The Effect of Skepticism and Former Background of Working with Customer on Initial Evaluation of Auditor's Judgment

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ABSTRACT

The present study is planned and implemented with the aim of investigating the effect of professional uncertainty and former experiences of working with customer on initial evaluation of auditor's judgment. The given population of this research is MA students of accounting, employed in profession while studying in Azad Islamic Universities of Yazd and Fars. The sample includes 156 people that is calculated using Cochran method with unlimited population volume because the number of employed students was not clear. The instrument of data collection in this research is an international standardized questionnaire. The method of research is survey – descriptive with correlation approach. In order to analyze the hypotheses of the research we used one – variable and multi – variable regression technique. The results of hypotheses analysis show that the uncertainty of auditor affects initial evaluation of auditor's judgment. Also the former background of working with customer influences on the initial evaluation of auditor's judgment.

INTRODUCTION

The increasing growth of science and technology and contradictory benefits results in increase of monitoring requirements. Certainly, auditing profession should also adjust itself to the new situation and grow alongside the recent changes. Independent auditors and auditing process are in charge of certifying and confirming for commercial units and act like a mediator between managers and shareholders. The auditor can decrease the possibility of detecting manipulations and finally the success of auditing because of his individual characteristics such as uncertainty and different interpretations from the importance of fake risk [19]. During recent years, presenting managers' required opinions and changing the auditor have become a common phenomenon which can result in disapproving consequences. Because of contradictory benefits, the auditor is expected to observe principles such as honesty in professional judgment. All of phases of auditing are accompanied by judgment. Judgment has a very important role in this process; so, the identification of factors affecting the auditor's decision making seems essential and among strongly effective factors on this matter are individual and psychological features [13]. In fact, auditor is paid to make decisions and it is his decision which is often subjected to people critic and review in today's courts. Doing these sorts of judgments requires education, experience and skill. One factor to measure the quality of auditor's judgment is the accuracy level of his decision [11]. According to the above information provided, the present research is seeking to answer this question: are certainty and former background of working with customer affect the auditor's professional judgment?

Theoretical Foundations and Expansion of Research Hypotheses:

Initial evaluation of auditor's judgment:

Judgment is a process in which people think and discuss about different aspects of the subject being decided (Rahimian, 2005). Professional judgment in auditing is defined as logical discussion and adductive enactment.
about auditing subjects and accounting by a person who has valuable educational degree and experiences and also required features for objective remarking. One of the most important and the most interesting auditing aspects is involved in judgment and decision making that auditor deals with it as a part of daily duty. The auditor should make a professional judgment about below subjects:
1. using auditing standards
2. determining the importance and risks of auditing and gaining auditing evidences
3. evaluating the principles of auditing and major estimations of managers
4. determining whether non-manipulated invoices are important
5. determining whether the invoices are provided according to accounting standards or other auditing basics disclosed
6. remarking about whether invoices show the financial status and the results of activities approvingly [14].

This research was done with the aim of analyzing the challenges in auditing judgment. The challenges in professional judgment are classified into three groups related to auditing duties, auditing the interaction between auditor and other participators in the process of financial reporting [8]. A research which analyzed the relation between sensitivity and ethical judgment and skill level of auditors showed that the skillful auditors have higher ethical sensitivity compared to beneficiaries specifically managers [9]. Nasution and Ralph [17] carried out a research titled as "the impact of social pressure, control resource and professional commitment in Indonesian evidence judgments of auditor" and investigated the impact of social pressures on auditors' judgments. They found out that social pressures influence on auditor's judgments. Jack et al [12] in a research aiming at comparing effectiveness of opportunity ground on decision making related to ethic and judgmental evaluations, came into the results that in all cases, social consensus and the importance of consequences influence on decision making process.

