

## FACTORS INFLUENCING ETHICAL JUDGEMENT OF AUDITORS IN MALAYSIA

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### ABSTRACT

*Ethical issues involving Enron, Worldcom and Global Crossing have caused public confidence on the auditing profession to decline. This study examines factors that influence the ethical judgement of auditors in Malaysia. These factors include gender, firm size, position level, perceived ethical climate of the firm and exposure to ethics. A total of 76 auditors responded to the questionnaires. Perceived ethical climate has a positive relationship with ethical judgement, whereas exposure to ethics has a negative relationship with ethical judgement. The Malaysian Institute of Accountants, the government and audit firms should consider introducing and maintaining a supportive ethical climate in audit firms and a clear policy on acceptable and unacceptable behaviours to improve the ethicality of auditors.*

**Keywords:** *Ethical Judgement, Auditors, Exposure to Ethics, Perceived Ethical Climate, Gender, Firm Size, Position Level*

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## Introduction

The pressure to perform well has increased in competitive environments. Particularly in the auditing industry, all parties strive to perform well and leave a positive impression to their employers and colleagues. Consequently, most auditors turn to unethical practices to keep their jobs or derive some benefits for their companies (Labich, 1992).

With big corporate scandals involving Enron and other companies, such as Worldcom, Adelphia and Tyco, the Sarbanes Oxley Act (SOA) was passed in 2002. This US law aims to overcome unethical business practices. SOA aims to strengthen corporate governance and regain the confidence of investors in the US financial system. This law also revitalized the US financial system. SOA applies to both publicly owned US companies and those with registered equity or debt securities with the Securities Exchange Act of 1934. It also regulates the Public Accounting Oversight Board (PAOB), which oversees public company audits and establishes rules on conflict of interest for security analysis.

Other countries worldwide have been paying special attention to auditing issues. For example, Malaysia has established the Audit Oversight Board (AOB) on 6<sup>th</sup> April 2010 under the auspices of the Securities Commission Malaysia. One of the objectives of AOB is to oversee the independence of auditors and to ensure only fit and proper are persons allowed to audit financial statements (Audit Oversight Board, <http://www.mia.org.my/new/downloads/professional/audit/knowledge/2010/04/08>).

Other initiatives of the Malaysian government to promote ethicality amongst the industry players include the establishment of the Malaysian Anti-Corruption Commission in 2008 and the Malaysian Institute of Integrity (IIM) in 2004 to facilitate the aims and objectives of the National Integrity Plan (NIP). NIP and IIM were launched on 23<sup>rd</sup> April 2004. The overall objective of the NIP is to fulfil the fourth challenge of Vision 2020, that is, to establish a fully moral and ethical society whose citizens are strong in religious and spiritual values and imbued with the highest ethical standards (National Integrity Plan webpage, [www.iim.com.my](http://www.iim.com.my)).

The auditing profession requires a high level of ethical behaviour. Qualified and reliable people are admitted into this profession to carry out their responsibilities and perform services considering public interest. Auditors are considered 'professionals'. Although professionals have earned a certain level of respect, professionals in the auditing context are also expected to adhere to a high level of performance. The public trusts auditors to fulfil their responsibilities proficiently. Auditors must balance competing interests to perform their role and provide public service. They should apply ethical decision making. Understanding the role of ethics is essential in the development of auditing professionals who are expected to exercise professional judgement in this dynamic environment.

The public trusts auditing professionals to embody high moral values and integrity. Auditors are required to maintain a high standard of professional conduct when auditing companies. Certain rules and regulations monitor and govern the conduct of auditors. An important attribute of professional judgement is their ability to make fair and just judgements. Mautz and Sharaf (1961) and Hansen (1990) described auditor judgement as similar to that of a judge, that is, it should be fair, objective, impartial and independent.

Therefore, this research aims to (i) examine the level of ethical judgement of Malaysian auditors and (ii) to examine factors that influence the ethical judgement of the auditors, namely, gender, firm size, position level, perceived ethical climate of the firm and exposure to ethics.

The subsequent section discusses the literature review, methodology and analysis. It is followed by the conclusion of the study.

## **Literature Review and Hypothesis Development**

### **Gender**

Gender has typically been treated as a personal characteristic or an indicator of 'sidebets', which is supposed affect both affective and continuous commitment, as well as other independent variables (Mowday et al., 1982). In other words, the influence of some organizational practices on organizational commitment may be different for men and women. Social

orientation for men and women is generally different. Gilligan (1982) reported that gender differences affect ethical perceptions.

The findings on gender and attitudes in relation to ethics are mixed. Some studies have shown that women are more prone to ethical behaviour than men, whereas others have reported that gender and ethical behaviour are not correlated. Women are also believed to be more meticulous in their work than men. It is a well-known statement, but its truth especially in the auditing profession is yet to be investigated. Whipple and Sword (1992) found that the differences of ethical conduct between men and women are more pronounced.

