

Are auditors influenced by the attire worn by clients? A pilot study

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ABSTRACT

Companies need auditors to provide opinions on their annual financial statements. Auditors do so by planning the audit to effectively and efficiently collect evidence to support their opinions. As part of this process, auditors must make many professional judgments. For companies with inventories (such as clothing, drugs, computers, and books) auditors are required to inquire about, observe, and randomly test such inventories. To study the behavioral aspects of auditor judgments, we conducted a pilot study to investigate if auditor judgment biases do exist based on clothing. Student auditor subjects were asked to watch two, one minute videos of inventory managers; one wearing business clothing and the other wearing casual inventory clothing. The auditors were asked to assign seven staff auditors to observe the inventory managed by the two inventory managers. The subjects assigned more auditors to observe inventory managed by the person wearing informal clothing. The implications of our findings are that by not addressing the bias that clothing has on auditors, auditors may be ineffective in their audits by assigning too few resources than needed or inefficient in their audits by assigning too many resources than needed.

Keywords: Audit Judgment, Inventory, Attire, Bias, Clothing

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INTRODUCTION

The Auditing Standards requires auditors to collect competent evidential matter, through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. When inventory is a significant part of the financial statements, auditors must satisfy themselves through observation, tests and inquiries, that the inventory-taking process will be effective so that the auditor can obtain evidential matter as to the inventory's completeness, existence and valuation. To obtain this evidence, auditors must interact with inventory managers. It is expected that auditors will make appropriate judgments about the ability of inventory managers to plan and conduct inventory counts so that there is a low risk of inventory being materially misstated. The researchers believe that the clothing worn by inventory managers can bias the judgment of auditors, thereby increasing the risk that there could be a material misstatement in the financial statements under audit. Therefore, the purpose of this pilot study is to determine whether the type of clothing worn by inventory managers does affect auditor judgment.

PRIOR RESEARCH

Professional standards require that auditors make many judgments. Most of the audit research involving auditor judgments involves hindsight bias. There is no research on the perceived bias of auditor evidence based on clothing. However there is much research in other disciplines that examines attire bias.

Sebastian and Bristow (2008) examined the style of attire worn by faculty to test for attractiveness, trustworthiness and expertise. They found that formally attired professors were perceived by students as having higher expertise in their subject matter. They also found that a formally dressed woman was viewed by students as being less trustworthy than the casually dressed female professor, while formally dressed male professors were viewed as being more trustworthy than casually dressed males.

Rehman et al (2005) examined the way doctors dress in their first encounter with a patient and the degree that the doctor's dress has on trust and confidence in the doctor, by patients. The doctors were dressed in four different types of attire: 1) professional attire with a white coat, 2) surgical scrubs, 3) business dress or 4) casual dress. The patients' trust and confidence in the doctors was significantly higher when the doctors wore professional attire with white coats. When the doctor was a female however, it was even more important to be wearing professional attire with a white coat in order to instill trust and confidence on the part of their patients.

Peluchette and Karl (2007) studied the effect of workplace attire on employees' self-perceptions of productivity, competence, friendliness, trustworthiness and creativity. They found that their subjects who wore formal business attire, felt more authoritative, competent and trustworthy.

Research by Haefner (2008) found that 55% of the people who work in the financial services industry believe that they must be professional attired in order to be promoted.

THEORY DEVELOPMENT

The research addresses the following question: does the clothing worn by an inventory manager affect auditor judgment? Will auditors perceive inventory managers as more authoritative, competence and trustworthy if they are wearing formal business clothing rather than casual business clothing in the workplace? Our premise is that student auditor subjects will assign more audit staff to warehouses where they suspect a lack of competency on the part of the warehouse manager. The authors believe that a lack of competency will be associated with casual business clothing rather than formal business clothing.

Hypothesis

H0: There is no significant difference in the number of auditors assigned to observe inventory based on the clothing worn by the inventory managers.

The researchers believe that there will be a significant difference in the number of auditors assigned to observe inventory, based on the clothing worn by inventory managers. The authors further believe that student auditors will equate competency with the type of clothing worn by the inventory managers and that the subjects will allocate staff auditors solely based on the clothing worn. It is expected that subjects will exhibit auditor judgment bias based on clothing and will assign more staff auditors to those inventory managers who are dressed informally.

METHODOLOGY

The hypothesis was tested by asking graduate auditing students who had completed an audit class to view a “Youtube” video featuring two black female inventory warehouse managers at two different locations, discussing their preparation for year-end inventory procedures. A brief statement describing the inventory controls and counting process was presented by each inventory warehouse manager. The processes described by the two managers were virtually identical—both having glaring weaknesses. The significance of the inventory at each warehouse was also similar. Each warehouse manager was portrayed by the same actor: one clad in a business suit at one location and warehouse clothing at the other warehouse location. To explain the physical resemblance, the questionnaire noted that the managers were twins.

