

# Analysis of situational factors' effect on auditor's general judgment

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**Abstract:** *The purpose of the present research is to analyze the effect of situational factors on auditor's general judgement. Therefore, by using variables such as client trust, independence is formed as an independent variable, and auditor's general judgment is known as the dependent variable of research model. The present research method, from purpose viewpoint, has been practical and according to the implementation manner is descriptive – correlational, through the use of tools such as questioner and survey method for gathering the required information. Statistical society of this research is independent auditors who are the members of audit society and also, active auditors who work in audit companies. In order to choose a sample, accidental sampling method is used and 100 acceptable samples are gathered. Data analysis is done by Excel software and Spss18 and research results shows that among situation factors, client trust variable has had a positive relation with auditor's general judgement.*

**Keywords:** *Auditor's general judgment, trusting to the customer, independence*

## INTRODUCTION

Today, big companies which have gathered their fund (asset) from millions of stockholders are known as economical characteristic of industrial countries and control economical resources in a country or even international level. Board of directors which is usually situated at the center of the company and far from factories' activities and company agents, should rely on financial documents and other reports for controlling company resources. In short, decision makers in big organizations cannot receive too much first-hand information. They should rely on information which is provided by others and in this way the possibility of receiving unreliable information increases (Walter. B Meigs et al., 2004). By complexing commercial deals and demand for related and reliable information for decision making, presence of a fair system of information flow between responder and response willing seems to be necessary. Applied judgements face uncertainty which causes through applying tender factors in using of accreditation services, audit implementation in temporal budget compression, trying to attract employer satisfaction and financial disgrace of commercial units (Maghsodi, 2011). Considering the important rule of auditor's judgment in these reports, analysis and recognition of effective factors such as judgments and also, the procedure of how these factors can have an influence, causes the necessity of doing such scientific researches more stronger in this context. Up to now, relating to the effects of different variables such as experience and complexity of audit subjects' effects on auditor's judgment and independence of audit and etcetera, different researches has been done, but, in the case of situational factors and their effects on auditor's judgment, which is the subject of the present research, a few researches has done in Iran. Since, the present research has importance and also, necessity; therefore, the present research is designed and implemented in order to answer the important following question: What are the effects of situational factors on auditor's judgement?

## 2. A review of the literature

### 2-1. Audit judgment

The process of problem solving begins by an individual structure and a mental idea of problems. Accordingly, everybody applies a strategy to solve problems or make decisions (Lemen & Norman, 2006). This variable has been evaluated by designing two kinds of questions in a questioner. It is stated in paragraph number 4 of part 32 of audit that: "diagnosis of what is important requires professional

judgement. "It is stated in paragraph number 2 of part 40 of Iran's audit standards with the title of danger estimation and internal controlling system that:" in order to estimate audit danger and, design audit methods to make sure of decreasing the danger (risk) to the low level which is also acceptable, the auditors should use their professional judgment".

What is certain is that, auditors are faced to different situations which requires judgment in order to implement audit standards. In his book named " accounting, information processing by individuals, theory and application" about judgement and decision making, Laibi stated that in decision making process, the procedure of decision making and decision making process description have great importance. Therefore, codification of models which are proportionate by different people, and making a change in variables during a time seems to be necessary.

### 2.2- Client Trust

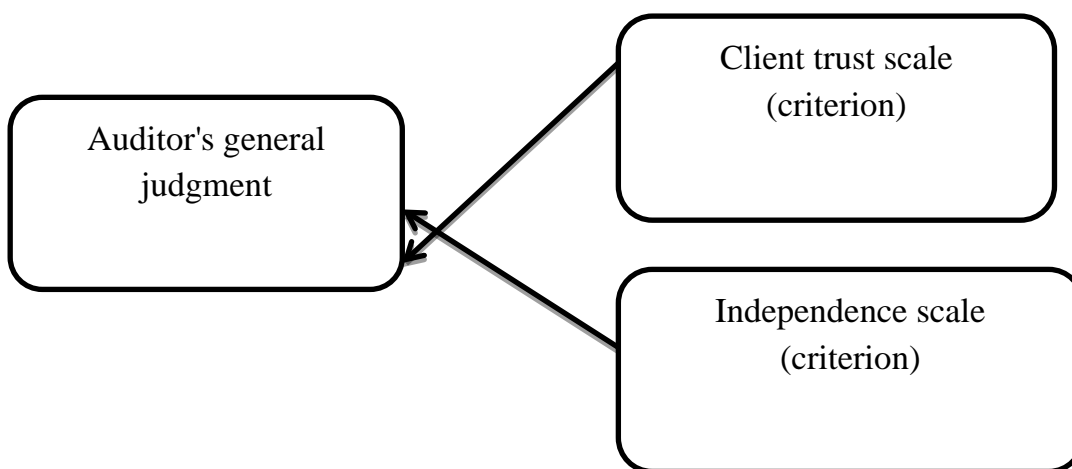
Client trust scale is auditor tendency who believe that generally they trust to all of the customers (Michael K. Shaub, 1996). Actually, confronting these pressures independently, is a compression to maintain relations with the customer which has been emphasized in social processes and performance analysis in general accounting. Such kinds of pressures are based upon impartiality of the auditor, which causes the auditor to support a reporting method which is desired by the customer (Johnston, 2002). This problem mostly appears about the issues which are related to vague accounting (Cados Et Al et al., 2003). And even in times which accounting standards are targeted, their study will analyze the importance of customer in auditor's moral judgement. Few studies have directly paid attention to the analysis of the customer importance and has produced different results, and in some of them, there are evidences which shows that paying attention to the customer has an important effect in audit judgment (Morono & batachartgy, 2003). This variable has been evaluated by designing 4 variables in questionnaire in the shape of LIKERT SCALE. In order to reach the main goal of the research, the first hypothesis can be discussed in the following form:

