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C O N T E N T S

Ethical Work Climate in the National Audit Department Offices in Malaysia

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ABSTRACT

This study aimed to examine the ethical work climate types at the National Audit Department (NAD) offices in Malaysia as perceived by public sector auditors. The respondents for this study were public sector auditors in the NAD offices from both federal and state levels. Using a survey questionnaire on ethical climate by Victor and Cullen (1988), a total of 382 responses were received and usable. In order to achieve the research objective, descriptive statistics of the mean score and standard deviation were used. The results reveal that the highest mean score was 'rules' climate, indicating that public sector auditors perceived this rules ethical climate to be highly present in their organizations. This was followed by 'instrumental' and 'caring' ethical climate types. In contrast, law ethical climate type was perceived as almost non-exist in the NAD offices. This study provides useful information on types of ethical climate types that exist in offices of the National Audit Department (NAD) as perceived by public sector auditors which may to some extent help to inculcate the right ethical climate in order to improve the level of ethics among public sector auditors and subsequently enhance the credibility of the NAD and public trust in the government.

Keywords: *Ethical climate, public sector auditors, National Audit Department, Malaysia*

INTRODUCTION

The National Audit Department (NAD) is an independent executive authority which has been entrusted by the Government to manage audit activities for all government entities in Malaysia. Based on the Audit Act 1957, NAD is authorized to audit the accounts of the central and state governments (Malaysian Government, 2000, p. 180). Tan Sri Dato' Setia Hj. Ambrin Bin Buang as the Auditor General of Malaysia, has emphasized, "Through quality auditing, the Government and citizens will obtain an objective and without prejudice, information on the weaknesses in managing public service" (Buang, 2014). Thus, public sector auditors play a crucial role to assist government organizations improve their level of accountability, quality and integrity (Buang, 2011).

More importantly, the former President of the Malaysian Institute of Accountants (MIA) has indicated that to boost assurance and confidence, ethical accountants are required (Errol, 2013). Auditors including public sector auditors are accountable to judge whether the set of accounts audited provides a true and fair view of the organization in line with the framework of financial reporting. Therefore, auditors need to make ethical and sound decisions to provide the public with the required assurance. In other words, it is crucial for auditors to remain ethical and objective in their actions and decisions besides being knowledgeable about auditing, accounting and financial reporting (Singh and Poduval, 2009).

The ethical climate of an organization is claimed to have an influence on the ethical level of the members of the organization. Therefore, recognising the ethical climate is crucial because different outcomes may be related with different dimensions of the ethical climate (Cullen, Victor and Stephens, 1989; Wimbush and Shepard, 1994). Prior literature has shown that certain ethical climate types influence ethicality of the members' positively whilst certain other types would influence it negatively (Barnet and Vaicys, 2000; Abdullah et al., 2014; Lu and Lin, 2014). Realising the important role of public sector auditors and the influence of ethical climate on auditors' ethics, the current study aimed to examine the types of ethical climate that exist in the NAD offices as perceived by public sector auditors.

The fundamental contribution of this study is that it provides useful information to the government particularly the NAD to further nurture a good environment that can influence public sector auditors' behaviour in more ethical manner. Specifically, the NAD can take appropriate measures to inculcate appropriate ethical climate types in the NAD offices to enhance ethical behaviour among public sector auditors. The remainder of this paper is structured as follows. The next section offers a detailed explanation on ethical climate and a review of relevant literature. The subsequent section offers the research methodology used in the study. Then, a section discusses on the research findings. The final section presents the implications of the study, limitations, suggestions for future research and conclusion.

ETHICAL CLIMATE AND LITERATURE REVIEW

Ethical climate is defined as the stable and psychologically important perceptions members of organizations hold regarding ethical policies and procedures practiced in their organizations (Schneider, 1975). Victor and Cullen (1987 and 1988) define ethical climate as a multidimensional construct which represents an aggregation of employees' perceptions of the organization. They also propose a theoretical typology of ethical climate types which are derived from a combination of ethical criterion and locus of analysis (1987, 1988). The ethical criteria are used for decision-making in the organization, whereas the locus of analysis refers to the level of ethical decision-making (Victor and Cullen, 1988).

