

## **Auditors' Gender and Age and Their Relationship to Judgments and Decisions (the Case of Iran)**

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### **Abstract**

This study aims at investigating the relationship between age and gender of auditors and their judgment and decision. Population of this study includes dependent auditors engaged in audit firms member of Iranian Association of Certified Public Accountants (IACPA). Random sampling was used and the questionnaires were distributed among 100 auditors. The methodology of the study is descriptive-survey and questionnaire was applied for data collection. Results of the study revealed that auditors' decision makings do not depend on their age and gender and it is concluded that the quality of auditors' judgment and decision making depend on personal and professional qualifications of them.

**Keywords:** Gender and Age of auditors, Judgment and Decision.

### 1- Introduction

Judgment plays an important role in financial statement audit since judgment is included in all the stages of audit (planning, operation and assessment) (Audit Review Committee, 1999). In this regard, variables related to the judge can describe one part of reasons for differences in judgments (Hasas Yeganeh and Kasiri, 2003). Maham (2004) introduces effective personal characteristics in audit's professional judgment as 1) independence and impartiality 2) knowledge and experience 3) professional qualification 4) suspension of judgment and, 5) professional skepticism. Most of the studies have ignored the parameters related to auditor such as age and gender. Therefore, purpose of this study is to investigate the relationship between age and gender of the auditor and his judgment and decision. This study answers the following questions:

- 1) Is there any relationship between the auditors' age and their judgment and decision?
- 2) Is the auditors' gender effective in their judgment and decision?

### 2- Theory and Literature Review

Related to audit, agency theory presents the logic bases supporting the demand for audit services. Agency theory presents agency problem by which people and groups choose a group or person as their representative who is responsible to do certain services. In this regard, presence of an auditor is felt to make sure that there are no random errors and important frauds (Wallace, 1987). If audit is done by qualified people, it can be a constructive phenomenon; otherwise, audit's disadvantage would be the costs (American Accounting Association, 1966). Necessary features of an auditor are

directly subjected to conditions that necessitate audit. These features are of two types of individual and structural. Individual features are independence, professional and moral qualification and other personal features. Professional qualification is obtained through training, experience, service training and similar cases. Other personal features of auditor refer to natural capacities such as creativity, curiosity, discerning, and similar cases (American Accounting Association, 1966). The Canadian Institute of Accounting defines professional judgment in audit as "applying knowledge and experience in the framework of standards of accounting, audit and regulations of professional behavior for making decision about selecting one option among different options" (CICA, 1995). Investigations show that audit is a multi-dimensional process and judgment has an important role in it. One of the interesting and important aspects of audit is judgments with which auditors deal as their daily work (Hasas Yeganeh and Talaneh, 2003). Professional judgment is the essence of audit (Hasas Yeganeh, 2006). Professional judgment is influenced by several key factors including features of audit, the work environment of audit, audit evidence, decision process and qualitative features of judgment (Maham, 2004). In this regard, components of age and gender are not considered as the effective factor influencing judgment and decision and this study aims at investigating their effects on judgment independently.

In a study done in Iran entitled moral values in audit's professional judgment, the results revealed that the auditor's gender affects the quality of judgment and women judges better than men (Hasas Yeganeh and Maghsoodi, 2011). Findings of another research that studied the effect

of professional behavior and experience on the quality of audit judgment in Iran showed that general experience and professional behavior have positive effects on the quality of audit judgment. The reason is that experienced people-whether their experience is defined as the duration of their work or their promotion- have more interaction with moral environment and are more familiar with their concepts; therefore, quality of their judgment is increased (Hasas Yeganeh and Maghsoodi, 2009). Saberian (2007) did a study named the effect of auditor's features on professional judgment and the purpose of this research was to identify and introduce constituent factors of auditor's feature and their effects on professional judgment. Five features of auditor as independence, auditor's knowledge, professional qualification, professional skepticism, and suspension of judgment were shown in the results of this study. Khoshtinat and Bostanian (2007) in their study of professional judgment in audit found out that knowledge, experience, honesty, independence, commitment to ethical principles, professional skepticism are the most important personal features effective in professional judgment in audit. Nelson (2009) maintained that judgment and decision are obtained directly through incentives and knowledge and indirectly through experience and training. Abdolmohammadi and Shanteau (1991) did a research to identify personal features of professional auditors and they concluded that knowledge and experience are the most important cognitive features of professional people. Responsibility, self-confidence, and strong communication are other features of experts and creativity, simplifying the problem and analysis are strategic features of experts. Ferris (1981) investigated the relationship between

personal features, working characteristics, working ability, and performance of auditors in his study. The results revealed that auditors' performance has a positive correlation with age, marital status, organizational commitment, and working abilities.