**H1:** Client trust scale influences auditor's general judgment as one of the situational factors.

### 2.3 –Independence

In culture and context, independence is defined as releasing from effect of other's control and will (Cary, 1970). Auditors and their professional behavior dispel their needs to the goal and independence and, actually job superficial (AICPA, 2004). Moreover, existing anxieties which exist because of legal responsibilities, make a kind of incentive for them in order to get to the goal and not blurt any doubt and uncertainty in professional judgment (Jonson, 2000). This variable has been evaluated through designing of 14 questions in a questionnaire in a form of LIKERT SCALE. Therefore, it can be said that:

**H2:** Independence scale influences the auditor's general judgment as one of the situational factors.



**Fig1. Research model**

#### **2.4. A review of research history**

Aghaei (2004) did a research with a title of effective factors on the quality of audit which was independent from auditor's viewpoint and users. The main goal of this research was to identify effective factors that influence audit quality which are independent from users viewpoint and also, independent auditors. In this research, some factors which influence independent audit quality were recognized through using accounting texts and literature, accepted standards of audit, statements and considering environmental conditions of Iran. Required information for realizing research goals was gathered by using a questionnaire. Statistical society of research consisted of two groups of users of audit services which was included managers of investment companies and managers of banks credit part and independent auditors included audit organization partners, senior managers and technical managers of audit organization. Research hypotheses were divided to two groups of "A" and "B" which designed considering the recognized factors which have effects on independent audit quality. Test results of these hypotheses showed that respondents have more emphasis on the presence of 24 factors. Group "B" hypotheses were designed relating to the recognition of the difference between user's viewpoint and independent auditors (between groups), difference between independent auditor's viewpoints (inter groups). Test results of these hypotheses showed that in most of the cases, there is no significant (meaningful) difference between these viewpoints.

In a research titled the amount of feature's effect of auditor on professional judgment of auditors was done by Saberian (2007). The goal of this research was to recognize and introduce the constituent factors of auditor's characteristics through their influence on professional judgment and their ranking viewpoint. Considering research results, it can be said that the ranking of 5 features of auditor which have influence on professional judgments of auditors is as follows, according to the mentioned order: 1- independence, 2- auditor's information, 3- professional qualification, 4- professional uncertainty, 5- siding (partiality) in judgment. In a research, the relation between educational environment quality and audit judgment duty was tested by Baner and Penytan (1991). Research results showed that, professionals and experts who get a better learning, did a better audit. Results showed that the domain of directions and instructions in a specified audit task, have a positive and significant (meaningful) relation with performance. A research titled "the effect of experience on auditor's judgment in use of unrelated evidenced" was performed by Shelton (1999), in order to determine and specify unrelated information to judge regarding the continuation of activity. Independent variables were "kind of evidences", "experience level", and "estimation subject" was considered as dependent variable. Research results showed that experience, decreases the effect of unrelated information and, experienced auditors are not influenced by unrelated information in judgment.

### **3. Research method**

#### ***Type of research method***

Since, the expected results of the present research method can be used in a process of auditor's insight promotion regarding to beneficiaries; therefore, this research is a kind of practical. Also, from implementation strategy viewpoint, is a kind of descriptive-survey method; since, a questionnaire is used and the present situation is described without any interference.

#### ***Statistical society and sample***

In this research, statistical society of auditors and audit companies which are the members of audit organization (individual practitioners' members, practitioners who are organization partners, those who work in audit organization and those who work in member organizations) which had been 1351 (individuals) by the time of doing this research. Considering the nature of statistical society, random sampling method for choosing sample members is used.

#### ***Research tools***

Required information for literature and research history has gathered in library studies. Regarding gathering information for confirmation or rejection of research hypotheses, field method is used. Information gathering tools in this research had been a questionnaire. In library studies part, related resourced such as specialized books and essays, magazines, thesis and other internal and external issues (publications) which are related to the subject have been used.

#### ***Research validity and stability***

In a context of validity, this subject is considered whether the considered questions in a questionnaire can lead us to the specified aims in research or not? Or if the questionnaire has regulated correctly which can lead to the specified answer and prepare research questions requirements? Therefore, a questionnaire is

offered to the number of audit experts who do not participate in statistical sample and their corrective ideas about some questions has been used. Finally, superficial validity and content validity of questioner has gained after times of doing required corrections through supervisor and advisor confirmation. Cronbach's alpha method is used in order to determine the level of questioner stability. If alpha ratio is greater than 0.7, the questioner has an acceptable stability. Thus, the questioner is distributed among 30 responders and Cronbach's alpha has been calculated, considering the answers of these peoples. Since, the value of Cronbach's alpha is greater than 0.7; therefore, the test has an acceptable stability.