Other studies that have reported women as more ethical than men include that of Amen et al. (1996), who used accounting students as subjects. Amen et al. found that female students consistently provide more ethical responses and are less cynical about the prevalence of cheating than male students. Similar studies involving non-accountants have been conducted (e.g., Weeks et al., 1999; Mason and Mudrack, 1996; Dawson, 1997).

Gilligan (1982) reported that males tend to deal with moral issues in terms of impersonal, impartial and abstract moral rules, whereas females tend to view themselves as part of the 'web' of relationship with family and friends. When females encounter moral issues, they are concerned with sustaining these relationships, avoiding to hurt other individuals in these relationships and caring for their well-being. For women, morality is primarily a matter of caring and being responsible to others with whom one is involved in personal relationships, rather than a matter of adhering to impartial and impersonal rules.

### **Firm Size**

Although Clarke et al. (1996) did not suggest that the ethical behaviour of auditors is influenced by the size of audit firms. However, they highlighted that as the number of ethical dilemmas faced by small firm personnel increases, the level of moral reasoning ability (MRA) increases. In turn, it leads to ethical judgements. Small audit firms typically do not have formal in-house training on which to rely. Hence, they often solve ethical dilemmas on their own. As the number of ethical dilemmas increases, practitioners

gain from past experiences of solving various issues, as suggested by a high level of MRA. For those practitioners who do not often encounter ethical dilemmas in their workplace or do not have any working experience before, MRA is not increased despite 'practice' in resolving ethical dilemmas. Therefore, these practitioners always rely on personal interpretation of which is the right decision.

Several notable scandals involving renowned audit firms, such as Enron and Worldcom, have raised the question of ethicality amongst audit firms. Previous studies have found contradictory results. According to Loeb (1971), accountants in large firms are likely to behave more ethically than those in small firms because large organizations are subject to bureaucratic control and rules (Child, 1973; Indik, 1965). As a result, large firms are more constrained in their choices than small ones (Gunz, Gunz & McCutchen, 2002). In general, auditors in large firms are less likely to report having behaved unethically and are more likely to disapprove unethical behaviours than those in medium and small firms. They need to adhere to the code of ethics set out for the profession to gain public confidence and trust. By contrast, the clients of small audit firms are likewise small companies that do not pay considerable attention to ethical judgement.

### **Position Level**

Wilson, Rest, Boldizar and Deemer (1992) noted that adult moral development, educational attainment, fulfilling career and dedication are interrelated. Jobs that provide some measures of creativity and autonomy produce a sense of fulfilment that leads to adult development and moral development. Correspondingly, studies on the ethical behaviour of accountants have shown that individuals with a higher position have a stronger sense of commitment or obligation to their profession than those in a lower position. Pratt and Belieu (1992) suggested that power ranking or authority in audit firms results in diverse ethical behaviours amongst auditors. The need to be attentive to ethical principles increases as the level of responsibilities increases.

Allen and Ng (2001) found that individuals with a higher position in audit firms are exposed to a higher risk than those with a lower position. Previous research has shown a significant relationship between ethical development

and rank in public auditing. Auditors in senior manager and partner positions tend to have lower ethical development than auditors in lower positions (Armstrong, 1987; Ponemon, 1988, 1990, 1992; Ponemon & Gabhart, 1990).

Most discussions on ethical issues have centred on the ‘tone at the top’ as a driver of the ethical (or unethical) behaviour of accountants. Finn, Chonko and Hunt (1988) found that actions by partners are the best predictor of how ethical problems are perceived by certified public accountants (CPAs). Research generally supports the notion that the attitude of individuals changes as they are assimilated into their social position within the accounting firm (Ponemon, 1990). Moreover, the assimilation of values and beliefs of the organization affect the integrity and independence of auditors (Akshanay & Windsor, 1995).

Ponemon (1990, 1992) investigated possible relationships between moral reasoning and hierarchical position and found that moral reasoning increases as an auditor progresses from staff to supervisor level but decreases at the manager to partner level. The syllabus in accounting courses places less emphasis on the importance of ethics. Thus, the educational background of the senior managers and partners in previous studies may have affected the findings.

Nevertheless, ethics education in accounting has been emphasize only in the late 1980s (Gunz & McCutcheon, 1998). Adam, Maisarah and Ainun (2002) found that the awareness of codes increases with the level of responsibilities.

### **Perceived Ethical Climate of Firms**

Jones (1991) argued that the idea that individuals respond in a similar manner to all ethical situations is neither intuitively correct nor consistent with prior research. Ethical responses depend on the “moral intensity” (perceived ethical climate) of ethical situations, as well as individual and organizational factors.

Likewise, corporate policy affects the opportunity of individuals to behave unethically and affects the ethical climate of the organization. The decision of managers to behave ethically or unethically is significantly influenced by corporate goals and stated policies (Hegarty, 1979; Bommer, 1987).

