

DO MORAL PHILOSOPHIES INFLUENCE AUDITORS' ETHICAL JUDGMENTS?

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Abstract

The increasing number of financial scandals resulting from auditors' unethical judgment has led to public distrust on the morality of auditors. Hence, the message is clear; to be relevant, auditors must be ethical in their behavior and judgments. As such, it is important to understand and investigate factors that influence auditors' ethical judgments. This paper attempts to examine the influence of two moral philosophies namely deontology and teleology evaluations on auditors' ethical judgments. A total of 940 questionnaires were sent to audit firms in Malaysia. About 250 auditors responded with 224 questionnaires were usable. By using Structural Equation Modeling of AMOS 16.0, the study found that there were significant relationships between these two philosophies namely deontology and teleology evaluations on auditors' ethical judgments. Findings of this study will be useful for Malaysian Institute of Accountants (MIA), the government, audit firms and institutions of higher learning in their effort to improve auditors' ethical judgments which can uphold the credibility and viability of the auditing profession.

Keyword: *deontology, teleology, auditor, ethical judgments*

Introduction

All professionals are required by the society to be ethical in all aspects including their behavior as well as judgments. In particular, auditors are given a legislated right by the society to audit organizations for the purpose of protecting their interests. Therefore, they must not only serve their clients,

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but also the investing public and those whose interests they must protect. Hence, they must ensure that the judgments they formed must be evaluated in the context of protecting the interests of those their jobs entail.

In Malaysia the audit practitioners are those who are members of the Malaysian Institute of Accountant's (MIA). Being members of professional bodies, they are required to adhere and make judgments in accordance with the professional rules and standards of MIA by-laws on code of ethics, laws and regulations. Those who evaluate the judgments based them on these rules and standards by employing the concept of deontology moral philosophy of rule based system. On the other hand, teleology moral philosophy stresses on the consequences of the judgment for the benefit of the stakeholders. In addition, teleology also holds the concept of end justifies means. Where any possible means can be taken to achieve goals. Both these moral philosophies namely deontology and teleology are important evaluations for the auditors to rely in the formation of ethical judgments.

Ethical judgments became important recently due to rampant accounting and auditing failure in very large corporations like Enron, World Com, Microsoft, Xerox, Parmalat and Transmile Group Sdn.Bhd, among many others. The fall of Enron and subsequent meltdown of one of the biggest accounting firms, Andersen, is arguably one of the most significant events, or 'mega-events' in the history of business. As a result, Andersen name disappeared from the local accounting landscape. At worst, was the involvement of Andersen in the scandals in which it collaborated with Enron to hide the evidence by shredding documents. Over reliance on revenues from Enron had led Andersen to compromise its professional ethical judgments in which it was being blamed in perpetrating one of the biggest frauds in corporate history.

Beside Enron, there were many other scandals that involved auditors being reported globally. Another abusive transaction reported by the US Department of Justice, was made by former KPMG executives. KPMG admitted to wrongdoing in the fraud cases which generated at least US\$11 billion in tax losses and that cost US\$2.5 billion in tax evasion (Accountant Today, December 2005).

In the United Kingdom (UK), the UK's Joint Disciplinary Scheme (JDS) which oversees accountants' conduct, had published in September 2004 its initial finding against an accounting firm and two auditors. Among the charges was an allegation that E&Y gave an "unqualified opinion" for accounts between 1994 and 2000, when the accounts did not show a true and fair view of its financial position (Accountant Today, Oct 2004). While in China, a review conducted by the Ministry of Finance in 1998 of auditors' ethical behaviors for violation of professional ethics and poor quality practices revealed that 352 CPAs had their certification withdrawn and 3936 CPAs were issued warnings (Gul, Ng & Tong, 2003).

In Malaysia, Cold Storage Malaysia sued Arthur Andersen for RM500 million for negligently giving a clear report, when in fact it was otherwise (NST, 30 June 2002). In the latest financial scandal of Transmile Group Berhad; the company had overstated

its revenue by RM622 million for the year 2004 to 2006 (The Star, 19 June 2007). Soon after the Transmile scandal, the company's investors demanded authorities to examine the role of its external auditor namely Messrs Delloite & Touche (NST, 19 June 2007). Moreover, the public claims that the auditors are incompetent and unethical in performing their duties (Lee, Azham & Kandasamy, 2008). The former MIA President, Abdul Rahim Abdul Hamid added that the responsibility of any wrongdoing in any company is on the shoulders of directors, senior management team as well as the auditors, among others. As a result, those financial scandals had caused a high level of accusation and criticism against auditors by outsiders. Hence, this negative publicity eroded the image of auditing profession in Malaysia.