Skepticism:

One of the schools that became the center of focus in psychology and auditing during recent years is Skepticism [23]. Professional skepticism is a crucial element in auditing. Auditors always give way to doubts which are acquired according to experience and needed trainings. Professional skepticism is an inherent element of professional judgment. Hart proposes a theory in which auditor's uncertainty acts as a mental question on the side of auditor on his judgment and decision making. He defines skepticism as: to critically and meticulously evaluate the auditing evidences. According to this theory, auditors should study the evidences with professional skepticism in order to present a better judgment. So the judgment and decision making of auditors depends on professional skepticism features [7]. A research titled as "the amount of effectiveness of auditor's features on professional judgment of auditors" was carried out. We can say that five features of auditor effective on professional judgments can be ranked as independence, auditor's knowledge, professional efficiency, professional skepticism and bias in judgment [21]. According to a research carried out by Khoshtinat and Bastanian with the aim of investigating the effective factors on judgment, the most important personal features are knowledge, experience, honesty, independence, ethical commitment, professional skepticism and field independence; and the most important environmental features affecting the professional judgment are: professional monitoring of auditors' activities, audit programs and checklists, and non – interpretability of accounting and auditing standards [14]. In a research titled as "professional skepticism in auditing", professional skepticism was investigated and professional skepticism was analyzed in operational method, professional standards, academic literature and research studies points of view [5]. Pitchcois carried out a research titled as "skepticism and auditing: cognitive and professional operation" and found out that on time professional skepticism will improve cognitive operation in student samples but no improvement was reported among auditors group. According to the theoretical foundations mentioned and researches we can present the below hypothesis in order to achieve the main purposes of the present study:

H1: auditing skepticism affects the initial evaluation of auditor's judgment

Former background of working with a customer:

There are two viewpoints about the effects of experiences of working with customer on auditing quality. In the first view point it is believed that the long term relationship between employer and auditor will result in high intimacy and decrease in audit quality. In the second view point, not being aware of operation type, accounting system and internal control structure will result in increasing the expenses of auditing and it will affect the result of activity [1]. In recent years, after official accountant society was established, the phenomenon of replacing the auditor and consequently the employer's required remarking has become a common tradition among accepted companies in Tehran's stock exchange. This will affect the professional power and the independence of auditor and will have disapproving consequences [3].

In a research titled as "the effect of experience on using unrelated evidences in auditor's judgment" they found out that investigating audit by experienced auditors prevents from inexperienced persons' judgments with decreasing effect and also modifies such judgments [20]. Also a research titled as "the effect of experience and
complexity of auditing subjects on auditor's judgment” was carried out among the statistical population including auditor companies. The results showed that there is a significant difference between experimental group's decisions and inexperienced auditors are not considered a reliable constitution for auditors specifically in unstructured duties [22]. Michelle [16] carried out a research aiming at analyzing the importance of relation between each factor determined by auditors in order to trust costumers. The result of this study confirmed the prior experience and that the customer and situational factors are more important that conditional factors in determining the auditor's trust level to customer. Raida in a research titled as "responsibility pressure, the features of work and audit judgment” investigated the effects of work features and responsibility on accounting judgment. The result of this study showed that when the structure of auditing is less in analytical investigation of a changing status, the priority is on responsibility. When the duty of auditor is internal control evaluation, there will be no such status. Considering the central part of this section and also related researches carried out, we can present the below hypothesis:

H2: the former background of working with customer affects the auditor's initial judgment evaluation.

Methodology:

The present study is operational in terms of purpose and is survey – descriptive in terms of implementation. The population of this study includes the MA students of accounting in Azad Islamic Universities of Yazd and Fars who are employed as auditor with at least 3 years of work experience. The given sample includes 156 students which is selected using simple random method. In order to examine the hypotheses of the research, we used one and multi – variable regression method. The instrument of data collection is a questionnaire consisting 36 questions. In this questionnaire, 30 questions are related to skepticism evaluation, 3 questions are related to work experience with customer and 3 questions are related to initial evaluation of auditor's judgment. 30 questions of questionnaires which are related to skepticism evaluation is retrieved from an article titled “professional skepticism, a complementary tool for measurement” by Hart et al in and other 6 questions are retrieved from an article titled "detection of skepticism, the experience of working with customer and auditing judgment” by Popova in 2013.Because of using international standardized questionnaire and using the translation of English questionnaire, the reliability is calculated. We used Cronbach alpha in order to determine the reliability of the questionnaire. If alpha coefficient be higher than 0.7, the questionnaire has acceptable reliability. So at the beginning 30 questionnaires were collected and Cronbach alpha calculated was obtained 0.825.Because Cronbach alpha was higher than 0.7, the reliability of the questionnaire is acceptable. For the validity of the questionnaire, according to the fact that it was retrieved from international researches and the questionnaire is confirmed by several experts, so the structure and content validity are acceptable.

In examining the hypotheses, the level of confidence of the test is 95% and the error of case is 5%. So in analysis of regression models, when significance level of F value is lower than 5%, the model is significant and if the significance level of t value is lower than 5%, the relation between dependent and independent variable is confirmed. Also we used descriptive statistics for describing population and sample. In order to investigate the relation between variables, the information of 156 questionnaires is analyzed through one and multi – variable regression model using SPSS software.

The Variables Of Research And Measurement:

Professional judgment and evaluation of auditor:

In the present research, the initial evaluation of auditor's judgment is measured with three questions embedded in three hypotheses according to the scenario mentioned earlier in questionnaire. The reader, who is the auditor, should determine his confidence level from employer. The marks should be in the spectrum of 1 to 10, with 1 indicating very low confidence and 10 indicating very high confidence to employer. First, the reader should give points to employer assuming that there is no positive or negative presupposition, and then the points are given with negative and positive attitude to employer.

Auditor's skepticism:

In this research, skepticism is measured using a questionnaire used in Hart's researches. This questionnaire includes 30 short questions which are answered by strongly disagree, disagree, neutral, agree and strongly agree points.

The experience of working with customer:

In the present research the experience of working with customer is measured with three questions embedded in three hypotheses according to the scenario mentioned earlier in questionnaire. The reader, in fact the auditor, should determine his opinion about skullduggery and illegal actions of employer which are mentioned in scenario by giving points. The points should be in the spectrum of -10 to 10, with -10 meaning Skullduggery and 10 meaning unpremeditated error. First, the reader should give points to employer assuming
that there is no positive or negative presupposition, and then the points are given with negative and positive attitude to employer.

**Findings Of Research:**

First, descriptive data are presented and in continue the examination of hypotheses is mentioned. Table 1 shows frequency and frequency percent, mean and standard deviation, gender variables, marital status, age and work experience of male and female students. 61.5 percent of samples are male and merely 38.5 percent are female. 67.3 percent of participants are married and 32.7 are single. 58.3 percent of participants are 26-35 years old and 43.6 percent have work experience lower than 5 years.

**Table 1:** Summary of descriptive data.

<table>
<thead>
<tr>
<th>variable</th>
<th>Sub variable</th>
<th>frequency</th>
<th>Percent of frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>male</td>
<td>96</td>
<td>61.5</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>60</td>
<td>38.5</td>
</tr>
<tr>
<td>Marital status</td>
<td>Single</td>
<td>91</td>
<td>58.3</td>
</tr>
<tr>
<td></td>
<td>Married</td>
<td>105</td>
<td>67.3</td>
</tr>
<tr>
<td>Age</td>
<td>Lower than 25 years</td>
<td>35</td>
<td>22.4</td>
</tr>
<tr>
<td></td>
<td>26-35 years</td>
<td>91</td>
<td>58.3</td>
</tr>
<tr>
<td></td>
<td>36-45 years</td>
<td>25</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>46-55 years</td>
<td>5</td>
<td>3.2</td>
</tr>
<tr>
<td>Work experience</td>
<td>Lower than 5 years</td>
<td>68</td>
<td>43.6</td>
</tr>
<tr>
<td></td>
<td>6-10 years</td>
<td>54</td>
<td>34.6</td>
</tr>
<tr>
<td></td>
<td>11-15 years</td>
<td>11</td>
<td>7.1</td>
</tr>
<tr>
<td></td>
<td>16-20 years</td>
<td>19</td>
<td>12.2</td>
</tr>
<tr>
<td></td>
<td>21-25 years</td>
<td>2</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>Higher than 25 years</td>
<td>2</td>
<td>1.3</td>
</tr>
</tbody>
</table>