Reward and punishment are used to create an ethical climate. Supervisors influence behaviours through their administration of rewards and punishment (Trevino, 1986; Posner, 1993). For instance, appropriately distributed discipline results in a correction of behaviour (Podsakoff, 1982). Actual discipline or even the threat of punishment may indirectly influence the decision to behave ethically through its effects on one's perception of likely consequences for unethical behaviour and the desirability of those consequences.

Victor and Cullen (1987) laid out the construct of ethical climate. They hypothesized that ethical climate has three primary antecedents, namely, social norms, organizational form and firm-specific factors.

The perceptions of organizational climate may vary within the firm because of differences in position, work group and employment history amongst individuals (Victor & Cullen, 1988). Furthermore, an organization, subunit and work group may consist of different types of climate, including ethical climate (Schneider, 1975).

Organizations are likely to contain climates that run anywhere from very ethical to very unethical. A survey of 4,000 business employees in the United States has found that 25% of the respondents believe that their companies ignore ethical conduct to meet business objectives and that nearly 17% of respondents think that their company overtly encourages misconduct to meet business objectives (Goodell, 1994). It suggests that unethical climates exist, but it conversely implies that not all climates in organizations are perceived as unethical.

The ethical climate of a firm dictates its ethical values and expected behaviours and influences the ethicality of its members (Wimbush, 1999; Verbeke, 1996). Ethics has long been suggested to be incorporated into organizations (Robin & Reidenbach, 1987). Creating an ethical climate within the organization may provide means for doing so.

By implementing and enforcing codes of ethics and policies on ethical behaviour, as well as rewarding ethical behaviour and punishing unethical behaviour, management can create an ethical climate that positively influences ethical behaviour. Management should inform employees that

ethics is a concern of the company, and top management should be an example to the employees.

### **Exposure to Ethics**

The development of moral values and perception of what is right and wrong begins during childhood and progresses through every stage of life, such as teenage years and adulthood. Besides upbringing, we are exposed to ethics in school, college, university and even workplace, which influences the way we perceive ethics.

Differences in moral development (ethical values) occur because firms differ in hiring preferences, audit methodologies and training programs, which subsequently relate to the level of the moral development of auditors. How much an individual is exposed to ethics determines their conduct. Exposure to ethics is related to education on ethics. Education is positively correlated with ethical behaviour. That is, the more educated the individual, the less likely they are to act unethically (Wimbush & Shepard, 1994).

Ethics is everywhere in our daily lives. It lies behind our choices, whether personal or political, or bridges the two. Sometimes, it comes easily and naturally to us. Other times, it becomes demanding. However, ethics intrudes our conscious lives only occasionally, and often in a confused manner. If we are to make properly considered ultimate choices, we must first become aware of the ethical ramifications of the way we live to make ethics a conscious and coherent part of everyday life.

### **Theoretical Framework**

#### **Hunt–Vitell General Theory of Marketing Ethics**

The Hunt–Vitell general theory of marketing ethics explains that personal and environmental influences determine the ethical judgement of individuals. This model was developed for marketing area, but it reflects the decision-making process in other disciplines, including auditing. It was used in non-marketing studies, such as ‘Tax Practitioner Ethics: An Empirical Investigation of Organizational Consequences’ by Burns and Kiecker (1995). This study examines whether the ethical judgements of



tax accountants are influenced by deontological (essential characteristics of the behaviour) and/or teleological (consequences of the behaviour) considerations.

### **Socialization Theory**

Socialization theory is a sub-theory used in this study to discuss the influence of gender on moral reasoning and ethical judgement. This theory relates to the study by outlining the influence of gender to ethical judgement.

This theory holds that gender differences have important implications for ethical choices. In socialized learning patterns, men become more aggressive than women and seek achievement, advancement and higher earnings. By contrast, women learn to be nurturing and rely on relationships. As a result, they are more aware of the feelings and sensitivities of others than men. Therefore, men and women may respond differently when faced with the same set of occupational demands and rewards. Specifically, men are concerned with competitive success in business. Thus, they tend to break the rules and laws of the workplace and consequently commit unethical acts (Radtke, 2000; p. 300).

### **Reinforcement Theory**

Reinforcement theory is another sub-theory used in this study. It relates perceived ethical climate of the firm to ethical judgement. This theory was developed by the behaviourist school of psychology, notably by B.F. Skinner (in Laird, 1985; Burns, 1995). Skinner believed that behaviour is a function of its consequences. The learner repeats a desired behaviour if it is followed by positive reinforcement (a pleasant consequence). Positive reinforcement or reward encourages and strengthens the behaviour. Negative reinforcement also strengthens a behaviour, such as when a negative condition is stopped or avoided as a consequence of the behaviour. By contrast, punishment weakens a behaviour because a negative condition is introduced or experienced as a consequence of the behaviour. It teaches the individual not to repeat the behaviour, which was negatively reinforced.