**4. Research results**

**4.1- A society average test (examination), T mono-sample (single-sample)**

A society average test which is based upon T distribution, is a parametric test which is about how much the average of a society is greater or lesser than a fixed amount. If significant level is lesser than error amount (quantity value), it is deducted that the average of slightly (referred) society is not the tested value. Now, in order to understand this issue that, society average is greater than the tested value or lower than it, upper and lower limits in software output should be referred. If upper and lower limits in singular (mono-sample) T test are positive, it means that society average regarding that variable is greater than the teste value. Also, if the prior is positive and the latter is negative, society average almost equals to the test value. And, if both of these values are negative, it means that the average of specified variable in society is lesser than the test value and these variables are in low level in under analyze society.

**Table1. Single (mono) sample T test for research variables**

variable	Comparison of the observed average to the fixed amount of 3				
	Average	T statics	Freedom degree	Significance level	Average difference
Trust scale	2.8904	-1.856	99	.066	-.10956
Independent scale	3.1012	2.243	99	.027	.10119
Client trust scale	2.9142	-1.396	99	.166	-.08583
Efficacy scale	3.8130	14.896	99	.000	.81304
Effort scale	4.1375	20.778	99	.000	1.13750
Responding pressure scale	3.4200	6.213	99	.000	.42000

**4.2-Hypothesizes test**

**Hypothesis (1):** Independent scale from situational factors influences the general auditor's judgment.

**H0:** Independent scale does not influence the general auditor's judgment.

**H1:** Independent scale influences the general auditor's judgment.

Since, the modulus value of T statics equals 0.054 and is lesser than table value which equals 96.1 and significance level (0.957) is greater than 0.05; therefore, the zero hypothesis is not rejected, it means that independent scale from situational factors does not have significant effect on general judgment.

**Table2. First hypothesis test results**

Ratio (factor)	T statics	Significance level	Standard ratio
-0.009	-0.054	0.957	-0.007

**Hypothesis (2):** Client trust scale from situational factors influences general judgement of the auditor.

**H0:** Client trust scale does not have a significant effect on general judgment.

**H1:** Client trust scale has a significant effect on general judgment.

**Table 3: Second hypothesis test results**

Ratio (factor)	T statics	Significance level	Standard ratio
0.314	2.738	0.007	0.286

Since the modulus value of T statics equals 2.738 and is greater than table value which is equal 96.1 and the significance level (0.007) which is lesser than 0.05; therefore, this hypothesis is rejected, it means that client trust scale from situational factors influences general judgment and its value equals 0.286.

**Table 4. Summary of the first and second hypothesis statics**

General judgment : $\alpha_0+\alpha_1CT+\alpha_2InDE$						
Model components process	Standard error	Beta	T	Sig	Tolerance	VIF
(constant)	514		-.424	.673		
Independence	.168	-.006	-.054	.957	.870	1.149
Client trust	.115	.286	2.738	.007	.870	1.149
F static	4.249					
Meaningfulness of F static	.017					
Justified ratio determination	.062					
Durbin-Waston statics	1.575					

Research hypothesizes regarding the effects of situational variables including client trust and independence on auditor's general judgment was proposed and examined. Test results showed that the specified regression model is meaningful from statistical viewpoint, but, only client trust had a relationship with auditor's general judgment among these two variables and its relation type was direct, it means that by increasing client trust, auditor's general judgment is improving. Result of this research is the same as Shob's research (1996) and Ferreria's research (2009), but, it is different from CNC's research (2009) and Saberian (2007).

**Discussion and conclusion**

Reliable accounting information and financial reports helps resource designation effect. Different economical decisions are made under uncertain and risky situations. An independent auditor can help increase information validity which is applied by external organization individuals such as stock holders, trustors, low makers, customers and other beneficiaries. Therefore, the rule of independent auditor is to decrease the risk of information, the risk of the possibility of great misrepresent of financial and accounting information which is used in economical decision making (Vetington & Pany, 2003). In addition, auditors are value increasers, because they have technical knowledge and independent and can help the employers improve the operations and internal controls. Regarding the effect of situational variables which include client trust and independence with auditor's general judgment was proposed and examined. Test results showed that the specified regression model is meaningful from statistical viewpoint, but, between these two variables, only client trust had a relation with auditor's general judgment which is also a direct relation, in other words, along with increasing the client trust, auditor's general judgment begins to improve.

**Recommendations based on research**

Recognition of effective factors on auditor's judgment through using a scientific method, causes an improvement in judgment quality and finally in financial reports. Results showed that by increasing of client trust, auditor's general judgment is improving. Therefore, in order to improve the auditors' judgment levels, it is suggested that along with considering a reasonable level of professional doubt, auditors keep away themselves from too much and unreasonable distrust to the employers.

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