The ethical criterion dimension covers three major classes of ethical theory: egoism, benevolence and principle. The first class, egoism, refers to "the maximization of self-interest" (VanSandt, 2001, p. 18), which means that a person believes highly in himself or herself, regardless of opposed situations or opinions from society to preserve his or her dignity as an individual. The second class, benevolence, is defined as where "people tend to be less aware of laws and rules and may also be amenable to arguments employing rules or principles" (Victor and Cullen, 1988, p. 105). Thus, a discussion or argument with those with lesser knowledge or who ignore law and rules might be incompetent. The last ethical criterion dimension is principle, and "people who are principled tend to be less sensitive to particular effects on others" (Victor and Cullen, 1988, p. 105). Normally

the situation happens when an honest and loyal worker becomes the enemy of another who violates the organization's policies in the workplace. The loyal worker reports the other employee to the management with no second thought if there is a policy violation.

The locus of analysis dimension represents diverse sources of motivation and influences whereby the individual might regard his or her own views on ethical or unethical issues. Victor and Cullen (1988) refer to it as "a referent group identifying the source of moral reasoning used for applying ethical criteria to organizational decisions or the limits on what is considered the ethical analyses of organizational decisions" (p. 105). Locus of analysis consists of three perspectives: individual, local and cosmopolitan levels from which an analysis may be made (Victor and Cullen, 1988). Individual locus "is external to the focal organization in the sense that the prevailing normative climate supports a referent for ethical reasoning located within the individual" (Victor and Cullen, 1988, p. 106). This locus of individual explains that perceptions of work climate in an organization can depend on how individuals regard their environment from their own point of view. While individual locus focuses on oneself, local locus "specifies sources of ethical reasoning within the organization, such as the workgroup" (Victor and Cullen, 1988, p. 106). Victor and Cullen (1988) further add that the important reference group is contained within the social system (p. 106), which means that employees might perceive a negative or positive value depending on the type of group to which they belong. A group that places a high value on morality tends to influence an individual to perceive the same thinking; similarly, the same with groups that place a low value on morale. The third level of locus is cosmopolitan, which specifies organizational sources of ethical reasoning external to the focal organization, such as a body of law or professional associations (Victor and Cullen, 1988). This locus is developed in law-based environments to perceive morality or norms acquired from sources outside the organization.

Thus, nine theoretical climates derived from the combination of the two categorical dimensions of locus of analysis and ethical criterion. The individual locus combined with ethical criterion creates the following climates: egoism-individual (EI) produces a climate of self-interest, benevolence-individual (BI) produces a climate of friendship and principle-individual (PI) produces a climate of personal morality.

Local locus, combined with ethical criterion creates the following climates: egoism-local (EL) produces a company profits climate, benevolence-local (BL) produces a team interest climate and principle-local (PL) produces a company rules and procedures climate. For the last three sets of dimensions, the combination of ethical criterion and locus of analysis creates the following climates: egoism-cosmopolitan (EC) produces a climate of efficiency, benevolence-cosmopolitan (BC) produces a climate of social responsibility and principle-cosmopolitan (PC) produces a climate of laws and professional codes respectively. The nine ethical climates are presented below in Figure 1.