Reinforcement theory holds that attitude changes that resulted from an opinion change are produced through reinforcement in areas, such as attention, comprehension and acceptance (Hovland, Janis & Kelly, 1967). It is the only theory of influence that almost everyone knows about. Its main point is that consequences influence behaviour. People perform acts because they know other things will follow. Thus, people produce some behaviours and avoid others depending on the type of consequence that follows.

What audit firms offer to its auditors influences the behaviour of auditors. If audit firms reward ethical behaviours, then auditors are likely to behave ethically. If audit firms punish unethical behaviours, then auditors tend to avoid unethical behaviours to avoid punishments. How auditors perceive the ethical climate of the firm is important in determining what they should do and not do. Logically, people will avoid punishments and aim for rewards.

Figure 1 shows the theoretical framework for this study. The Hunt–Vitell general theory of marketing ethics is used as the underpinning theory of the current study, along with socialization theory and reinforcement theory.

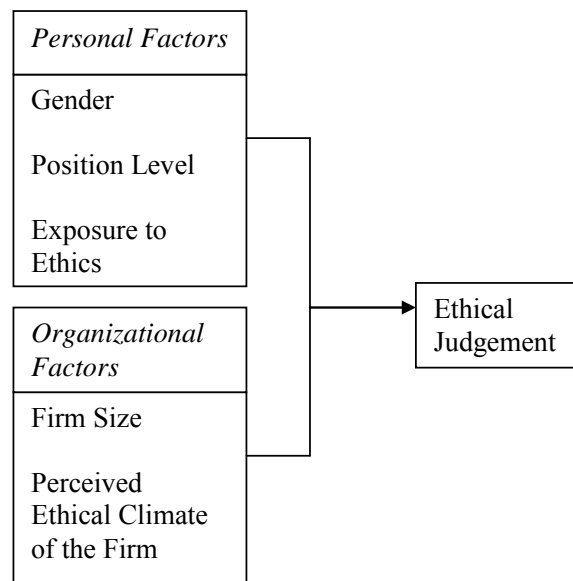


Figure 1: Theoretical Framework

## **Hypothesis Development**

Based on the theoretical framework of the current study, 12 general hypotheses are developed for empirical verification.

### **Ethical Judgement and Gender**

Studies on the influence of gender on ethical behaviour have had contradictory findings. Some studies have suggested that women are more prone to ethical behaviour than men, whereas others have reported that gender and ethical behaviour are not correlated.

Some studies involving accounting students have found no gender differences in ethical perceptions or judgements (Davis & Welton, 1991; Stanga & Turpin, 1991). A study of the members of the American Marketing Association has found no gender differences in ethical decision-making process (Singhapakdi & Vitell, 1990).

A study on the ethical reasoning abilities has found that female accountants have significantly higher scores than male ones (Clarke et al., 1996). Gilligan (1982) identified that gender differences affect ethical perceptions. Amen et al. (1996) reported that women are more ethical than men, to which other researchers have agreed. Betz et al. (1989) discovered that men are at least twice likely to participate in unfair practices as women. Cohen, Pant and Sharp (1998) revealed that women have consistently higher ethical awareness than men.

Amen et al. (1996) found that female students consistently give more ethical responses and are less cynical about the prevalence of cheating than male ones. Similar studies involving non-accountants have been conducted (e.g., Weeks et al., 1999; Mason and Mudrack, 1996; Dawson, 1997). Wimbush and Shepard (1994) reported that women are more likely to hold higher ethical values and are thus less likely to engage in unethical behaviour than men. Based on previous findings, the following hypothesis on gender and ethical judgement is proposed:

*H<sub>1</sub>: Female gender and the level of ethical judgement are positively related.*

### **Ethical Judgement and Firm Size**

Sweeney (1995) found that firm size is not related to moral practice and ethical judgement. However, other researchers have found that firm size affect moral practice and ethical judgement.

Firm size and job positions are essential in the ethical judgement of auditors. Loeb (1971) reported that accountants in large firms are likely to behave more ethically than those in small firms. Schaefer (1990) identified factors that increase the propensity of CPA to behave unprofessionally. CPAs who practice in small firms and do not belong to the state CPA society are likely to commit unethical conduct. Therefore, we propose the following hypothesis:

*H<sub>2</sub>: Firm size and the level of ethical judgement are positively related.*

### **Ethical Judgement and Position Level**

Past studies have found that the higher the position level of the auditors, the lower the level of ethical judgement of auditors. Senior manager- and partner-level auditors tend to have lower ethical development than lower-ranked auditors (Armstrong, 1987; Ponemon, 1988, 1990, 1992; Ponemon & Gabhart, 1990). Schaefer (1990) found that the more experience CPAs have, the higher their tendency to commit a due care violation. Therefore, the following hypothesis is proposed:

