Perceived Inflationary Environment and External Auditors' Responses to Material Misstatement Risk: The Moderating Role of Professional Skepticism

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Abstract- Inflation changes the meaning of the numbers auditors examine, yet little evidence shows whether auditors who perceive inflationary conditions actually adjust their audit work, or what individual characteristics shape that adjustment. This study examines how the perceived inflationary environment is related to external auditors' responses to the risk of material misstatement in Syria and tests whether professional skepticism moderates this relationship. Survey data were collected from 283 licensed external auditors (from 350 questionnaires distributed; population of 710). Responses were analyzed with simple linear regression, hierarchical regression, and simple slope analysis. Auditors reported high levels of perceived inflationary conditions, professional skepticism, and responses to misstatement risk. The perceived inflationary environment ($\beta = 0.627$, $p < 0.001$) and professional skepticism ($\beta = 0.524$, $p < 0.001$) were each positively associated with auditors' responses. Professional skepticism positively moderated the first relationship (interaction $B = 0.262$, $p < 0.001$; $\Delta R^2 = 0.025$): the slope of the inflation–response relationship increased from 0.354 at low skepticism to 0.645 at high skepticism. Because responses are self-reported and the sample is non-probabilistic, the findings indicate associations in auditors' reported behavior rather than observed audit procedures. They suggest that auditors' professional characteristics are related to how perceived inflationary conditions are reflected in audit responses.

Index Terms- auditor response, material misstatement risk, perceived inflationary environment, professional skepticism, Syria

I. Introduction

Accounting numbers take their meaning from the monetary environment in which they are produced. When price levels change quickly, amounts measured on different dates are no longer expressed in the same purchasing power, historical cost diverges from current values, and comparisons across periods become harder to interpret. Evidence from Zimbabwe shows that the value relevance of historical-cost and inflation-adjusted amounts varies with the level of inflation, with historical amounts more relevant in the full sample and the gap narrowing in high-inflation periods (Chamisa et al., 2018).

These effects reach audit practice. Bircan (2025) shows that hyperinflation accounting shaped the financial statements and audit reports of Turkish firms for 2023, appearing as a key audit matter in 77% of the reports examined. Interviews with ten experienced auditors in Lebanon identified practical difficulties in restating financial statements, selecting reliable price indices, and applying requirements consistently across clients (Matta et al., 2026). Syria offers a relevant setting in which auditors work under sustained price instability. Although previous Syrian studies have examined the accounting implications of inflation and the role of professional skepticism in managing misstatement risks, the relationship between auditors' perceptions of inflationary conditions and their responses to material misstatement risk remains insufficiently examined.

Auditing is a judgment-based activity. What an auditor does depends not only on the evidence available but also on how the auditor evaluates it. Professional skepticism, an attitude that includes a questioning mind and a critical assessment of audit evidence, is central to this evaluation (Nelson, 2009). It is also measurable as a multidimensional individual characteristic (Hurtt, 2010). Two questions follow. Do auditors who perceive stronger inflationary effects respond more strongly to misstatement risk? And does the strength of that relationship depend on the auditor's level of skepticism?

This study addresses both questions with data from licensed external auditors in Syria. It makes three contributions. First, it examines the inflationary environment from the auditor's perceptual standpoint rather than through accounting measurement alone. Second, it measures the response to risk (the nature, timing, and extent of procedures) rather than risk assessment alone. Third, it tests professional skepticism as a moderator rather than only a direct predictor.

A. Research problem, questions, and objectives

External auditing in Syria is carried out under persistent price instability. Prices and the purchasing power of money change from year to year, historical-cost figures drift away from current values, and the assumptions behind accounting estimates become harder to defend. These conditions bear directly on what auditors must do: assess the risk that financial statements contain material misstatement, then design procedures proportionate to that risk. How auditors respond may depend on how clearly they perceive the inflationary conditions, and also on how readily they question the evidence and explanations they receive. Earlier work has examined inflation and reporting, skepticism and risk assessment, and the adjustment of audit plans to client risk, but not these elements together, and not in the Syrian audit setting.

