stationary</i>
LEV	4.637	0.000	<i>stationary</i>
SIZE	12.392	0.000	<i>stationary</i>

As shown in Table 8, the significance level of all the variables is less than 5%, indicating the significance of the variables. The variance inflation factor (VIF) in statistics measures how severe multiple collinearity is. In fact, an indicator is provided that indicates how much collinearity has increased the changes connected to the calculated coefficients. The magnitude of the VIF value can be used to determine the severity of multiple collinearity. If the VIF is very close to 1, collinearity is not present. According to an empirical rule, multiple collinearity is high if the VIF value is more than 10.

Table 9. Collinearity test for regression model

variable		VIF
Bad economic status	DOWNTURN	1.008
Board size	BS	1.275
Dual role of the CEO	DUALITY	1.009
Audit committee	AC	1.358
Board meeting	MEET	1.262
Commercial group	SAF	1.392

Increased purchase	AMA	1.053
Audit fee logarithm	LNAF	2.219
Financial leverage	LEV	1.029
Company size	SIZE	2.924

The values of the variance inflation factor are less than 10, which excludes collinearity, according to the findings of the collinearity test in the aforementioned table.

Another classic assumption of regression is the absence of specification error in the model. Based on this test, it is possible to detect the incorrectness of the shape of regression function. In this test, the null hypothesis and its opposite hypothesis are as follows:

H0: The functional form is correct.

H1: The functional form is not correct.

Table 10. Results of the specification test of the model

Model	test	t-statistic	significance level
Research model	Ramsey reset	1.401	0.161

Based on the values presented in above table, the significance level of the research models is more than 0.05%. So the null hypothesis that the functional form is correct is confirmed.

For Research hypothesis test, H0 stands for the beginning of auditor's activity in bad economic status (downturn) does not affect his professional skepticism (representation of the financial statement).

H1: The beginning of auditor's activity in bad economic status (downturn) has an effect on his professional skepticism (representation of the financial statement).

Table 11. Final estimate of the second regression model

Variable	Symbol	Coefficient	Standard error	z-statistic	Significance
bad economic status	DOWNTURN	0.508	0.119	4.252	0.000
Board size	BS	-0.123	0.019	-6.373	0.000
Dual role of the CEO	DUALITY	0.278	0.020	13.839	0.000
Audit committee	AC	-0.145	0.182	-0.796	0.326
Board meeting	MEET	-0.338	0.103	-3.275	0.001
Commercial group	SAF	0.121	0.189	0.639	0.424
Increased purchase	AMA	-0.260	0.058	-4.439	0.000
Audit fee logarithm	LNAF	0.045	0.010	4.489	0.000
Financial leverage	LEV	0.266	0.126	2.104	0.025
Company size	SIZE	-0.097	0.040	-2.443	0.008
y-intercept	C	0.048	0.013	3.709	0.002
Other information statistics					
McFadden's R²	0.656				
likelihood statistic and significance level	58.203	0.000			
Hosmer and Lemeshow test and significance level	9.443	0.306			
Accuracy of model prediction	%75.38				

The variable of poor economic condition has a positive coefficient and a significance level of less than 5%, as shown in Table 11. Therefore, poor economic conditions (recession) are associated with professional skepticism (representation of financial statements). The independent and control variables in the model were able to account for 65% of the variations in the dependent variable, according to the McFadden's R², which is equal to 65%. Since the trueness statistic has a significance level under 5%, the fitted model can be deemed to have appropriate validity. According to the Hosmer and Lemeshow test, which has a significance level of more than 5%, the model's prediction accuracy is greater than 70% since the explanatory factors were successful in accurately forecasting the dependent variable.

5. Conclusion

The research hypothesis' test results revealed that the beginning of an auditor's activity during a downturn has a positive and significant impact on the auditor's level of professional skepticism, i.e., for auditors who began their activity during a recession, the current conditions of the setting will lead to greater levels of professional skepticism. Therefore, the more financial statements are re-presented during a downturn, the more complex the audit behavior becomes. To lower the risk of non-detection, more surveys are conducted and the audit report is sent later. Our research is in line with earlier studies on a range of professionals, including economists, scientists, attorneys, investment bankers, and corporate executives, and it implies that the early stages of an auditor's career are crucial. Our findings may have wide-ranging repercussions for the auditing industry. Our findings imply that there may be a dearth of skeptic auditors in a region following extended periods of economic expansion. Our research serves as a first step in the direction of a deeper comprehension of the formation and recruitment of auditors in the labor market. The findings of this hypothesis are in line with those of He et al.'s (2018) study.

Declaration of competing interest

The authors declare that they have no known financial or non-financial competing interests in any material discussed in this paper.

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