LOCUS OF ANALYSIS

		Individual	Local	Cosmopolitan
ETHICAL CRITERION	**Egoism**	Self- Interest	Company Profit	Efficiency
	Benevolence	Friendship	Team Interest	Social Responsibility
	Principle	Personal Morality	Company Rules and Procedures	Law and Professional Codes

Figure 1: Ethical Climate Types

In practice, however, empirical testing of Victor and Cullen's (1988) theoretical framework identifies five distinct types of ethical climate. The instrumental climate (people protect their own interest above all else), emerges from a combination of self-interest and company profit climate types. A caring climate (the major consideration is what is best for everyone in the organization) is derived from four theoretical climate types: friendship, team interest, social responsibility, and efficiency. It comprises all three referents (individual, local, and cosmopolitan) at the benevolence criterion,

and the cosmopolitan referent at the egoism criterion, whereas the other three remaining emergent climates are each represented by a single theoretical climate. The independence climates (each person in the firm decides for him/herself what is right and wrong) captures personal morality; rules climates (everyone is expected to conform to organizational rules and procedures) captures company rules and procedures, while law and code climates (people are expected to comply with the law and professional standards) captures the theoretic climate types of laws and professional codes. Figure 2 illustrates the five types of ethical climate commonly employed in research on ethical climate.

LOCUS OF ANALYSIS

Ethical Theory	Individual	Local	Cosmopolitan
Egoism	Instrumental		
Benevolence	Caring		
Principle	Independence	Rules	Law and Code

Figure 2: Five Common Empirical Derivatives of Ethical Climate
(Victor and Cullen, 1987, 1988; Neubaum et al., 2004)

Recognizing the ethical climate is crucial because different outcomes may be related with different dimensions of the ethical climate (Cullen, Victor and Stephens, 1989; Wimbush and Shepard, 1994). Prior literature has shown that different ethical climate types affect level of ethics differently. Law and code have been found by many studies to have a positive significant influence on the ethical level of individuals (Vardi, 2001; Peterson, 2002a; Peterson, 2002b; Cullen, Parboteeah, and Victor, 2003; Buchan, 2005; Shafer, 2008; Huang et al., 2012). A caring climate is defined by Victor and Cullen (1987) as having its major consideration in what is best for everyone in the organization. Tsai and Huang (2008) found a caring climate as the least highly rated type of ethical climate among nurses in Taiwan. A caring climate is found by many previous studies to positively influence ethical behavior (Vardi, 2001; Peterson, 2002a; Cullen et al., 2003; Buchan, 2005; Shafer, 2009; Huang et al., 2012; Yener, Yaldiran and Ergun, 2012). Therefore, it

is noted from most studies that caring, independence, rules and company code and law climates are important to positively lead to ethical behaviour. On the other hand, the egoistic ethical climate type (instrumental climate) has a negative influence on the ethical level of individuals.

Based on the literature above, it is apparent that prior studies have investigated different dimensions of ethical climates: service, efficiency, and professionalism. However, a, review of literature revealed a lack of ethical climate research related specifically to Malaysian accountants. Accordingly, the current study will fill the gap by examining the types of ethical climate as suggested by Victor and Cullen (1988), namely caring, law and code, rules, instrumental and independence, focusing on Malaysian public sector auditors. In addition, it was noted that most of the studies were conducted in developed countries such as the US, but the number of studies conducted in developing countries such as Malaysia is still limited. The current study will address the gap in the literature by following Victor and Cullen's (1988) ethical climate framework to examine the perceived ethical work climate of Malaysian public sector auditors.

Based on this review of literature, it was found that there is minimal research done among the public sector auditors in Malaysia. Therefore, this study fills the gap in the accounting and public sector literature since there is a scarcity of studies explaining ethical climate from the perspective of the Malaysian public sector. Thus, this study hopes to contribute to the body of knowledge, and be beneficial not only to the government, particularly the National Audit Department, but also to other professions including auditors, academicians, and researchers and to the public as a whole.