*H<sub>3</sub>: Position level and the level of ethical judgement are negatively related.*

### **Ethical Judgement and Perceived Ethical Climate of the Firm**

Ethical codes are instrumental in the ethical decision making of organizational members (Ethics in American Business, 1988). They are typically introduced as means for clarifying intraorganizational roles and expectations (Brothers, 1991) and for promoting an ethical climate within an organization (McDonald, 1999). Higher levels of ethical behaviour have been found in firms where codes of ethics are in place and enforced (Ferrell & Skinner, 1988). When codes become an active part of the working knowledge of employees, they are more likely to affect ethical decision making (Hegarty & Sims, 1979). Additionally, codes that are effectively

communicated (i.e., understood) are likely to result in ethical behaviour (Weeks & Nantel, 1992).

Ethical climate influences outcomes involving ethical behaviour (Victor, 1988; Wimbush, 1994). The ethical climate of a firm dictates its ethical values and behaviours expected from employees and influences the ethicality of its members (Wimbush & Verbeke). Thus, we propose the following hypothesis:

*H<sub>4</sub>: Perceived ethical climate of the firm and the level of ethical judgement is positively related.*

### **Ethical Judgement and Exposure to Ethics**

Exposure to ethics in the curriculum has a positive moderating influence on gender-based effects on perceptions of an ideal ethical climate. Exposure to ethics is related to education on ethics. Education is positively correlated with ethical behaviour. That is, the more educated the individual, the less likely they are to act unethically (Wimbush & Shepard, 1994). Therefore, the following hypothesis is proposed:

*H<sub>5</sub>: Exposure to ethics and the level of ethical judgement are positively related.*

## **METHODOLOGY**

### **Sample Size**

According to the Roscoe's Rule of Thumb by Sekaran (2003), the sample size required for every item tested is 10. The current study has seven items. Thus, a sample size of 70 is sufficient for the test. One set of questionnaire was sent to all members of sample audit firms, including Sabah and Sarawak, that is, a total of 1,355 individuals. The addresses of the audit firms were provided by the Malaysian Institute of Accountants (MIA). The individual or auditor is the unit of analysis in this study. The questionnaires were sent with a support letter from MIA and Malaysian Accountancy Research Education Foundation. A total of 76 usable questionnaires were received.

### **Variables and Measurement of Variables**

The questionnaires consist of three sections. Section A asks about demographic information. Variables such as gender, race, age, religion, marital status, education level, position level, income level and firm category were obtained from this section.

Section B measures two other variables, namely, perceived ethical climate of the firm and exposure to ethics. Perceived ethical climate of the firm is measured by the instrument developed by Davidson, Douglas and Schwartz (2000).

Section C measures ethical judgement through four scenarios. These scenarios were adapted from textbooks and previous research. One of them was adopted from the work of Flory, Philips, Reidenbach and Robin (1992), but it was modified to suit the Malaysian context.

### **Independent Variables and Their Measurement**

Independent variable is a variable that influences a dependent variable. This study has five independent variables. These five variables were tested to determine whether they influence the dependent variables, namely, the moral reasoning and ethical judgement of auditors.

The independent variables of this study are divided into two groups, namely, personal and organizational factors. For personal factors, demographic data, namely, gender, position level and exposure to ethics, were studied. Auditors' perception of the ethical climate in the firm and firm size are categorized as organizational factors.

Gender, firm size and position level in the audit firm were measured in Section A. Besides, these independent variables, perceived ethical climate of the firm and exposure to ethics were measured through some statements. Eight statements measure the perceived ethical climate of the firm, and four statements measure exposure to ethics. The respondents were asked to rate each statement through a nine-point Likert-type scale from one (completely disagree) to nine (completely agree).

## **Dependent Variable and Its Measurement**

The dependent variable in this study is the ethical judgement of auditors. Factors that influence this dependent variable are studied. Ethical judgement was measured in Section C.

Ethical judgement in the study was measured based on scenarios adopted from previous studies and textbooks, such as the work of Flory, Philips, Reidenbach and Robin (1992). The most frequently encountered problems by accountants include tax alteration, conflict of interest, independence issues and alteration of financial statements. Hunt and Vitell (1986) reported that the use of scenario is well established in ethics research as an appropriate method to measure ethics. The auditors will be asked to rate the ethicality in each scenario from one (ethical) to seven (unethical).

