



**Pergamon**

The International Journal of Accounting  
36 (2001) 491–498

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**The  
International  
Journal of  
Accounting**

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## Reply to comments on “The association between European materiality estimates and client integrity, culture, and litigation”

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### **1. Motivation**

#### *1.1. Introduction*

Our study examined how culture affects auditors' materiality estimates. Our discussants enumerate a list of factors that could affect an individual auditor's materiality estimates. While the differences suggested by our discussants would make an interesting study, they are not what this research examined. Although our sample includes 181 auditors from seven Western European countries, our focus was how the estimates from each country differed. The reason for using this methodology is that only the average materiality estimates of each country provide an insight into how cultural differences could influence the implementation of international accounting and auditing standards such as materiality. Our research is important because there is no research that indicates that the levels of audit precision are similar among countries.

#### *1.2. Individual versus country estimates*

We agree with our discussants on their point concerning individual testing of Uncertainty Avoidance and risk aversion. Another research design would have been to ask our participants to respond to Hofstede's questions that make up the Uncertainty Avoidance construct and an

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assessment of their risk aversion. Had we asked these individual questions, we could have compared their individual materiality estimates with their own uncertainty avoidance and aversion to risk. Had we done this, we could have studied both individual and group differences. This would have given us a data set of 181 rather than the 14 in this research (i.e., two average materiality estimates per country — one high integrity and one low integrity). The possibility of using individual testing provides an opportunity for future research.

### 1.3. Cognitive testing

With respect to cognitive testing, we began planning this study a year and a half prior to gathering the data. As part of this process, we discussed the possibility of using the Defining Issues Test (Rest, 1979), the Group Embedded Figures Test (Oltman, Raskin, & Witkin, 1971), and the Locus of Control Test (Rotter, 1966).<sup>1</sup> However, this type of testing would have dramatically increased the difficulty of obtaining our targeted sample of managers and partners. First, it takes between 45 and 50 min to administer these three tests (Bernardi, 1994). Second, direct supervision of the tests is essential to ensure that no problems occur. Additionally, the Group Embedded Figures Test is a timed test. Had we used cognitive testing, our research would have tied up a substantial number of an office's managers and partners for over 2 h to accomplish the tasks involved in this study. We were able to successfully market this research by presenting it as a stand-alone package that participants could work on during their slack time.

## 2. Theory and design

We also believe that the use of interactive terms would be appropriate as we indicated in the "Possible Interactions" section of the analysis and shown in Fig. 2 of our study. However, we did not have a sufficient number of data points because of our research design. As previously noted, had we asked each auditor to fill out Hofstede's questionnaire, we would have had 181 usable observations. Even with our current research design, interactive terms would have been possible had the firms from both France and Germany been in the sample.

### 2.1. Uncertainty avoidance

Collins and Bloom (1997) and Gray (1988) suggest that cultural values can influence the process that produces accounting values and systems. Salter and Niswander (1995) found that only Hofstede's construct of Uncertainty Avoidance associates with the accounting values they tested. Consequently, we do not believe that it is a significant "leap of faith" to assume that systems and values that are affected by cultural constructs will influence measures such as materiality. Using Jeurissen and van Luijk's (1998, p. 999) *scores of ethical business conduct*,

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<sup>1</sup> These cognitive measures have been used extensively in audit judgment research.

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