RESEARCH METHODOLOGY

In undertaking this research, a questionnaire survey method was used to gain responses from public sector auditors in Malaysia. The auditors involved worked with the National Audit Department (NAD) at both Federal and State levels in Malaysia. At the Federal level, there were 11 NAD branches in the social and security division, and another five NAD branches were in the finance division. This gives a total of 16 NAD branches at the Federal level. Under the State government, there is a NAD branch in each of the

13 states of Perlis, Penang, Kedah, Perak, Kelantan, Terengganu, Pahang, Selangor, Negeri Sembilan, Melaka, Johor, Sabah and Sarawak. All NAD offices at the State and Federal levels were called by phone to ascertain the number of auditors in each office before distributing the questionnaires to each office. Finally, a total of 1,074 copies of questionnaires were sent to the 326 public sector auditors at the Federal level and 748 public sector auditors at the State level. The data were analysed using the Statistical Package for the Social Sciences (SPSS) software. The descriptive statistics of mean score and standard deviation were computed.

Meanwhile, the research instrument utilized in this study was a survey questionnaire which was adapted from the Ethical Climate Questionnaire (ECQ) developed by Victor and Cullen (1987) to measure the five types of ethical climates, namely caring, law and code, rules, instrumental and independence. The instrument consisted of 26 items as shown in Figure 3.

Table 1: Instrument Items for Each Ethical Climate Types

Types of Ethical Climate	Items
Law and code	In this organisation, people are expected to strictly follow legal or professional standards
	People are expected to comply with the law and professional standards over and above other considerations
	The first consideration is whether a decision violates any law
Rules	Everyone is expected to stick by organisational rules and procedures
	Rules ethical climate type is represented by the items
	Successful people in this organisation go by the book
	It is very important to follow strictly the organisation's rules and procedures here
	Successful people in this organisation strictly obey the organisation's policies
Caring	The most important concern is the good of all the people in the organisation
	Our major consideration is what is best for everyone in the organisation
	In this organisation, our major concern is always what is best for the other person
Instrumental	People are concerned with the organization's interests
	People are expected to do anything to further the organisation's interests
	There is no room for one's own personal morals or ethics in this organisation
Independence	In this organisation, people are guided by their own personal ethics
	Each person in this organisation decides for themselves what is right and wrong
	In this organisation, people are expected to follow their own personal and moral beliefs

RESULTS AND DISCUSSION

Demographic Profile of the Respondents

Table 2 presents the respondents' demographic profiles in terms of gender, age, total working experience in the accounting industry as well as in the National Audit Department, and level of education attained. As shown in Table 2, two-thirds of the respondents are female (69.9 %). Meanwhile, almost half (46.7 %) of the respondents fell in the range of 30-39 years old. Besides, in terms of working experience, a clear majority of the respondents (74.4 %) were found to have more than five years' working experience in the accounting field, with 74.1 % already worked for the NAD for more than five years. For academic qualifications, most of the respondents (89.8 %) had a diploma and degree, whereas nine respondents had master's degree and five respondents had professional qualifications such as Certified Public Accountant (CPA), Association of Chartered Certified Accountants (ACCA), Malaysian Institute of Certified Public Accountants (MICPA) and Chartered Institute of Management Accountants (CIMA). In sum, the respondents possessed appropriate qualifications and considerable experience in NAD and in the accounting-related field. Hence, their responses are deemed reliable and appropriate for this present study. The following section discusses the findings of the current study.

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Table 2: Demographic Profile of Respondents

		Frequency	Percentage (%)
Gender	Male	115	30.1
	Female	267	69.9
Total		382	100.0
Age 20-29 years 30-39 years 40-49 years 50-60 years	< 20 years	0	0.0
	104	27.3	
	179	46.9	
	56	14.7	
	43	11.3	
Total		382	100.0
Working exp. accounting	<5 years	90	23.6
	5-10 years	152	39.8
	11-15 years	49	12.8
	16-20 years	32	8.4
	> 20 years	51	13.4
	Missing data	8	2.1
Total		382	100.0
Working experience National Audit Department	<5 years	98	25.7
	5-10 years	156	40.8
	11-15 years	47	12.3
	16-20 years	30	7.9
	> 20 years	50	13.1
	Missing data	1	0.3
Total		382	100.0
Highest Education	Diploma	213	55.8
	Bachelors	130	34.0
	Masters	9	2.4
	Professional qualification	5	1.3
	Others	21	5.5
	Missing data	4	1.0
Total		382	100.0

RESULTS ON TYPES OF ETHICAL CLIMATE IN THE NAD

In order to achieve the research objective, the mean scores and standard deviations for each of the five ethical climate types were computed and the results are shown in Table 3.