**H1 Examination:**

In order to examine the first hypothesis we used one – variable regression method. Table 2 shows the results of this analysis. According to table 2, significance level of F value is lower than 5% which confirms the significance of relation between skepticism on initial judgment of auditor. In addition, according to the positive relation between t value and skepticism we can see that skepticism has positive effect on initial judgment of auditor. So the first hypothesis based of the effect of professional skepticism on initial evaluation of auditor’s judgment is confirmed.

**Table 2:** The result summary of examination of H1.

<table>
<thead>
<tr>
<th>Model elements</th>
<th>B</th>
<th>t</th>
<th>P value</th>
<th>R</th>
<th>R²</th>
<th>F</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant element</td>
<td>77.964</td>
<td>16.385</td>
<td>0.00</td>
<td>0.407</td>
<td>0.165</td>
<td>3.521</td>
<td>0.00</td>
</tr>
<tr>
<td>skepticism</td>
<td>1.597</td>
<td>5.525</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**H2 Examination:**

In order to examine the second hypothesis we used one – variable regression method. Table 3 shows the results of this analysis. According to table 3, significance level of F value is lower than 5%. So the linear relation between dependent and independent variable and also significance of general regression model is confirmed. Also significance level attributed to t value which is related to the previous experience of working with customer is lower than 5% which shows the conformity of significant relation between skepticism and initial judgment of auditor. In addition, because t value related to skepticism is positive, we can see that former experience of working with customer has positive effect on initial judgment of auditor. So the second hypothesis based of the effect of professional former experience of working with customer on initial evaluation of auditor’s judgment is confirmed.

**Table 3:** The result summary of examination of H2.

<table>
<thead>
<tr>
<th>Model elements</th>
<th>B</th>
<th>t</th>
<th>P value</th>
<th>R</th>
<th>R²</th>
<th>F</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant element</td>
<td>-1.663</td>
<td>-0.685</td>
<td>0.494</td>
<td>0.293</td>
<td>0.086</td>
<td>14.440</td>
<td>0.00</td>
</tr>
<tr>
<td>former experience of working with customer</td>
<td>0.560</td>
<td>3.800</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In continue we investigate the simultaneous effect of auditor’s skepticism and former experience of working with customer we used multi – variable regression test in order to evaluate initial judgment of auditor. The results of this test are presented in table 4 below.
In order to investigate the predictability of research variables, auditor's skepticism and former experience of working with customer, we used regression method to evaluate the initial judgment of auditor. According to the results of the study, the former experience of working with customer has the highest power of prediction, 0.316 to evaluate the initial auditor's judgment and the significance level, 0.001, shows that this test can be generalized to the society.