Each case was controlled to minimize the influence of other unrelated factors to the answers of respondents. The following paragraph was included before each scenario:

*Assume:*

*The company's financial condition is not very healthy and the company is a major client of your audit firm. It has a long standing relationship with your firm and the managing partner of your firm and the company's Managing Director are good friends. As usual, the audit report is due soon and you have to finalise the audit quickly.*

In the current year's audit, a dispute has arisen between the management of Company A and you over the materiality of certain unrecorded liabilities discovered. The unrecorded liabilities consist primarily of expenses incurred last year, that were neither paid nor recorded in Company A's financial statements until this year. Company A's management argues that the total amount of unrecorded liabilities is immaterial and it is therefore unnecessary to adjust the financial statements in this regard. You feel that the amount is material and that the current year's financial statements should be adjusted accordingly. The accounting standards provide very little guidance in determining the materiality of given amounts in the financial statements, and thus, Company A's management believes it should know as well as anyone, what financial statement readers would or would not deem to be a material amount.

1. How would you evaluate the controller's position? Please indicate your evaluation of the controller's position by marking a cross [X] on a specific point on each of the following scales.

Ethical	___ : ___ : ___ : ___ : ___ : ___ : ___	Unethical
Fair	___ : ___ : ___ : ___ : ___ : ___ : ___	Unfair
Just	___ : ___ : ___ : ___ : ___ : ___ : ___	Unjust
Morally Right	___ : ___ : ___ : ___ : ___ : ___ : ___	Not Morally Right
Acceptable to My Family	___ : ___ : ___ : ___ : ___ : ___ : ___	Unacceptable to My Family

2. Have you experienced this situation since you started your career as an auditor?  
 Yes  No
3. If yes, how many times have you experienced the above situation since you started your career as an auditor?  
 1-3 times  4-6 times  
 More than 6 times

Auditing needs to be performed in a tight timeframe. Auditors are expected to work in stressful conditions to meet deadlines and to make decisions that influence the company. The controlled variables in this study include financial standing, continuing client, major client, time pressure and close relationship.

Two questions serve as reliability check. The respondents were asked whether they have experienced the particular situation. If the respondents have experienced those situations before, they were asked to proceed to the next question asking how many times they have experienced the situation. The answers to this question are in the form of categories. In case respondents have not experienced the scenarios before, their responses will not be considered.



## **Data Analysis and Results**

### **Profile of Respondents**

Table 1 shows that 77.6% and 22.4% of the respondents are men and women, respectively. The respondents are of one of the three races, namely Malay, Chinese and Indian. Malay, Chinese and Indian account for 14.5%, 75.0% and 10.5% of the respondents, respectively.

Nearly half of the respondents are aged more than 40 years old. Thus, respondents are mature and have good working experience.

Buddhist, Muslim, Hindu and Christians account for 38.2%, 14.5%, 7.9% and 26.3% of the respondents, respectively; 13.2% of the respondents are free thinkers, Sikh, Taoist and other religions.

In terms of civil status, 80.3% of the respondents are married, whereas 18.4% of them are single. One respondent is a divorcee.

Respondents with a bachelor's degree, master's degree and doctoral degree comprise 11.8%, 2.6% and 85.5% of the respondents, respectively. The respondents are all qualified and highly-educated people.

For position level, most of the respondents are partners. Partners account for 68.4% of the total respondents. Moreover, 64.5% of the respondents earn a monthly salary of above MYR 6,000. Half of the respondents have been working in the present company for more than 9 years. For firm size, 71 respondents (93.4%) work in non-Big Four audit firms, whereas the rest works in Big Four audit firms. Table 1 summarizes the profile of the respondents.

Table 1: Profile of Respondents

Demographic Variables	Category	Frequency (n=76)	Percentage (%)
Gender	Male	59	77.6
	Female	17	22.4
Race	Malay	11	14.5
	Chinese	57	75.0
	Indian	8	10.5
Age (in years)	Below 26	2	2.6
	26 – 30	10	13.2
	31 – 35	17	22.4
	36 – 40	13	17.1
	Above 40	34	44.7
Religion	Islam	11	14.5
	Buddhism	29	38.2
	Hinduism	6	7.9
	Christianity	20	26.3
	Others	10	13.2
Marital Status	Single	14	18.4
	Married	61	80.3
	Divorced	1	1.3
Highest Level of Education	Degree	9	11.8
	Masters	2	2.6
	Professional Qualification	65	85.5
Professional Qualification	MICPA	20	26.3
	ACCA	28	36.8
	CPA, Australia	11	14.5
	CIMA	2	2.6
	Others	15	19.7

*FACTORS INFLUENCING ETHICAL JUDGEMENT OF AUDITORS IN MALAYSIA*

Years Being Member of Malaysian Institute of Accountants (MIA) (in years)	Below 4	16	21.1
	4 – 6	4	5.3
	7 – 9	14	18.4
	Above 9	42	55.3
Position Level in Company	Senior	13	17.1
	Manager	11	14.5
	Partner	52	68.4
Monthly Income Level	RM 3,000 and below	13	17.1
	RM 3,001 – RM 4,000	7	9.2
	RM 4,001 – RM 5,000	4	5.3
	RM 5,001 – RM 6,000	3	3.9
	RM 6,001 and above	49	64.5
Years Working in Present Company (in years)	1 and below	4	5.3
	2 – 3	15	19.7
	4 – 6	18	23.7
	7 – 9	1	1.3
	Above 9	38	50.0
Years Being an Auditors (in years)	Below 4	12	15.8
	4 – 6	13	17.1
	7 – 9	2	2.6
	Above 9	49	64.5
Company Category	Big Four	5	6.6
	Non-Big Four	71	93.4

### **Mean Value of Ethical Judgement Measurement**

Section C has four scenarios that measure the level of the ethical judgement of the respondents. In each scenario, respondents were asked to rate their evaluation. They were asked to rate through a seven-point Likert-type scale of one (ethical) to seven (unethical). The measurements of the four scenarios were recoded to show one as unethical and seven as ethical.