Table 3: Mean scores and standard deviation

Variables	Mean	Std. Deviation
Ethical Climate:		
Law	2.42	0.623
Independence	3.03	0.956
Caring	4.52	0.571
Instrumental	4.55	0.820
Rules	4.95	0.872

As shown in Table 2, the mean scores for all ethical climate types ranged from 2.42 to 4.95. The results indicate that there are different levels of different ethical climate types in the NAD offices. Based on the mean scores, 'Rules', 'caring' and 'instrumental' ethical climate types are three types of ethical climate that highly exist in the NAD offices. On the hand, 'law' which had mean score of 2.42, is the ethical climate type that is not obvious in the NAD offices as perceived by the public sector auditors. The highest mean score of 4.95 was for the rules climate, indicating that the public sector auditors perceived this rules ethical climate to be highly existing in the NAD offices, which proposes that they follow rules in their organizations. The result was expected because being an auditor there are rules and procedures as well as code of ethics which auditors need to comply with in carrying out their professional tasks and responsibilities.

Likewise, the 'caring' ethical climate was also perceived to be highly existing in the NAD offices. A 'caring' ethical climate is when decision or action is made based on what is best for everyone in the organization. In other words, it is an ethical climate type that concerns everyone's need and welfare. It is encouraging that it exists in the NAD offices because having the environment that makes everyone feel important and valued would enhance an individual's commitment to the organization as well as to the profession which ultimately will improve the quality and performance of the auditors' work. This is in line with Victor and Cullen (1987) who claimed that a 'caring' climate is the best ethical climate type to exist in an organization. The result is in contrast to the result by Tsai and Huang (2008) who discovered that a caring climate of the least rated type of ethical climate in Taiwan.

Interestingly, the 'instrumental' climate is also perceived as highly existing in the NAD offices. The instrumental climate refers to an ethical climate when people protect their own interest above others. This is when personal interest is first fulfilled before considering another people's interest. The 'Instrumental' type to some extent, seems to be the opposite of a 'caring' ethical climate type. The possible reason for both types of ethical climates to exist in the NAD offices although they contradict each other is may be that different climate types are necessary in different situations. In some situations, a 'caring' environment is important but in some other situations, an 'instrumental' climate is needed.

IMPLICATIONS, LIMITATIONS AND SUGGESTIONS FOR FUTURE STUDY

The main objective of the current study was to identify the types of ethical climates that exist in NAD offices in Malaysia. Using a survey questionnaire by Victor and Cullen (1988), a total of 382 responses were received and usable. Descriptive statistics of mean scores and standard deviation were used to analyse the data. The results reveal that the top three ethical climate types that were highly existent in the NAD offices are 'rules', 'caring' and 'instrumental' ethical climate types. In contrast, the law ethical climate type was perceived as almost non-existent in the NAD offices.

The findings of the current study on the ethical climate types that are currently existent in the NAD are useful for the NAD. Having this information, the NAD could find measures in enhancing an appropriate climate or in eliminating climates that are undesired. This is important, as prior research has proven that ethical climate types can affect ethical decision or behavior of members in the organization. For example, since the instrumental climate focuses on self-interest and ignores others, and previous studies have found that it can lead to unethical behaviour, it is important to ensure that organizations have a low or non-instrumental climate. Deshpande and Joseph (2009) suggest that preventing the instrumental climate can help promote ethical behaviour among organizational members.