Furthermore, in most of the scandals, there were a high level of accusation that auditors tend to satisfy their clients and their self-interests instead of adhering to rules and standards. In other words, they are more likely to use teleology evaluations (by satisfying the minority stakeholder interest) as opposed to rely on rules, standards and regulation of deontology evaluations in their judgments.

To date, many studies in the field of marketing have been conducted to investigate the influence of two variables, namely deontology and teleology evaluations, in the formation of ethical judgments (Donoho, Polonsky, Herche and Swenson, 2006; Cherry and Fraedrick, 2000; Marta, 1999; Arnett, 1998; Rallapalli, Vitell and Barnes, 1998; Mayo and Marks, 1990). However, none of these studies was carried out under the auditing context. Having similar features, both the marketers and auditors have their own professional code of conduct to govern (deontology) them. In addition, they are required to form judgments that provide the maximum benefit to the greatest number (teleology).

Although there were many studies that examined auditors' ethical judgments, these studies used different variables such as cognitive moral development, organizational ethical climate, peer influence and attitudes towards behavior (Buchan, 2004; Windsor, 2002; Patterson, 1994; Ponemon, 1990; Lampe and Finn, 1992). Furthermore, these prior studies were conducted in the US. Therefore, this study intends to fill this gap and contribute to the existing literature in auditors' ethical judgments for by examining the influence of these moral philosophies, namely deontology and teleology on ethical judgments, as being proposed by Hunt & Vitell Theory of Ethics (1993). The focus of the study is auditors in the Malaysian setting.

As such, this study addresses the following questions: What is the level of auditors' deontology evaluations? What is the level of auditors' teleology evaluations? What is the level of auditors' ethical judgments? Do deontology evaluations influence ethical judgments? Do teleology evaluations influence ethical judgments? Do higher deontology evaluations as opposed to teleology evaluations lead to ethical judgments?

In pursuit of these questions, this paper reviews the literature on moral and ethical theories and previous empirical studies pertaining to variables of interest. Then, it proposes a theoretical model and develops hypotheses. Next, it highlights the findings

followed by a discussion of implications, limitations and suggestions for future research and conclusion.

Literature Review

The literature is reviewed in two sections. The first section discusses the moral and ethics theory, while the second section discusses previous empirical studies with regard to the variables of the interest.

Moral and Ethical Theory

Hunt and Vitell's Theory of Ethics (1993; 1986), proposes that ethical judgments are influenced by many factors and amongst them are two moral philosophies namely deontology and teleology evaluations. The theory also states that it is important for a person to evaluate on the right moral philosophies of deontology and teleology on the formation of ethical judgments. Additionally, the theory states that people in most ethical situations will rely on both deontology and teleology evaluations. However people will differ in their ethical judgments due to differences in deontology evaluations and teleology evaluations. Therefore, ethical judgment (EJ) made by individuals are a result of their deontology evaluation (DE) and teleology evaluation (TE).
 $EJ = f [DE, TE]$ (Marta, 1999).

Deontology Evaluation

Marta (1999) conceptualized deontology evaluations as evaluations made by referring to a set of predetermined rules and guidelines. Torres (2001) added that deontology evaluations emphasized on individuals' specific actions or behaviors and presented normative ethics as a system of rules. Thus, the deontology term emerges from the Greek *deon*, referring to necessary or obligatory. Marta (1999) stated that deontology has been established in Western moral philosophy, through the Judeo-Christian tradition, besides the influence of prominent Greek moral philosophers such as Socrates and Plato, and the very influential German philosopher, Immanuel Kant (1724-1804). Freeman, Engels and Altekruise, (2004) and Reidenbach and Robin (1987) asserted that deontology is a theory of duty or moral obligation, which focuses on the inherent righteousness of a behavior of an individual, not society. Deontologists believe that a behavior is right if the features of the act itself are right, irrespective of the consequences that the act brings about (Jung, 2002). As such, one should not break the rules simply because it is wrong to break them.

Deontology states that the rightness of an act arises from the premise that certain actions are correct because they stem from established rules, fundamental obligations or duties (Cherry and Fraedrich, 2002; Lazniak and Murphy, 1993; Reidenbach and Robin, 1987; Ashmore 1987). This is in line with the moral teachings brought by Islam, Christianity, Buddhism, Hinduism and Judaism, which emphasize on the rightness

of behavior, not on the outcome (Ferrell, Gresham and Fraedrich, 1989). However, individuals may possess different deontology evaluations, due to differences in perceiving the importance of particular norms, applying rules for resolving conflicts and interpreting the rules for applicability of norms.