### **3- Hypotheses of the Study**

According to theoretical basics and presented studies, hypotheses of this study are as follows:

- H1: There is a positive and significant correlation between auditors' age and their judgment and decision.
- H2: There is a positive and significant correlation between auditors' gender (male and female) and their judgment and decision.

### **4- Methodology**

According to the subject and aim, this study applied descriptive-survey methodology. This study is a correlation research and used Pearson correlation test and Mean score comparison methods. In theoretical part of the study data were collected by referring to books, magazines, and data bases and data collection was done through the measurement instrument of questionnaire.

### ***Population, Sample and Method of sampling***

Population of this study includes auditors working in the audit organization and audit institutions which are members of Iranian Association of Certified Public Accountants. Random sampling was done and questionnaire was distributed among 100 auditors of different organizational jobs. Since determining the sample size was difficult and all the received statistics was approximate, the sample size formula

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in infinite population was used which is shown in figure 1.

$$n = t^2 pq \div d^2 \quad (1)$$

N= population size

Z=t, Z= 1.96 (Standard variable corresponding the level of confidence), probability level of 95%.

p=q=50% (p is the success proportion and q is the failure proportion of the hypothesis), d=5% Estimated error of sample

Using the above formula, number of the sample was calculated as 384 out of which 110 subjects answered the questionnaire. 10 questionnaires were considered as outliers because they were not completed or completed by unrelated people. 100 members of sample were 19 audit managers, 9 audit partners, 19 senior audit supervisors, 14 audit supervisors, 14 audit senior auditors and 25 auditors.

#### **Questionnaire and its Reliability and Validity**

Content validity was used to check this study. By content validity we meant to check to what extent the prepared questionnaire measured the purpose appropriately. After preparing the questionnaire for more assurance it was reanalyzed in terms of content and face validity and some questions were included in it that were used in other reliable researches. It was distributed in the population randomly after necessary revisions. To calculate the reliability, Cronbach's coefficient alpha and Dillon-Goldstein's Rho were used. The minimum value for Cronbach's coefficient alpha and Dillon-Goldstein's Rho is 0.70. For this study, Cronbach's coefficient alpha was calculated between 0.831 and 0.92 and Dillon-Goldstein's Rho with values

between 0.878 and 0.935 more than the required value and validity and reliability of the instruments were confirmed.

Independent variables of this study are judgment and decision. Decision and judgment strategies are the common choices for comparison of solutions with a selected feature to omit inappropriate solutions. This variable was selected compatible with the studies of Peecher (1994) and McMillan and White (1993) and Questionnaire was used to measure dependent variable (judgment and decision making) of the study. Function of one pharmaceutical company was expressed in the questionnaire and one error was included in the questionnaire intentionally and respondents were asked to express probability percentage of five components respectively.

To assess this variable five components-likelihood that management explanation is right, likelihood of fraud, number of alternative explanations, number of error explanations, and weight of error explanation- were used. These five indices in the questionnaire (the last question) were assessed in a five-degree Likert Scale from strongly disagree to strongly agree.

Dependent variables in this study are auditors' gender and age. Age of the sample subjects was divided into four groups: age group 30 and lower (21%), between 30-40 (37%), between 40-50 (25%) and age group higher than 50 (17%); therefore, more subjects of the study are in the age group between 31-40 and less subjects are in the age group upper than 50. Regarding gender of the subjects, 81% were male and 19% female.

**5- Research Findings**

**Descriptive Statistics**

Demographic characteristics of the sample group are represented in Table 1.

According to Table 1, 81% of the sample group were male and only 19% were female. 74% of the respondents had bachelor’s degrees that most of them are in this group and most of the subjects are in the age group between 31-40 and most of the working experience refers to 10 years and less and regarding the professional status most of them refers to the number of auditors. It is important to note that all the audit partners and managers are in the age group of 40 and higher with working experience of 21 years and higher.

**Testing Hypotheses**

Results for Hypothesis 1: There is a positive and significant correlation between auditors’ age and their judgment and decision.

Pearson correlation test was applied to assess the relationship between age and

judgment and decision. Based on the results, value of the estimated error is higher than 0.05 that evidence cannot reject null hypothesis regarding no significant correlation between age and variables of the study. Therefore, it can be claimed that there is no significant correlation between age and judgment and decision. Also, correlation between age group and indices of judgment and decision was calculated by Pearson and Spearman correlation coefficient. Results of both tests were the same. Correlation between ‘age’ and the ‘likelihood that management explanation is right’ was positive and significant and the correlation between ‘age’ and ‘likelihood of weight of error explanation’ was negative and significant. There was no evidence of significant correlation between indices of ‘likelihood of management fraud, alternative explanation, and error explanation’ and ‘age’. The results are represented in Tables 2 and 3.