The main question is therefore: how is the perceived inflationary environment related to external auditors' responses to material misstatement risk in Syria, and does professional skepticism moderate that relationship? Six sub-questions follow:

(1) How strongly do external auditors in Syria perceive the effects of inflation on financial information? (2) How strongly do they respond to material misstatement risk? (3) To what extent do they exercise professional skepticism? (4) How is the perceived inflationary environment related to their responses? (5) How is professional skepticism related to their responses? (6) Does the first relationship differ with the level of professional skepticism?

The study has five objectives: to measure the perceived inflationary environment through its four dimensions; to measure auditors' responses in terms of the nature, timing, and extent of procedures; to measure professional skepticism; to test the relationship between the perceived inflationary environment and responses; and to test the moderating role of skepticism in that relationship.

II. Literature Review and Hypotheses

A. Inflation, financial reporting, and audit practice

Research on inflation and reporting is mostly about measurement. In Syria, studies have examined the requirements for applying IAS 29 among firms listed on the Damascus Securities Exchange, surveying 70 accountants, internal auditors, chief accountants, and finance managers in seven companies from five sectors, and identified obstacles including insufficient professional qualification, the absence of a binding official directive, and uncertainty about which body issues price indices and whether inflation data are available (Al-Aqla, 2017). Another, covering 11 banks over 2013–2015 and using price and return models, found that inflation-adjusted information raised the explanatory power of bank share-price models by 11.2%, while the return model was not significant (Abdul-Aal, 2017). A third, which restated the 2017–2018 statements of listed companies under IAS 29 and compared cash-flow and accrual quality before and after, found significant effects of non-application of IAS 29 on reporting quality in industry, agriculture, services, and communications, but not in insurance or banking (Samsamiyeh, 2021). None examined how auditors respond to misstatement risk. The Lebanese qualitative study comes closest but did not test statistically how perceived inflation relates to auditors' responses (Matta et al., 2026).

Two features make Syria a useful case. First, IAS 29 is not applied there as a binding requirement; the Syrian evidence above points to the absence of a binding official directive and to doubts about who issues price indices and whether the data exist (Al-Aqla, 2017). In Türkiye and Lebanon, by contrast, the standard gave auditors and preparers a formal reference point (Bircan, 2025; Matta et al., 2026). Where no such reference exists, an auditor's own reading of price conditions may carry more weight in deciding what to do, which is the premise of a perception-based design. Second, the Syrian studies reviewed here address reporting requirements, value relevance, and skepticism in general; none examined how auditors respond to inflation-related misstatement risk.

B. Estimation uncertainty and auditors' judgments

Inflation also affects accounting estimates, which depend on assumptions and data that become less stable when conditions change. ISA 315 (Revised 2019) lists complexity, subjectivity, change, and uncertainty among the inherent risk factors (IAASB, 2019), and ISA 540 (Revised) applies these factors to accounting estimates (IAASB, 2018). Auditing estimates with extreme uncertainty makes it difficult to obtain sufficient appropriate evidence (Christensen et al., 2012). Auditors' mindsets matter: reflective thinking helps auditors detect unreasonable complex estimates by integrating conflicting evidence (Griffith et al., 2015a). Interview evidence shows that auditors often verify the components of management's estimate separately rather than evaluating the estimate as a whole, which can limit detection of inconsistencies (Griffith et al., 2015b).

C. Responding to the risk of material misstatement

Assessing risk and responding to it are distinct. Under ISA 330, the response operates through the nature, timing, and extent of further procedures, tailored to the assessed risk (IAASB, 2026). Evidence on whether auditors tailor programs to risk is mixed. Among 74 industrial clients, risk was reflected unevenly across risks and procedures (Mock & Wright, 1999). Among 235 clients of a Japanese firm, the link between assessed client risk and audit plans was limited, with some evidence of substitution between procedures (Fukukawa et al., 2006). Among 239 Lebanese auditors during the crisis, assessed risk was related to modified reports and going-concern opinions (Feghali et al., 2022). That study addressed crisis conditions broadly and combined internal and external auditors.

An auditor who perceives that price changes have undermined the meaning of reported amounts and widened the range of plausible estimates has more reason to regard misstatement as likely. We therefore expect a stronger response, in which the auditor chooses more tailored procedures, adjusts timing, and extends testing:

H1: The perceived inflationary environment is positively associated with external auditors' responses to material misstatement risk.