Teleology Evaluation

Teleology is a Greek term *telos*, which emphasizes on the consequences. Marta (1999) conceptualized teleology evaluations as evaluations made by referring to the best set of consequences from an act, law, rules, policy, rationale and justification. In a way, the rightness and wrongness is judged with respect to net goodness or harshness of the consequences it contributed that provide the greatest happiness to the greatest number. Thus, an action is considered right or wrong depending on the intended outcomes.

A philosophical teleology theory of ethics evaluates actions in terms of their contribution and consequences, rather than their conformation to rules or commandments (Torres, 2001). It focuses on the results of the actions, for instance, happiness, friendship, economic outcome and the traditional notion of the common good (Finnis, 1998). The most common application of teleology is in the theory of utilitarianism and egoism. The utilitarianism states that an action is considered right from an ethical point of view if the total sum of goodness produced by that act is greater than the total sum of badness produced by any other acts the agent could have performed in its place (Frankena, 1963). Meanwhile, the egoism stresses that one should make ethical judgments based on the maximum benefits good judgments can provide for them (Marta.1999).

It appears that teleologist believes that one should assess the relative merits of all consequences of a particular behavior. Hence, the behavior is judged in respect to the net goodness or badness of the consequences it effectuates, not on the features of that behavior. As such, breaking the rules could be good in some situations and bad in others, as judgments on morality is established by consequences and not by motives (Marta, 1999). However, one may exhibit differences in teleology evaluations that could be due to differences in actions taken for particular stakeholders. For example, the differences may exist in perceiving positive and negative consequences, in assigning important weights, and in allocating the probabilities of positive and negative consequences to each stakeholder (Hunt & Vitell, 1993).

Ethical Judgments

Hunt and Vitell's (1986) defined ethical judgments as judgments by which one identifies ethical problems, considers alternatives based on rule system of deontology (non-consequences) evaluations and teleology evaluations (consequences) that best solves the problem to attain the most beneficial outcome. Also, it is how one makes judgments about what is "right" or "wrong" in the context of socially acceptable standards. On the other hand, unethical judgments are judgments that will cause harm to others but benefit

the decision makers (Greenberg, 2001). Fang (2006) added that ethical judgments are judgments in which one can freely form based on the evaluations of the interests of all parties when facing ethical dilemmas. Therefore, ethical judgments are important as they lead to ethical behavior and they take place in the context of an ethical dilemma (Bommer, Gratto, Gravender and Tuttle, 1987; Blasi 1980). As such, it can be concluded that ethical judgments are judgment formed after one has identified ethical problems and has evaluated what is morally “right” or “wrong” according to rules and regulations. Apart from that, the interests of the majority of parties involved should also be upheld.

Empirical Studies on the Relationship between Deontology and Teleology Evaluations with Ethical Judgments

Several studies have been carried out in the marketing ethics to investigate the relationship between these two moral philosophies, namely deontology and teleology evaluations on ethical judgments (Donoho et al, 2006; Cherry & Fraedrich, 2002; Marta, 1999; Arnett, 1998; Rallapalli et al., 1998). The results of these studies indicated inconsistent findings.

By using path analysis and core relationships, Donoho et al, (2006) replicated Mayo and Marks (1990) studies based on Hunt Vitell’s theory of ethics (1986). They conducted a survey on over 1500 students from seven universities in the US, Canada, Netherlands and Australia. The findings also indicated that deontology evaluations had a positive relationship with ethical judgments. Meanwhile, teleology evaluations had a negative relationship with ethical judgments. The study further revealed that future managers or the universities’ students were more likely to use deontology as opposed to teleology evaluations in the formation of ethical judgments.

Cherry and Fraedrich (2002) conducted a research on ethical judgments and adopted Hunt and Vitell’s (1993; 1986) model. They investigated the influence of perceived risk to non-consequential (deontology) and consequential (teleology) ethical judgments and ethical intentions among sales managers. The results indicated that ethical judgments were positively related to deontology evaluations but negatively related to teleology evaluations. Furthermore, the results revealed that the usage of deontology evaluations is greater as opposed to teleology evaluations of the formation of ethical judgments.

The results were in tandem with another empirical study which investigated significant factors of moral reasoning and their influence on ethical judgments and intentions (Marta, 1999). This prior study was conducted among American Marketing Association (AMA) practicing members. Likewise, the results indicated that ethical judgments were positively related to deontology evaluations and negatively related to teleology evaluations. This prior study also discovered that marketers were more likely to use deontology evaluations as opposed to teleology evaluations in the formation of ethical judgments.