Then, for the answer of each respondent, the mean of the recoded values of the four scenarios was calculated. To determine the ethical level of the respondents, the mean of the mean values of all four scenarios for all respondents was calculated. The mean value is 3.29, which is below the ethical level from the scale of one as unethical to seven as ethical. Thus, the ethical judgement of Malaysian auditors is lower than average.

### **Reliability Analysis**

Cronbach's alpha was used as a measurement for reliability. The reliability test was performed for the perceived ethical climate of the firm and exposure to ethics. In both analyses, covariance matrices were used. The Cronbach's alpha coefficient for perceived ethical climate of the firm is 0.768. The Cronbach's alpha coefficient if an item is deleted is lower than 0.768. The Cronbach's alpha coefficient is 0.770 if Statement 8 (The code of ethical conduct is an important component of the organizational culture) is deleted. The increase in Cronbach's alpha coefficient is small if statement 8 is deleted. Thus, Statement 8 is retained. These high Alpha coefficients that exceed the benchmark of 0.70 (Hair et al., 1998) indicate that the variables are highly reliable. Table 2 lists the Cronbach's alpha coefficients.

Table 2: Cronbach's Alpha Coefficients for Perceived Ethical Climate of the Firm

Statement	Cronbach's Alpha if item deleted
Top management in my firm has let it be known that in no uncertain terms unethical behaviours will not be tolerated.	0.744
Employees in my firm often engage in behaviours that I consider unethical – Reverse coded.	0.744
In order to succeed in my firm, it is often necessary to compromise one's ethics – Reverse coded.	0.747
If an employee in my firm is discovered to have engaged in unethical behaviour that results primarily in personal gain (rather than firm gain), he or she will be promptly reprimanded.	0.748
If an employee in my firm is discovered to have engaged in unethical behaviour that results primarily in firm gain (rather than personal gain), he or she will be promptly reprimanded.	0.730
Management generally stresses the need to conform to ethical conduct.	0.714
In my company, the code of ethical conduct is important.	0.741
The code of ethical conduct is an important component of the organizational culture.	0.770

Table 3 shows that the Cronbach's alpha coefficient for the perceived ethical climate in the firm is 0.671. The Cronbach's alpha coefficient if an item is deleted is lower than 0.671. However, it increases to 0.677 if Statement 9 (In school, my teachers stressed on ethical values) is deleted. The increase is small. Thus, Statement 9 was retained.

Table 3: Cronbach's Alpha Coefficient for Exposure to Ethics

Statement	Cronbach's Alpha if item deleted
My family strictly emphasizes the need of behaving ethically.	0.677
In school, my teachers stressed on ethical values.	0.647
I was exposed to a great degree of discussion of issues related to ethics during my college education.	0.438
I was exposed to practical training in which ethics was discussed in a great deal.	0.557

## Hypotheses Testing

### Multiple Regression Analysis

The basic model is:

$$\text{ETHICAL} = \alpha + \beta_1 \text{ GENDER} + \beta_2 \text{ POSITION} + \beta_3 \text{ FIRMSIZE} + \beta_4 \text{ CLIMATE} + \beta_5 \text{ EXPOSURE},$$

where

- ETHICAL = ethical judgement level of auditors
- $\alpha$  = constant ethical judgement level independent of other independent variables
- $\beta_1$  = the relative ethical judgement level with gender
- $\beta_2$  = the relative ethical judgement level with position level
- $\beta_3$  = the relative ethical judgement level with firm size
- $\beta_4$  = the relative ethical judgement level with perceived ethical climate of the firm
- $\beta_5$  = the relative ethical judgement level with exposure to ethics

All assumptions of the model, including the normality of the error term, constant variance of error term (homoscedacity), independent of error term – autocorrelation, linearity of the relationship and independent of the independent variables were fulfilled.