D. Professional skepticism

Nelson (2009) links skepticism to judgments reflecting heightened assessment that management assertions may be incorrect. Hurtt (2010) conceptualizes it through six dimensions: a questioning mind, suspension of judgment, search for knowledge, interpersonal understanding, autonomy, and self-esteem. ISA 200 requires auditors to exercise it throughout the audit (IAASB, 2026). Skepticism is associated with more probing judgments about management's explanations and fraud risk (Ennar & Damak-Ayadi, 2024) and with the quality of independent auditors' judgments (Shirowzhan & Fakhari, 2024). In an experiment with 248 auditors, skepticism and experience were positively related to risk assessments, while time pressure was negatively related and weakened the skepticism–assessment relationship (Sayed Hussin et al., 2017). In Syria, a survey with 73 valid questionnaires, analyzed with one-sample t-tests, found

that auditors reported an appropriate level of skepticism and that it contributed to managing misstatement risk (Aqeel, 2022); that study did not test skepticism as a moderator. These studies concern risk assessment rather than response, and judgment does not automatically become action, since skeptical action requires overcoming personal risks (Blum & Hatfield, 2025).

H2: Professional skepticism is positively associated with external auditors' responses to material misstatement risk.

E. The moderating role of professional skepticism

Trait activation theory holds that individual traits are expressed when situational cues make them relevant (Tett & Burnett, 2003). Inflationary conditions, with their uncertainty and subjectivity, are such cues. Auditors high in skepticism should convert perceived inflationary effects into stronger responses than auditors low in skepticism, who may perceive the same conditions yet act less on them (Nelson, 2009; Hurtt et al., 2013). Whether this occurs is an empirical question.

H3: Professional skepticism positively moderates the relationship between the perceived inflationary environment and external auditors' responses to material misstatement risk.

F. Conceptual model

The model has one independent variable (the perceived inflationary environment), one dependent variable (the auditor's response to material misstatement risk), and one moderator (professional skepticism). H1 states a direct path from the independent to the dependent variable and H2 a direct path from the moderator. H3 states that the moderator changes the strength of the H1 path. Responses are the nature, timing, and extent of procedures, following ISA 330; the focus is on what the auditor reports doing, not on the assessment of risk itself.

III. Method

Full details of instrument development, validity, reliability, and common-method-bias tests are given in the Supplementary Materials. The essentials are as follows.

Design. The study is a cross-sectional, descriptive-analytical survey. The unit of analysis is the individual external auditor, since it is the individual who forms the judgments about risk and chooses the procedures. Data were collected in 2026 from auditors working in audit firms and offices in the Syrian Arab Republic.

Operational definitions. The *perceived inflationary environment* is the auditor's perception of conditions linked to price change and purchasing power, the gap between historical cost and current values, uncertainty and subjectivity in accounting estimates, and reduced comparability and consistency of financial information. It is not a classification of the economy as hyperinflationary. *Auditor response* is the procedures the auditor chooses to meet assessed risk, measured through nature, timing, and extent; it is distinct from the perception or assessment of risk. *Professional skepticism* is the set of mental and professional characteristics that lead an auditor to question, suspend judgment, seek knowledge, and form independent judgments, measured through six dimensions after Hurtt (2010).

Population and sample. The population comprised the 710 licensed external auditors registered with the Association of Certified Accountants in Syria. Krejcie and Morgan's (1970) table indicated a minimum of about 249 respondents. Using convenience sampling, 350 questionnaires were distributed and 283 valid responses were obtained (valid response rate 80.86%). Questionnaires were handed to auditors in person during visits to individual audit practices and audit firms operating in Syria, and the respondents are those who completed them. Because sampling was non-probabilistic, generalization requires caution.