The results were also consistent with a study conducted by Rallapalli et. al, (1998). This prior study examined the influence deontology and teleology evaluations on

marketers' ethical judgments and the results concurred with Hunt and Vitell's (1986) theory, that marketers' ethical judgments and intentions were jointly influenced by their deontology and teleology evaluations. Again, this prior study found that ethical judgments were positively related to deontology evaluations and negatively related to teleology evaluations. The study further revealed that marketers used more deontology evaluations as opposed to teleology evaluations of the formation of ethical judgments. However, the results were inconsistent with a study conducted by Arnett (1998). This prior study examined the influence of deontology and teleology evaluations on ethical judgments and found that there were no relationships between deontology and teleology evaluations with ethical judgments.

Hypotheses and Theoretical Model

Based on the result of previous empirical studies such as by (Donoho et al., 2006; Cherry and Fraedrich, 2002; Marta, 1999; Rallapalli et al, 1998) and the Hunt and Vitell theory of ethics (1993; 1986), it is predicted that deontology and teleology evaluations influence ethical judgments. This study also predicts that deontology evaluations are positively related to ethical judgments. On the other hand, teleology evaluations are negatively related to ethical judgments. Furthermore, it postulates that auditors are more likely to use deontology evaluations as opposed to teleology evaluations of the formation of ethical judgments

Thus, the following theoretical model and hypotheses are formulated based on the relationships proposed in the theoretical works and findings from earlier studies.

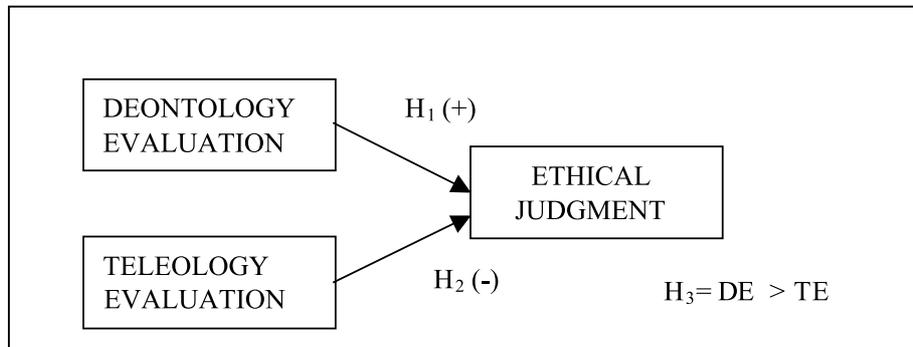


Figure1. Theoretical model

The formulated hypotheses are :

- H₁: Deontology evaluations have a positive relationship with ethical judgments.
- H₂: Teleology evaluations have a negative relationship with ethical judgments.
- H₃: Auditors are more likely to use deontology evaluations as opposed to teleology evaluations in the formation of ethical judgments.

Methodology and Procedures

The study of ethical judgments in social science research, particularly public accounting, presents significant challenges. Gaining access to respondents is often difficult due to time constraint and when there are opportunities, they are under less than ideal conditions. Thus, scenarios are widely used, specifically in the accounting ethics research, to overcome this limitation. The use of scenarios has been tested in prior researches and offers several advantages. Among them is the ability to access cognitive thinking over a wide variety of respondents and fields. Moreover, it can assess the relevance of issues within a research scope. However, there is a drawback from the usage of scenarios in which the respondents may not be familiar with the selected scenarios. Therefore, careful selection is important for the research design. This is to ensure that the scenarios are common unethical practices faced by the respondents.

Ethical judgments, deontology evaluations and teleology evaluations were all measured based on the respondents' response to ethical scenarios. In addition, the same three ethical scenarios were used to measure ethical judgment, deontology evaluation and teleology evaluation. The method of measurement for these three variables was similar to the study of Marta (1999) but this present study used different scenarios. Marta (1999) utilized the scenarios of unethical practices faced by the marketers, whilst this study utilized the scenarios of unethical practices faced by the auditors (Cohen, Pant & Sharp, 1992). Furthermore, the measurement was tailored to auditors' contexts. The three ethical scenarios employed were low balling, underperform audit service and confidentiality. These scenarios were non-compliance to MIA by-laws of confidentiality Section 12 and Acts discreditable to the profession Section 18.