**Table 1: Demographic characteristics**

Variable	Sub Variable	frequency	Percent frequency	mode
Gender	Man	81	81.0	Man
	Woman	19	19.0	
Education	Bachelor	74	74.0	Bachelor
	MA	26	26.0	
Auditor Age groups	Thirty years or less	21	21.0	Between 31 to 40 years
	Between 31 to 40 years	37	37.0	
	Between 41 to 50 years	25	25.0	
	More than 50 years	17	17.0	
Auditor experience	Ten years or less	45	45.0	Ten years or less
	Between 11 to 20 years	22	22.0	
	Between 21 to 30 years	27	27.0	
	More than 30 years	6	6.0	
Professional positions at the audit firm	Audit Manager	19	19.0	Auditor
	Audit partner	9	9.0	
	Senior Audit Supervisor	19	19.0	
	Head of Audit	14	14.0	
	Senior Auditor	14	14.0	
	Auditor	25	25.0	

**Table2: Results of correlation between age and judgment and decision making**

Variable	Age			Results
	Pearson Correlation Coefficient	Significance	Number	
judgment and decision	-.002	.987	100	Relationship is not significant

**Table3: The correlation between age and components of judgment and decision making**

	Index test	Likelihood that management explanation is right	Likelihood of fraud	Number of alternative explanations	Number of error explanations	Weight of error explanations
Age group	Pearson Coefficient	.228	.078	-.038	.068	-.241
	Error level	.023	.439	.705	.504	.016
	Number	100	100	100	100	100
Age group	Spearman Coefficient	.219	.050	.015	.080	-.210
	Error level	.028	.618	.883	.428	.036
	Number	100	100	100	100	100

**Results for Hypothesis 2:** There is a positive and significant correlation between auditors' gender (male and female) and their judgment and decision.

For comparing the mean scores of the studied variables among males and females, the test of mean score comparison of two independent population was used. This test was preferred to the test of mean comparison of two groups due to heterogeneity and variance of the two groups and also because of dramatic differences in the sample size of two

groups of males and females. Since the calculated z absolute value for the test was smaller than the critical value of 1.96 and the significance level was higher than 0.05. Therefore, there is not necessary evidence for rejecting the null hypothesis regarding equal variable mean score in male and female groups. It can be claimed that the mean score of judgment and decision are not significantly different in groups of males and females. The results are shown in Table 4.

**Table 4: The results of comparison testing between women and men in decision-making judgment.**

Variable	Number		Average Rating		Comparison		
	Woman	man	Woman	man	Statistics u	Statistics z	Error level
judgment and decision	19	81	49.39	55.24	679500	-798	0.425
Likelihood that management explanation is right	19	81	52.14	43.50	636500	-1253	0.210
Likelihood of fraud	19	81	51.83	44.84	662000	-1007	0.314
Number of alternative explanations	19	81	48.64	58.42	619000	-1558	0.119
Number of error explanations	19	81	48.11	60.68	576000	-1898	0.58
Weight of error explanations	19	81	49.67	54.05	702000	-0.657	0.511

## **6- Discussion, Conclusion and Suggestions**

In the present research we studied the relationship between the age and gender of auditors and judgment and decision. Based on statistic tests, results show no correlation between age and gender of the auditors and judgment and decision. These results show that the quality of judgment and decision depend on the auditors' qualifications and age and gender are not effective. The reason is that factors such as creativity, curiosity, and analysis power are in relation with experience and natural capacities of the individual and do not depend on the studied sub-components (age, gender). Also, results of Pearson test show positive correlation between 'age' and the component of 'rightness of the management' and negative correlation with 'weight of error correction' in judgment and decision. This result indicates that with age increase there are two possibilities: first, if age increase causes simultaneous increasing of experience, it will show the auditor's policy and subsequently it increases the trust and therefore weight of error explanation will be decreased. Second, if the criterion is age increase such as the subject that we studied in the present research, it can be because of impatience, lack of issues analysis power and the like. The results of this study is compatible with the study by Hasas Yeganeh and Maghsoodi (2010) who introduced gender as an effective factor in the quality of judgment and is in contrast with the result of Ferris (1981) that introduced age as an effective factor in the quality of judgment. More behavioral studies are needed to be done in the area of audit in order to study the contrasts. These contrasts have positive effects on the quality of judgment and

decision of auditors. Results of hypotheses of this study are presented in Table 5.

### ***Implications of the Study***

Based on the results of the study, it is suggested that institutes notice auditors' behavioral qualifications and components such as creativity, desire and their natural capacities as their employment conditions because a qualified auditor has an important role in promoting the quality of the audit reports.

### ***Suggestions for Further Research***

- 1) Studying the correlation between gender and level of education relating to judgment and decision in an independent research.
- 2) Studying the relationship between age and experience of auditors with their judgments and decisions.

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