Measures. A questionnaire with 46 items on a five-point Likert scale measured three constructs. *Perceived inflationary environment* (16 items) has four dimensions: price volatility and purchasing-power change, divergence of historical cost from current values, uncertainty and subjectivity in estimates, and comparability and consistency. *Auditor response* (12 items) has three dimensions based on ISA 330: nature, timing, and extent of procedures. *Professional skepticism* (18 items) has six dimensions following Hurtt (2010). No existing scale was translated. The inflation items draw on the literature on inflation and financial reporting (Chamisa et al., 2018; Bircan, 2025; Matta et al., 2026), with IAS 29 as a conceptual reference rather than a standard applied in Syria. The response items follow the three ISA 330 dimensions, informed by audit-program studies (Mock & Wright, 1999; Fukukawa et al., 2006). The skepticism items were written to reflect the six dimensions in Hurtt (2010), so the scale is inspired by, and not a literal application of, the original. Exploratory factor analysis recovered the intended factor structures (4, 3, and 6 factors, explaining 73.17%, 74.18%, and 75.91% of variance, respectively), with minimum target loadings of 0.739, 0.807, and 0.760 and maximum cross-loadings below 0.30. Harman's single-factor test showed the first factor explaining 26.2% of variance, below the usual 50% threshold, although this test has limited sensitivity. Internal consistency was high (Cronbach's alpha 0.794–0.901 across dimensions; 0.913, 0.886, and 0.878 for the inflation, response, and skepticism scales; 0.934 for all 46 items). Composite scores (item means) were used in hypothesis testing.

Analysis. H1 and H2 were tested with simple linear regression. H3 was tested with hierarchical regression: both predictors, mean-centered, entered in Model 1 and their product added in Model 2, followed by simple slope analysis at one standard deviation below the mean, at the mean, and one standard deviation above it. Significance was set at 0.05. Variance inflation factors (1.006–1.119) indicated no multicollinearity problem.

Scoring and interpretation. Each dimension and construct score is the mean of its items. Relative importance is the mean divided by 5 and multiplied by 100. Scores above the scale midpoint of 3 indicate agreement, and the study's mean-score bands classify scores as high, medium, or low.

Data availability and screening. Of the 350 questionnaires distributed, 283 were valid for analysis. The anonymized dataset is available from the corresponding author on reasonable request.

IV. RESULTS

A. Descriptive statistics

All three variables exceeded the scale midpoint of 3 and fell in the "high" range (Table 1). Among inflation dimensions, price volatility and purchasing-power change ranked first (M = 3.98). Among skepticism dimensions, the questioning mind ranked first (M = 3.88), and autonomy and self-esteem ranked lowest (M = 3.69 each). Auditors thus rate their habits of questioning and withholding judgment above their confidence in acting independently on their judgments, a gap that matters for training and supervision. Among response dimensions, nature of procedures ranked first (M = 3.93), ahead of timing (3.81) and extent (3.79).

Table 1. Descriptive statistics (N = 283)

Variable	Mean	SD	Rel. importance
Perceived inflationary environment	3.929	0.565	78.57%
Auditor response to misstatement risk	3.843	0.544	76.87%
Professional skepticism	3.762	0.524	75.23%

Note. Means of item scores on a five-point scale.

B. Direct relationships (H1 and H2)

Table 2 shows that the perceived inflationary environment explained 39.3% of the variance in auditor response, and professional skepticism explained 27.5%. Both relationships were positive and significant, supporting H1 and H2.

Table 2. Simple linear regressions on auditor response

Predictor	R^2	F	B	β	t
Perceived inflationary environment	0.393	181.57	0.608	0.627	13.48
Professional skepticism	0.275	106.50	0.519	0.524	10.32

Note. All models and coefficients: $p < 0.001$.

C. Moderation (H3)

Adding the interaction raised explained variance from 50.9% to 53.4% ($\Delta R^2 = 0.025$, $p < 0.001$; Table 3). The interaction was positive and significant.

Table 3. Hierarchical regression: moderating effect of professional skepticism

Predictor	M1 B	M1 β	M2 B	M2 β
Perceived inflationary environment (centered)	0.496***	0.511	0.499***	0.514
Professional skepticism (centered)	0.357***	0.361	0.367***	0.371
Interaction	—	—	0.262***	0.156
R^2	0.509		0.534	
ΔR^2	—		0.025***	

Note. M1 = Model 1; M2 = Model 2. ***p < 0.001. Model 2 interaction: t = 3.809; F change = 14.508.

The relationship remained positive and significant at all three levels of skepticism but steepened as skepticism rose (Table 4, Figure 1), supporting H3.

Table 4. Simple slopes of perceived inflationary environment on auditor response

Professional skepticism	B	SE	t	p
Low (−1 SD)	0.354	0.056	6.30	< 0.001
Mean	0.499	0.042	11.92	< 0.001
High (+1 SD)	0.645	0.057	11.26	< 0.001

Note. Slopes computed at ±1 SD of the mean-centered skepticism score.