Exogenous Variable - Deontology Evaluations and Teleology Evaluations

This study measured deontology evaluation and teleology evaluation in the same manner with the study by Marta (1999) but with a few modifications to fit the auditors' contexts. Deontology evaluation and teleology evaluation were part of the processes of ethical judgment; therefore they should be inferred from measures of deontological norms and teleological norms applied to each judgment (Hunt and Vitell, 1993). Thus, the measurement attempts to deal with the evaluations as a process and to weigh them against each other. In this study, respondents were given three ethical scenarios comprising six statements for each of the scenario. Three of the statements consisted of applicable deontological norms while the remaining three represent the teleological norms. Then, the respondents were instructed to rank these six statements, by giving the highest score of 100 to the statement that they think provided the most important reason. Next, they were required to allocate the score to the five remaining statements of less than 100 in reducing values depending on the importance of the reasons to each particular statement. The score of each item would be added and divided by the total number of scenarios. This was to compute the mean score of the usage of deontology evaluations and teleology evaluations. The score was then adjusted to a nine point scale, as to be consistent

with the ethical judgment scale. Next, this study performed path analyses to examine i) the relationship between deontology evaluations and ethical judgments, ii) the relationship between teleology evaluations and ethical judgments, and iii) the usage of deontology evaluations as opposed to teleology evaluations.

Ethical Judgments

This study also measured ethical judgments through one item. The respondents were required to state their degree of agreement with the action described in the scenarios (Please rate the auditor's action as to how ethical you believe it was), measured on a nine-point Likert-type scale (1 = very ethical, 9 = very unethical). Each score from the three scenarios would be added and divided by the total number of scenarios to get the variable's mean value. A high score indicated that a respondent was more likely to form ethical judgments (respondents perceived the situation as unethical). Meanwhile, a low score indicated that a respondent was less likely to form ethical judgments (respondent perceives the situation as ethical). This measurement was similar to previous studies (Md. Zabid and Saidatul, 2008; Marta, 1999; Singhapakdi, Vitell and Kenneth, 1996; Hunt and Vasquez-Parraga, 1993; Singhapakdi and Vitell, 1991; Mayo and Marks, 1990).

Sample

The study examines the auditors' ethical judgments. Therefore, the population that the findings are generalized consists of audit practitioners who work with public audit firms and are members of MIA. The list of the auditors and the audit firms' addresses from which this study drew a sample were taken from MIA. The sampling frame was based on the audit firms in Malaysia totaling 1373 as at 30 June 2007. Next, samples were selected based on the number of audit firms located in every state in Malaysia. Then, it will be proportionate based on stratified random sampling. According to Krejcie and Morgan (1970) the proposed sample size for population 1400 is 302 or equivalent to 23 %. Therefore, in order to obtain this sample size, about 940 questionnaires were distributed and 250 responded with the response rate of 25 %. However, only 224 were usable for the analysis.

Results and Discussion

The results and discussion were analyzed in four sections. The first section presented the profile of respondents. Meanwhile, the second section presented the results of structural analysis by employing AMOS 16.0 program. Finally the third section discussed the hypotheses testing.

Profile of Respondents

The profile of respondents with the variable of interest requested in the questionnaire were gender, level of education, type of qualification, position, duration as MIA member

and as an auditor, working tenure and the category of their firm (Big 4 or Non-Big 4). The respondents were also being asked whether they had ever encountered any unethical situation. All information was presented in actual figures and percentages to facilitate interpretation. The results are presented in Table 1.

Table 1: Profile of Respondents

	%		%
Gender		Level of education	
Male	33.5	Degree	67.9
Female	67.5	Professional qualification	25.9
		Master	3.1
Years being member of MIA	22.8	PhD	3.1
Below 3 years	54.0	Level of position	
3 to 6 years	14.7	Senior	42.9
7 to 9 years	8.5	Manager	29.0
Job tenure with present firm		Partner	28.1
Below 3 years	37.1	Encountered unethical situation	
3 to 6 years	45.5	Yes	29.0
7 to 9 years	10.7	No	71.0
More than 9 years	6.6	Firm category	
Years being an auditor		Big Four	14.7
Below 3 years	15.6	Non-Big Four	85.3
3 to 6 years	66.1		
7 to 9 years	10.7		
More than 9 years	7.6		

N = 224

Statistical Analysis

The results indicated that the data for all variables ranged from -.06 to -.77, which indicated that data were within the range of - 1.0 to 1.0, meaning that the data did not depart from normality. The results also revealed the mean scores for deontology, teleology and ethical judgments were 6.95, 5.28 and 6.72 respectively. These scores were converted into percentage and indicated the percentage of deontology, teleology and ethical judgments were 69.50 %, 58.70 % and 74.67 % respectively. The result was illustrated in Table 2.