**Conclusion:**

The first hypothesis of the research is about the effects of auditing skepticism on the initial evaluation of auditor's judgment and showed that skepticism has positive effect on the initial evaluation of auditor's judgment. This means that, it increases the initial estimation of auditor from risk. The findings of this section are consistent with the researches of Hajia et al. [7] on the relation of the features of auditors' professional skepticism and judgment and decision making, Nelson and Hart on investigating the effect of professional skepticism features on the quality of judgments and decision making, Yaghoubnejad et al. [23] about the relation between skepticism school indices and the quality of audit. Also the findings are inconsistence with findings of Pitchois about skepticism and cognitive and professional operation. In explanation we can say that professional skepticism in a necessary element in auditing. Auditors always are in doubts and these doubts are gained through experience and required trainings. Professional skepticism is an inherent element of professional judgment and according to accounting standards the auditor should do his job with skepticism not with suspicion and distrust [15]. According to the investigations done about the professional skepticism of auditing in countries such as America, Australia, Canada, and England and also in international standards and clauses 11 and 12 of Iran's auditing no 200, titled as the general purpose and principles of auditing of financial sheets, auditor should plan and implement auditing with professional skepticism and observing the point that there may be situations in which an important manipulation in financial invoices may occur. In order to achieve a correct judgment, skepticism of auditor is always one of the key elements of auditing. US audit standard statement 99 explicitly claims how this matter should be clear and evident. This standard covers all fields of audit and moves auditors from absolute reliance on checklists to rationalism and specifically emphasizes on professional skepticism as one of the main subjects in auditing [10]. Skepticism is not one of the most important auditing approaches in which we assume that manager is a swindler nor do we assume him to be absolutely honest. But we take some factors – ethics, experience and so on – into consideration in order to appropriately collect some evidences. One of the reasons for auditing failure is lack of appropriate professional skepticism. Professional skepticism can be very constructive because it seeks knowledge asking questions. Skepticism will increase the quality of judgment evaluation and decision making. The more the auditors are skeptic the less mistakes will be made. According to Nelson's and Hart's research, increasing professional skepticism through factors such as training and professional efficiency of auditors, will cause in increase in the quality of judgment and decision making. Also the research carried out by Yaghoubnejad et al. [23] shows that employees with high mental and characteristic abilities such as professional skepticism can cause increase in the quality of auditing. The second hypothesis of the research is about the effects of former experience of working with customer on the initial evaluation of auditor's judgment. The results showed that the former experience of working with customer will positively increase the initial evaluation of auditor's judgment. The more is the former experience of working with customer the stronger will be the effect on the evaluation of judgment. Risk based auditing can be considered as recognition process and report of manipulation risk in financial papers. Risk based auditing focuses not only on the figures of financial papers but also on recognition of commercial activities of company. The findings of this section are inconsistent with those of Shelton in his research about the effect of experience on auditor's judgment in using unrelated evidence. For explanation, we can definitely say that the survival of every business is relies on gaining benefits and income. Nevertheless, there will be no underpinning philosophy for emerging an economic movement. The most important element for success in achieving to this goal is the customer and the business's addressee. The mental position that customer creates of your business is the same experience he have had with your product. Experience in one ground, will create a structured knowledge and this experience related to knowledge structure has important effects on the quality of problem solving [4]. The former experience of working with customer has undeniable effects on the accuracy of auditor's judgment. Experience will increase the auditor's abilities in data processing and will crease different approaches in specific situations. Also experience will create a structure for auditor's judgment which makes approaches for decision making and information interpretation [6].

**Table 4: Result summary of two tests.**

<table>
<thead>
<tr>
<th>Model elements</th>
<th>B</th>
<th>t</th>
<th>P value</th>
<th>General results of model</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant element</td>
<td>4.91</td>
<td>2.598</td>
<td>0.010</td>
<td>R 0.485 F 23.525 P 0.00</td>
</tr>
<tr>
<td>skepticism</td>
<td>0.99</td>
<td>5.468</td>
<td>0.00</td>
<td>R2 0.235</td>
</tr>
<tr>
<td>former experience of working with customer</td>
<td>0.138</td>
<td>3.736</td>
<td>0.00</td>
<td></td>
</tr>
</tbody>
</table>
Suggestions Based On Research Findings:

We suggest official auditor's population to use characteristic tests, in addition to scientific and professional tests, to select the official auditors. In this way, the auditors which are selected will be more independent and will act more unbiased. We suggest to standard makers of accounting, specifically auditing standards, to consider skepticism more than before, because financial crises which happen in different societies explain that skepticism acted weakly and it should be considered seriously and specifically for remarking standards and generally all standards.

REFERENCES