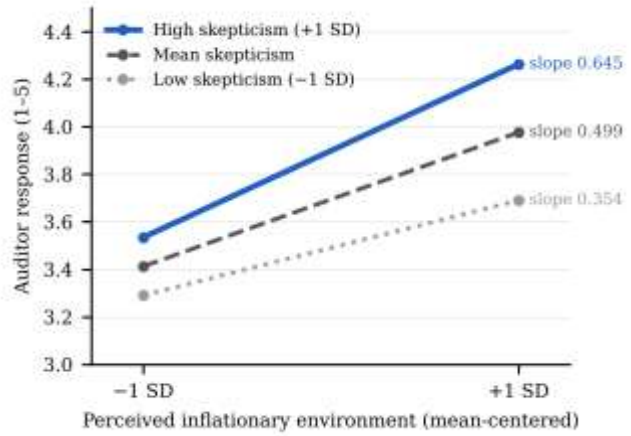


Figure 1. Predicted auditor response by perceived inflation (±1 SD) at low, mean, and high professional skepticism, from Table 3, Model 2.

D. Dimension-level descriptive statistics

The dimension scores in Table 5 show where the high construct means come from. Differences between dimensions are small, and every dimension lies in the "high" band.

Table 5. Descriptive statistics by dimension (N = 283)

Construct / dimension	Mean	SD
Perceived inflationary environment		
Price volatility and purchasing-power change	3.978	0.727
Comparability and consistency	3.966	0.744
Historical cost vs. current values	3.903	0.710
Uncertainty and subjectivity in estimates	3.868	0.789
Auditor response		
Nature of procedures	3.934	0.628
Timing of procedures	3.807	0.647
Extent of procedures	3.790	0.640
Professional skepticism		
Questioning mind	3.875	0.665
Suspension of judgment	3.815	0.778
Search for knowledge	3.789	0.752
Interpersonal understanding	3.706	0.669
Self-determination	3.695	0.628
Self-esteem	3.690	0.697

At item level, the highest-rated statement on inflation concerned noticeable price changes in the goods and services clients deal with (M = 4.08), and the lowest concerned changes in the cost of acquiring them (M = 3.77). On response, auditors most strongly endorsed requesting evidence beyond routine checks when risk is high (M = 4.07) and least strongly increasing sample sizes (M = 3.69). On skepticism, the highest item was looking for alternative explanations (M = 3.94) and the lowest was allowing for differing interests and experience behind differing views (M = 3.62). All items stayed above 3.

The pattern for responses deserves comment. Auditors report changing the type of evidence they seek more readily than they report enlarging samples or widening scope, which may reflect

cost and time constraints; the data do not test this.

V. Discussion

A. Perceived inflation and audit response

Auditors who perceived stronger inflationary effects reported stronger responses to misstatement risk. The association is substantial, with perceived inflation alone accounting for about 39% of the variance. The result is consistent with the risk-factor logic of ISA 315 and ISA 540: price instability affects complexity, subjectivity, and uncertainty in measurement and estimation, which are factors auditors are expected to consider when assessing risk and designing responses (IAASB, 2018, 2019). It also adds to prior work. Studies in Syria, Zimbabwe, and Türkiye concentrated on reporting requirements and value relevance (Al-Aqla, 2017; Chamisa et al., 2018; Bircan, 2025), while the Lebanese interview study described auditors' difficulties without testing them (Matta et al., 2026). Our evidence is quantitative and focuses on the audit response. The pattern also parallels the difficulties of auditing uncertain estimates (Christensen et al., 2012; Griffith et al., 2015a, 2015b), though those studies did not treat inflation as a variable.

The ordering of response dimensions is informative. Auditors reported adjusting the nature of procedures (for example, requesting evidence beyond routine) more than extending scope (for example, larger samples). This echoes the uneven risk adjustment observed in earlier audit-program studies (Mock & Wright, 1999; Fukukawa et al., 2006). A possible reading is that auditors under resource constraints prefer to change what they do rather than how much they do, but our data cannot test this.

B. Professional skepticism

Skepticism was positively related to response, consistent with Nelson's (2009) model, with evidence linking skepticism to risk assessment (Sayed Hussin et al., 2017), and with the earlier Syrian finding (Aqeel, 2022). The contribution here is to extend the association from risk assessment to risk response. This matters because the move from skeptical judgment to skeptical action is not automatic (Blum & Hatfield, 2025).