Table 2: Descriptive Statistics

Variables	Mean	Percentage	Skewness
Deontology	6.95	69.50 %	-.06
Teleology	5.87	58.70 %	-.77
Ethical Judgments	6.72	74.67 %	-.15

Factor analysis was carried out on exogenous variables (deontology and teleology) and endogenous variable (ethical judgments). The factor analysis process with varimax rotation condensed three factors of each of these three variables into one factor. This was consistent with the study of Marta (1999) which indicated that these three variables had only one factor. All constructs showed eigenvalues larger than 1, which are deontology with factor loading in the range of .82 to .94, teleology with factor loading in the range of .73 to .83, and ethical judgments with factor loading in the range of .63 to .80. The variance that can be explained by deontology, teleology and ethical judgments constructs was 60.79 %, 76.85 % and 63.62 % respectively. The results for the factor analysis also showed that the Keiser-Meyer-Olkin (KMO) scores for deontology, teleology and ethical judgments were .64, .71 and .69 respectively, which exceeded the recommended value of .50 (Kaiser, 1974). Likewise, the cronbach alpha scores for deontology, teleology and ethical judgments constructs were .66, .85 and .76 respectively, which had exceeded the minimum value of .60 (Sekaran, 2000; Nunnally, 1978). The cronbach alpha was to determine the internal consistency of measuring items under each construct. Table 3 presents the results of the analysis done on goodness of the data.

Table 3: Goodness of Data

Measure	Items	Factor Loading	KMO	Eigenvalue	Variance explained	Cronbach's Alpha
Deontology	3	.823 - .944	.637	1.824	60.79 %	.664
Teleology	3	.856 - .911	.706	2.308	76.85 %	.849
Ethical Judgments	3	.633 - .801	.693	1.608	63.62 %	.763

Structural Equation Modeling (SEM)

The study adopted Structural Equation Modeling (SEM) using AMOS 16.00 program. SEM has two phases, namely measurement phase and structural phase. In the measurement phase of SEM, confirmatory factor analysis provides information concerning the number of latent constructs. Factor loading with t-values greater than 1.96 are significant ($p < .05$) and thereby provide evidence for this criterion. However, in this model, the results of explanatory factor analysis indicated that all of the variables namely deontology, teleology and ethical judgments had only one factor. Moreover, the results were consistent with the study conducted by Marta (1999) that used similar measurements. Therefore, the study did not conduct a confirmatory factor analysis to confirm the number of observed variables.

Model Fitness

Additionally, the study assessed the model fitness based on several fitness indices produced by AMOS 16.00. The chi-square was 1.971 and probability level was .16. The indices used were Goodness of Fit Index (GFI), Adjusted Goodness of Fit Index (AGFI), Parsimony Goodness of Fit Index (PGFI) and Root Mean Square Error Estimate (RMSEA).

The results showed that the GFI and AGFI were .96 and .92 respectively, while the RMSEA was .08. According to Joreskog and Sorbom (1984), the GFI exceeds .90 indicated the model is a perfect fit to the data. Another criterion to indicate an adequate model fit was the AGFI should be greater than .90 and an RMSEA was less than 0 (Bentler and Bonet, 1980). Hence, this model was a perfect fit and could be used for further analysis. The results were shown in Table 4.

Table 4: Fitted Indices for Measurement Model

Model	GFI	AGFI	RMSEA
Default model	.960	.923	.077

Hypotheses Testing

In the structural phase of SEM, a structural model is assessed that involves testing the direction of the relationships, among the latent variables of the measurement model.

Hypothesis 1 was formulated to test the following statement: Deontology evaluations have a positive relationship with ethical judgments. The results of path analysis indicated that the relationship was significant and related in positive direction (standardized coefficient = .56, p -value < .001). As such, H_1 was supported and the study concluded that deontology evaluations have a positive relationship with ethical judgments.

Next, hypothesis 2 stated the following statement. Teleology evaluations have a negative relationship with ethical judgments. Again, the results of path analysis indicated that the relationship was significant, but related in a negative direction (standardized coefficient = -.32, p -value < .001). Hence, H_2 was also supported, that the teleology evaluations have a negative relationship with ethical judgments.

Finally, hypothesis 3 (H_3) tested the following statement: Auditors are more likely to use deontology evaluation as opposed to teleology evaluations of the formation of ethical judgments. The path analysis results indicated that the path coefficient value from deontology evaluations to ethical judgments (standardized coefficient = .56) was greater than the path coefficient value from teleology evaluations to ethical judgments (standardized coefficient = -.32). Therefore, the results indicated that auditors are more likely to use deontology evaluations as opposed to teleology evaluations of the formation of ethical judgments. As such, the null hypothesis was rejected and hypothesis 3 supported that auditors are more likely to use deontology evaluations as opposed to teleology evaluations of the formation of ethical judgments. The summary of the hypotheses was illustrated in Table 5 and the structural model was indicated in Figure 2.