The narrative portion of the instructions directed the subjects to assume the role of an audit senior responsible for deciding how to distribute seven staff auditors for the observation of physical inventory conducted simultaneously at the two different warehouses. After viewing one of the eight, two-minute videos, the subjects had to determine how many staff auditors to assign to each warehouse site. It was a forced choice, as seven auditors had to be assigned. The subjects were also asked to complete a demographic survey.

EXPERIMENT

Fifty graduate student subjects from a northeast university were divided into eight groups, with each group receiving a different YouTube video. The eight video versions were used to control for three variables: the use of difference scripts; the use of two different

warehouses; and recency effects (the order of presentation affecting the decision on the part of the subjects.) The independent variable was the form of clothing worn by the inventory warehouse manager (either formal or informal). The dependent variable was the number of auditors assigned to each location. The experimental design is provided in Table 1(Appendix).

RESULTS AND ANALYSIS

Each subject was required to assign some combination of seven staff auditors to each of two client locations to observe the taking of physical inventory. In total 350 staff auditors were allocated by the 50 subjects. If no clothing bias exists, one would expect a normally distributed pattern of staff auditor assignments between the two locations. However, the subjects allocated significantly more staff auditors to oversee inventory when the inventory warehouse manager wore informal attire. Controlling for recency, script and warehouse location, subjects assigned 167 staff auditors to the warehouses where the inventory managers were wearing formal business clothing and 183 staff auditors to the warehouses where the inventory managers were wearing informal clothing. The results are provided in Table 2 (Appendix).

These results may be due to perceptions of less competence when people wear more informal clothing. In addition, Hispanic subjects assigned even more staff auditors to the warehouses where informal clothing was worn. Hispanic subjects may exhibit deeper clothing biases than other subjects. There also was a recency/primacy effect in that when formal clothing was presented last in the video, the subjects assigned more auditors to that warehouse (a recency effect) while when managers wearing informal clothing were presented first, the subjects assigned more auditors to that warehouse (a primacy effect.) However, the authors expected this situation and therefore controlled for recency/primacy effects.

LIMITATIONS OF STUDY

This research is a pilot study into the perception of competency of evidence as perceived by student auditor subjects. There are several limitations in this study including internal validity issues and external validity issues. In order to control for the possible effects of different scripts, different warehouses and recency of order presentation, the total subjects should approximate 240 subjects. Only 50 useable subjects were used in this pilot. Secondly, the intended subjects of this research are CPA auditors with significant work experience. Student auditor subjects were used in this research. Both of these actualities create internal validity problems with respect to the resulting validity of the research.

Secondly, in order for this research to have external validity, our subjects should have been randomly selected, and in general, represent the population we are studying. This was not the case and therefore the results of this research cannot be generalized to the population of auditors who make these decisions. In addition, our warehouse manager was a black female and the results of this research may only apply when the source of evidence is a black female.

IMPLICATIONS OF STUDY AND FUTURE RESEARCH

In spite of the internal validity and external validity issues mentioned above, the results of this pilot research give us reason to believe in the importance of this research. The preliminary findings do indicate a bias on the part of auditors who must use their judgment in obtaining evidence as part of an audit. If the auditors are experiencing perception bias due to the clothing worn by the person providing the evidence, there is a risk that the audit will be ineffective as too few resources get assigned to the wrong warehouse. In addition, the audit may be inefficient as too many resources get assigned to the wrong warehouse.

Future research endeavors will include a larger number of subject experts, randomly selected so as to be more representative of the general population of auditors. In addition we will examine the impact of the source of evidence as to gender and race.

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APPENDIX

Table 1
Experimental Design
Using YouTube Videos
(Control for recency, script, and warehouse)

Order of Presentation	1 st Business Attire 2 nd Casual Attire	1 st Casual Attire 2 nd Business Attire
	Script 1/Northwest warehouse	Script 1/ Northwest warehouse
	Script 2/ Northwest warehouse	Script 2/ Northwest warehouse
	Script2/Southwest warehouse	Script2/ Southwest warehouse
	Script 1/ Southwest warehouse	Script 1/ Southwest warehouse

Table 2
Number of staff auditors assigned to each cell

	1 st Business Attire 2 nd Casual Attire	1 st Casual Attire 2 nd Business Attire
	Script 1/ Northwest warehouse F=23 I=26	Script 1/ Northwest warehouse F=21 I=24
	Script 2/ Northwest warehouse F=17 I=16	Script 2/ Northwest warehouse F=25 I=26
	Script2/ Southwest warehouse F=18 I=17	Script2/ Southwest warehouse F=21 I=24
	Script 1/ Southwest warehouse F=21 I=28	Script 1/ Southwest warehouse F=21 I=22
Total Auditors Assigned	Formal Attire = 167 Informal Attire = 183	
	t= -1.908, with 48 degrees of freedom at the .05 level	