C. The moderating role of skepticism

The moderation result is the central finding. The inflation–response slope was nearly twice as steep for highly skeptical auditors (0.645) as for those low in skepticism (0.354). This fits trait activation theory: inflationary uncertainty is a situational cue that is acted on more strongly by auditors whose dispositions favor questioning and evidence evaluation (Tett & Burnett, 2003). The incremental variance explained is modest (2.5%), so the moderation should be described as meaningful but not dominant. The relationship was positive even at low skepticism, so skepticism is associated with a stronger link rather than being a precondition for it.

The finding also bears on the literature. Studies of skepticism have mostly asked whether it improves the assessment of risk (Sayed Hussin et al., 2017; Aqeel, 2022). Here skepticism is related to how an external factor, perceived inflation, is reflected in audit effort. This extends the interactionist view of Tett and Burnett (2003) to a professional setting in which the situational cue is economic rather than task-specific, and it fits Nelson's (2009) distinction between the characteristics of the auditor and the conditions of the engagement.

D. Practical implications

For audit firms and professional bodies, the results suggest two complementary priorities. First, training and supervision should help auditors translate perceived inflationary effects into well-designed responses, particularly concerning estimates and assumptions that are sensitive to price changes. Second, cultivating skepticism, through case-based training on conflicting evidence and alternative explanations and through review of significant judgments by engagement supervisors, may be associated with a stronger response to inflation-related risk. Given that autonomy and self-esteem scored lowest among skepticism dimensions, supervision practices that support auditors in acting on their judgments deserve attention (Blum & Hatfield, 2025). Specific recommendations follow.

(1) Audit firms should build inflation into engagement planning, identifying the items most exposed to price change, such as inventory, depreciation, and estimates with wide ranges of outcomes.

(2) Risk assessment procedures should test the reasonableness of assumptions and the comparability of figures across periods when prices move sharply.

(3) Training should use cases with conflicting evidence and uncertain estimates, so that auditors practise turning doubt into procedures.

(4) Documentation should record why a procedure was chosen, and when it was timed or extended in response to a given risk.

(5) Review by engagement supervisors should focus on whether the evidence behind risk judgments is sufficient, and should invite the team to challenge them.

(6) Future work should add experience, sector specialization, time pressure, task complexity, and firm quality as further moderators, and should test the model in other economies.

E. Limitations and future research

Several limitations apply. (1) All variables are self-reported from one source at one time. Although Harman's test did not indicate dominant common-method variance, its sensitivity is limited, and the responses reflect what auditors say they do, not audited procedures. (2) Convenience sampling limits generalization beyond Syria and beyond the period of data collection. (3) The cross-sectional design supports association, not causation, and the reverse ordering (for example, that auditors who respond more strongly come to perceive inflation more acutely) cannot be excluded. (4) Scales were developed for this study, so comparability with other research is limited. (5) We did not examine IAS 29, which is not applied in Syria, as a classification of inflation. Future research could combine perceptual data with archival audit-plan data, test further moderators such as experience, time pressure, and firm quality (Sayed Hussin et al.,

2017), and replicate across economies with different inflation levels.

VI. Conclusion

Syrian external auditors who perceive stronger inflationary effects report stronger responses to the risk of material misstatement, and professional skepticism is both positively related to these responses and a moderator of the inflation–response relationship. Inflationary conditions therefore do not translate into audit responses uniformly: how far they do is related to the individual auditor's skeptical disposition. For practice, developing skepticism and supporting auditors in acting on their judgments are plausible ways to improve audit responses in unstable economic environments. Given the study's self-reported, cross-sectional, convenience-sample design, these conclusions should be read as evidence of association within the Syrian context, to be tested with more objective data.

Declarations

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Conflict of interest: The author declares no conflict of interest.

Consent to participate: Participation in the study was voluntary, and informed consent was obtained from all participants before completing the questionnaire.

Confidentiality and anonymity: Responses were collected anonymously, and no personally identifying information was collected from participants.

Data availability: The anonymized dataset supporting the findings of this study is available from the corresponding author upon reasonable request.

Author contributions: The sole author was responsible for the conceptualization, methodology, data collection, statistical analysis, interpretation of results, and preparation and revision of the manuscript. The author read and approved the final version of the manuscript.

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