Table 5. Summary of the Hypotheses

Hypotheses Statements	Result
H ₁ : Deontology evaluations have a positive relationship with ethical judgments.	Supported
H ₂ : Teleology evaluations have a negative relationship with ethical judgments.	Supported
H ₃ : Auditors use more deontology evaluations as opposed to teleology evaluations in the formation of ethical judgments.	Supported

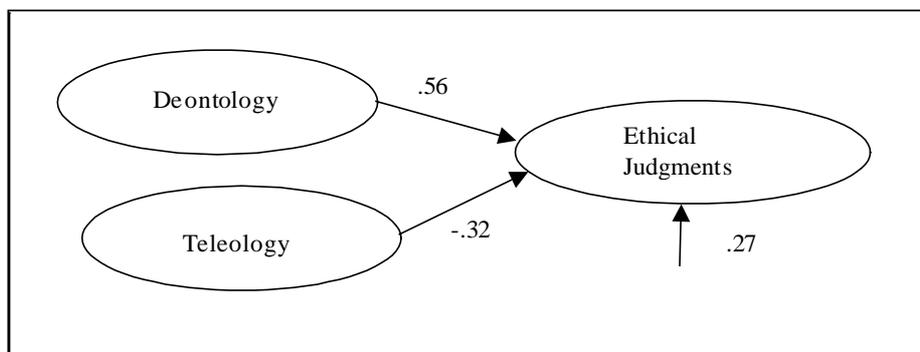


Figure 2. The Structural Model

The detailed result of the measure of strength and magnitudes of association between variables was illustrated in Table 6.

Table 6: The Measure of Strength and Magnitudes of Association between Variables

Variable	Variable	Estimation of Correlation
Deontology	Ethical Judgments	.563***
Teleology	Ethical Judgments	-.322***

***p-value<.001

The R² for Ethical Judgments explained by the deontology and teleology variances were 42.32 %.

Discussion of Findings and Implication

The discussion of the findings will answer the research questions of this study.

The level of auditors' deontology evaluations

In this study, the level of score was analyzed into three categories, namely high (> 66.67 %), moderate (33.33 % – 66.66 %) and low (<33.32 %). The descriptive

statistics' results indicated that the mean score for auditor's deontology evaluations was 6.95 out of 10.00 or represented by 69.50 %. Therefore, this indicated that the level of score was high and the results concurred with prior marketing studies (Donoho et al., 2006; Cherry and Fraedrick, 2000; Marta, 1999, Rallapali et al, 1998). As such, based on the results and consistent with prior studies, it can be concluded that the level of auditors' deontology evaluations is high.

The level of auditors' teleology evaluations

The descriptive statistics' results indicated that the mean score for auditor's teleology evaluations was 5.28 out of 10.00 or represented by 58.70 %. This indicated that auditors had a moderate level of teleology evaluations (33.33 % – 66.66 %). The results also concurred with prior marketing studies (Donoho et al., 2006; Cherry and Fraedrick, 2002; Marta, 1999, Rallapali et al., 1998). As such, based on the results and in tandem with previous studies, it can be concluded that the level of auditors' teleology evaluations is moderate.

The level of auditors' ethical judgments

The mean value of auditors' ethical judgments was 6.72 out of 9.00 or equivalent to 74.67 % (> 66.67 %). Thus, the auditors had a high level of ethical judgments and this was consistent with prior studies (Donoho et al., 2006; Cherry and Fraedrick, 2002; Marta, 1999, Rallapali et al., 1998). Hence, this study concludes that the level of auditors' ethical judgments is high.

The relationship between deontology evaluations and ethical judgments

The results of path analysis showed that deontology evaluations had a positive relationship with ethical judgments (standardized coefficient = .56, p -value < .001). The results supported Hunt and Vitell's Theory of Ethics (1986, 1993), that proposes ethical judgments are the function of deontology evaluations. It is evident that in the case of Transmile Berhad, the management inflated the company's revenues and its auditors, namely Delloite and Touche, issued a clean report. Thus, inflating the revenues is non-compliant of accounting standards and not reporting this irregularity is a non-compliant of rules and regulations. Should the management rely on rules (deontology evaluations) and the auditors reported this financial irregularity, this scandal could be prevented. Furthermore, results were also consistent with previous studies (Donoho et al., 2006; Rallapalli et al., Marta, 1999; Cherry and Fraedrick, 2002). As such, it can be concluded that deontology evaluations had a positive relationship with ethical judgments.

The relationship between teleology evaluations and ethical judgments

The results of path analysis also supported that teleology evaluations had a negative relationship with ethical judgments (standardized coefficient = -.32, p -value < .001). Again, the results supported Hunt and Vitell's theory of ethics (1993, 1986), that proposed ethical judgments were the function of teleology evaluations. However, teleology evaluations had a negative relationship with ethical judgment and were consistent with prior studies (Donoho et al., 2006; Rallapalli et al, 1998; Marta, 1999;

Cherry and Fraedrick, 2002). It is evident in the case of Enron, whereby its auditor, Andersen, collaborated with the management by shredding documents so as to hide the audit evidence. In other words, the auditors' satisfied his clients' interest (teleology evaluations), instead of conforming to rules (deontology evaluation). Therefore, it appears that using teleology evaluations will reduce the likelihood of the formation of ethical judgments. As such, this study concluded that teleology evaluations had a negative relationship with ethical judgments.