Table 4: Table Multiple Regressions Results

	Unstandardized Coefficients		Standardized Coefficients	<i>t</i>	Sig.
	$\beta$	Std. error	$\beta$		
(Constant)	1.13	1.50		0.75	0.46
Gender	0.36	0.56	0.09	0.64	0.53
Position Level	0.92	0.61	0.22	1.50	0.14
Firm Size	0.47	0.69	0.07	0.69	0.49
Mean for Perceived Ethical Climate of Firm	0.69	0.18	0.47	3.79	0.00
Mean for Exposure to Ethics	-0.54	0.14	-0.45	-3.81	0.00
Coefficient of multiple regression					0.48
Coefficient of determination ( <i>R</i> <sup>2</sup> )					0.23
Adjusted <i>R</i> <sup>2</sup>					0.18
Standard error					1.44

\*Significance level at 0.05

$$\text{ETHICAL} = 1.125 + 0.355 \text{ GENDER} + 0.919 \text{ POSITION} + 0.471 \text{ FIRMSIZE} + 0.686 \text{ CLIMATE} - 0.540 \text{ EXPOSURE}$$

Table 4 shows that 23.4% of the variation in the ethical judgement level is explained by independent variables, whereas 76.6% of the variation remains unexplained. Thus, only the perceived ethical climate of the firm and exposure to ethics are significant at 5% significance level.

## Discussion and Conclusion

From the responses of the 76 auditors, the level of the ethical judgement of auditors is below average (mean = 3.29). Therefore, Malaysian auditors tend to make unethical judgements.

More emphasis, stricter rules and regulations and good enforcement of laws will affect the decision of auditors regarding unethical acts. Auditors will reconsider their decision to act unethically looking at the higher chance of being caught and punished. More stringent rules and regulations will change the perception and judgement of auditors. The reporting of unethical conducts and the consequences of these unethical acts will alarm all auditors, warn them and stop them from committing unethical conducts. Government has made the right decisions to set up the PAOB, MACC, IIM and PIN.

This finding is consistent with that of previous research, that is, the higher the auditors perceived the ethical climate of the organization, the more ethical they will be. If employees who are caught behaving unethically are reprimanded, others will avoid the same behaviour.

Past research has shown that exposure to ethics has a positive relationship with ethical judgment. However, this study found the opposite result. Exposure to ethics has a negative relationship with ethical judgement because exposure to ethical education may not dictate his/her behaviour or action. The employees may not understand fully what underlies an ethical behaviour. They may also have different interpretations of ethical behaviour. Therefore, clear policy on ethics is required. Furthermore, Malaysians are found to have a high power distance. Subordinates tend to follow their superiors because they are highly loyal to the organization and superiors. Therefore, the top management should behave ethically.

Auditors should be exposed to a high level of ethics education to learn situations clearly. Exposure alone is insufficient. In-depth understanding of ethical and unethical cases is required.

Gender, firm size and position level have no significant relationship with ethical judgement. Females have been claiming equality in our society. Today's women are more achievement oriented. They not only think about taking care of their family but also about providing for the family and being independent. To stay competitive in this society, women need to be as aggressive as men and fight for what they want. Their perception of the world has changed. Women now place high importance on high salary and benefits. They might forgo their ethical values for monetary benefit.



Studies have found that small firms are not tied to strict rules and regulations. However, the same rules and regulations are used to monitor both small and large firms. Thus, complying with the rules and regulations is the same for large and small firms. All firms need to pay attention to their ethicality.

### **Implications**

The results of the study have strong implications on the government, audit firms and MIA. This research has provided information about the ethical level of Malaysian auditors. It also provides insights into the factors that affect the level of the ethical judgement of auditors. Therefore, MIA should design plans to improve the exposure and ethicality of Malaysian auditors.

The results of this study help the government determine the ethicality of auditors. The government can then improve and revise the education system to place emphasis on ethics education. Exposure to ethics has negative results primarily because inadequate emphasis has been placed on ethics education. In-depth understanding is required. Thus, the government should pay special attention to in-depth ethics education for citizens, particularly auditors. Ethics must be taught from primary schools using an appropriate syllabus because the shaping of the ethical values of individuals begins from childhood. Simply put, ethics education, rather than exposure to ethics, is important.

The management of audit firms can place emphasis on establishing an ethical climate for their organizations. This study found that the ethical climate of the firm influences the ethical judgement of auditors. If auditors perceive that the climate of the firm is ethical, they are likely behave ethically. Exposing the auditors to ethics in the workplace enhances their level of ethicality.

MIA also benefits from the results of this research. They can monitor the actions of auditors closely.

### **Limitations of the Study and Suggestions for Future Research**

This study provided some interesting insights into the ethical judgement of auditors in Malaysia, but it has a number of limitations. The limitations

may affect the generalizability and usefulness of this study. However, they can serve as basis for future research.

Representative sampling was used, but the sample of this study may not be representative of Malaysian auditors because of the low response rate. Future studies should aim for a bigger sample than the current one for accuracy and representativeness of the Malaysian auditor population. Nevertheless, to the best of the author's knowledge, this study is the first to have examined the level of the moral reasoning of auditors. The author hopes that this study serves as basis for future studies.

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