This study does have some limitations. Firstly, it makes use only of questionnaires. Future researchers may want to gain richer data and more

insightful information by interviewing public sector auditors or conducting a case study on a department or a ministry. Secondly, this study only identifies ethical climate types that exist in the NAD offices in Malaysia. Future studies may further investigate the influence of various types of ethical climate on ethical decision or behaviour of public sector auditors. Finally, future researchers may want to analyse the results based on group shared perceptions of auditors rather than based on individual responses. This may give better information on the types of ethical climate that exist in different NAD offices. As a conclusion, the findings of this study provide insightful information on the type of ethical climate that exist in the NAD offices in Malaysia which is hoped can assist the NAD to cultivate the right ethical climate in order to enhance credibility of the public sector auditors as they carry a crucial responsibility to give assurance on the financial management of the government.

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APPENDIX A QUESTIONNAIRE

SECTION A: DEMOGRAPHIC INFORMATION

1.	Gender	Male ☐ Female ☐
2.	Age	<20 years ☐ 20- 29 years ☐ 30- 39 years ☐ 40-49 years ☐ 50-60 years ☐ >60 years ☐
3.	Working experience in accounting field.	<5 years ☐ 5-10 years ☐ 11- 15 years ☐ 16 -20 years ☐ >20 years ☐
4.	Working experience with current organization.	<5 years ☐ 5-10 years ☐ 11- 15 years ☐ 16 -20 years ☐ >20 years ☐
5.	Highest educational qualification	Diploma ☐ Bachelors ☐ Masters ☐ Professional qualification ☐ Others: (please specify)……………..
6.	Professional affiliation	CPA ☐ ACCA ☐ MICPA ☐ CIMA ☐ ICAEW ☐ Others (please specify)……………….
7.	Organization level	Federal ☐ State ☐

SECTION B: Please indicate your level of agreement with these statements on the ethical culture of your present organization.

	Strongly Disagree						Strongly Agree
In this organization, people are mostly out for themselves.	1	2	3	4	5	6	7
The major responsibility of people in this organization is to consider efficiency first.	1	2	3	4	5	6	7
In this organization, people are expected to follow their own personal moral beliefs.	1	2	3	4	5	6	7
People are expected to do anything to further the organization's interests.	1	2	3	4	5	6	7
In this organization, people look out for each other's welfare.	1	2	3	4	5	6	7
There is no room for one's own personal morals or ethics in this organization.	1	2	3	4	5	6	7
It is very important to follow strictly the organization's rules and procedures here.	1	2	3	4	5	6	7
Work is considered sub-standard only when it hurts the organization's interests.	1	2	3	4	5	6	7
Each person in this organization decides for himself what is right and wrong.	1	2	3	4	5	6	7
In this organization, people protect their own interest above other considerations.	1	2	3	4	5	6	7
The most important consideration in this organization is each person's sense of right and wrong.	1	2	3	4	5	6	7
The most important concern is the welfare of all the people in the organization.	1	2	3	4	5	6	7
The first consideration is whether a decision violates any law.	1	2	3	4	5	6	7
People are expected to comply with the law and professional standards over and above other considerations.	1	2	3	4	5	6	7
Everyone is expected to comply by organization rules and procedures.	1	2	3	4	5	6	7
In this organization, our major concern is always what is best for the other person.	1	2	3	4	5	6	7
People are concerned with the organization's interests.	1	2	3	4	5	6	7

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Successful people in this organization go by the book.	1	2	3	4	5	6	7
The most efficient way is always the right way, in this organization.	1	2	3	4	5	6	7
In this organization, people are expected to strictly follow legal or professional standards.	1	2	3	4	5	6	7
Our major consideration is what is best for everyone in the organization.	1	2	3	4	5	6	7
In this organization, people are guided by their own personal ethics.	1	2	3	4	5	6	7
Successful people in this organization strictly obey the organization policies.	1	2	3	4	5	6	7
In this organization, the law or ethical code of their profession is the major consideration.	1	2	3	4	5	6	7
In this organization, each person is expected, above all, to work efficiently.	1	2	3	4	5	6	7
It is expected that you will always do what is right for the public.	1	2	3	4	5	6	7