The usage of deontology evaluations as opposed to teleology evaluations of the formation of ethical judgments

The results of path analysis revealed that the path coefficient value that links deontology evaluations to ethical judgments was higher than the path coefficient value that links teleology evaluations to ethical judgments (deontology's standardized coefficient = .56 > teleology's standardized coefficient = -.32). Thus, these results concurred with descriptive statistics' results which stated that auditors had a high level of deontology evaluations and a moderate level of teleology evaluations (deontology's mean score = 69.50 % > teleology's mean score = 58.70 %). In other words, deontology evaluations outweighed teleology evaluations in the formation of ethical judgments. This study also supports several previous studies which found that deontology evaluations were used more than teleology evaluations in the formation of ethical judgments (Donoho et al., 2006; Cherry & Fraedrick, 2002; Marta, 1999; Rallapalli et al., 1998). Again, we can relate to Transmile and Enron scandals, whereby the judgments were formed to satisfy the clients' interests instead of adhering to rules and regulations. In other words, the frauds were perpetrated because the auditors and management were more likely to use teleology evaluations as opposed to deontology evaluations. Thus, it can be concluded that to form ethical judgments, auditors have to be cautioned. They should more likely use deontology evaluations (rules and regulation or non-consequential) as opposed to teleology evaluations (consequences).

Implication of the Study

The study contributes two implications; theoretical and practical.

Theoretical Implication

This study supports the theory of ethics proposed by Hunt and Vitell's (1993, 1986) that deontology and teleology evaluations influence ethical judgments. This study also supports previous studies that deontology outweighs teleology evaluations in the formation of ethical judgments (Donoho et al., 2006; Cherry and Fraedrick, 2002; Marta, 1999; Rallapalli et al., 1998). As such, the results support theoretical works of ethics theory and literatures thus enhancing the understanding of ethical judgments, which is important for practical implication.

Practical Implication

The findings suggest that the auditors should form judgments according to rules and regulations (deontology evaluations), instead of evaluating on the consequences derived from such actions to stakeholders (teleology evaluations). This will be a challenge for professional bodies to establish rules and guidelines that operate effectively as a deterrent for unethical practices. Thus, clearly defined and enforced penalties for any violation of the professional rules and regulations would help to shape the desired ethical behavior and judgments. Thus, auditors who are more exposed to rules approach have greater tendency to use deontology evaluations in the formation of ethical judgments.

The auditors should also be exposed to factors that could be threats to ethical judgments. Thus, auditors who evaluate more on consequences (teleology evaluations) could only be concerned of the interests of their clients as well as themselves. As such, these can be threats to ethical judgments. However, the interests of the stakeholders should also be upheld as long as it does not violate rules and regulation. They cannot merely satisfy minority stakeholders forgo the rules and regulations. For example, accommodate and help clients to manipulate financial reporting, tax evasion and other unethical practices. Thus, effective rules taking into consideration the interests of the majority stakeholders coupled with strict enforcement are the vital tools to control unethical practices derived from unethical judgments. As such, audit practitioners should be given ethics training that are designed to help them become familiar with deontology and teleology evaluations. This, in a way can assist them to resolve common and unexpected ethical dilemmas in the formation of ethical judgments.

Limitation and Suggestion for Future Research

Even though this study provides support for several theoretical works, there are certain limitations that need to be acknowledged. One of the limitations noted was that this study only examines only a part of the processes which are proposed by Hunt and Vitell's theory of ethics (1993; 1986) that potentially affect the formation of ethical judgments. Therefore, future studies should be extended and examine a few variables suggested by the theory that include the professional and organizational environment, ethical sensitivity, cognitive moral development and personal trait.

In order to increase the validity of the results of the present study, it is suggested that similar studies across different cultures are conducted. Hence, it is interesting to understand cross-cultural differences in the ethical judgment process.

Conclusion

Auditors appear to use more deontology evaluations as opposed to teleology evaluation in the formation of ethical judgments. The major premise of Hunt and Vitell's (1993, 1986) Theory of Ethics that both deontology and teleology evaluations jointly influence ethical judgments is supported. Although these relationships were extensively tested in

the marketing ethics literature, this study has shown that this theory is consistent to the auditing context and perhaps generalized to individuals' ethical judgments.

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