

**THE EFFECT OF ETHICAL ORIENTATION AND MORAL  
INTENSITY ON FUTURE AUDITORS' ETHICAL JUDGMENT**

**BY:**

**RAZANA JUHAIDA JOHARI  
NORAIDA SAIDI  
WAN FAIROS WAN YAACOB**

**NOVEMBER 2014**

## TABLE OF CONTENT

	Page
1 Letter of Report Submission	iii
2 Letter of Offer (Research Grant)	iv
3 Acknowledgements	vi
4 Enhanced Research Title and Objectives	vii
5 Report	1
5.1 Executive Summary	1
5.2 Introduction	2
5.3 Literature Review and Hypotheses Development	3
5.3.1 Ethical Judgment	3
5.3.2 Ethical Orientation	4
5.3.3 Moral Intensity	5
5.4 Methodology	5
5.4.1 Sample	5
5.4.2 Data Collection	6
5.4.3 Variable and Measurements	6
5.4.4 Instrumentation (The Questionnaire)	7
5.4.5 Statistical/Data Analysis	8
5.5 Results	8
5.5.1 Demography of Participants	8
5.5.2 Descriptive Statistics	9
5.5.3 Hypotheses Testing	10
5.6 Discussion and Conclusion	16
5.7 Limitation and Suggestions for Future Research	17
6 Research Outcomes	18
7 References	19
Appendixes	

### 3.0 ACKNOWLEDGEMENTS

Our deepest appreciations and thank, to all those who have contributed to the completion of this research. Among others, they are:

Prof. Dr. Hadariah Bahron  
Assistant Vice Chancellor (Research), UiTM

Assoc. Prof. Dato' Dr Haji Hilmi Ab Rahman  
Rector, UiTM Kelantan

Faculty of Accountancy, UiTM

and

Respondents, who have given their commitments.

## **5.0 REPORT**

### **5.1 Executive Summary**

Several highly publicized financial disasters in the past decade have brought into question the auditors' integrity and credibility especially related to their ethical behavior (Kung & Huang, 2013). More specifically, misconduct of auditors, has drawn significant attention to the importance of ethics and integrity in public accounting. As a result, accounting firms have taken actions to re-establish credibility within the profession. The overall goal of these incentives is to provide ethics education to the auditors, and recognize auditors who have demonstrated outstanding commitment to ethics in the marketplace (KPMG International, 2012). However, in the wake of the aforementioned accounting scandals, many authors have argued that ethics education should start early in an auditors career, even before joining the profession (Suryaningrum et al., 2013). Noting the importance of moral intensity construct and ethical orientation dimensions in shaping the auditors ethical judgment, this current study provides further evidence by investigating these two variables on future auditors' ethical judgment. The Structural Equation Modeling (SEM) technique is used in analyzing the data that was collected through the questionnaire design. The findings of this study could contribute to the existing literature on ethics within the academic curriculum and, in particular, offer an insight on accounting ethics in Malaysia.

## 5.2 Introduction

The failure of some large companies in the west (Enron, WorldCom and Lehman Brothers) as well as in Malaysia (Perwaja Steel Berhad, Transmile Group Berhad, PKFZ Berhad) without auditors warning raised serious questions concerning the ethicality of the auditors. In performing their duties, auditors are often faced with situation involving financial integrity thus; their ethical considerations are often challenged. As auditor, their ethical judgment have to meet up with both ethical obligation (between auditors & public) and contractual obligation (between auditors & management), and this is where the auditors conflict will arise (Westra, 1986).

The conflicts of interest among the client firm, the public, the audit firm and the auditing profession provide the bases for many of the potential ethical issues that auditors must resolve within their profession. In understanding the ethical judgment of an individual, Jones (1991) argued that one should recognized and investigated the specific characteristics of moral issues (moral intensity) together with other personal or situational factors (Uysal, 2010). According to Jones (1991), the moral intensity of the issue captures the heightened feelings and emotions of a particular ethical conflict. There are certain properties within an ethical issue that make the issue more salient and vivid to the decision-maker.

The ethical judgment also tends to vary according to personal ethical orientation which comprised of two underlying components i.e. idealism and relativism (Forsyth, 1980). Current theoretical views maintain that an individual's personal ethical orientation influences ethical judgment of professionals including accountants (e.g. Ismail, 2014; Johari et al. 2014, Greenfield et al., 2008). The differences in ethical orientation can result in disagreements about what is ethical per se, about the situations to which a person should be sensitive and about the ethical judgment made. In enhancing the public confidence towards the auditing profession, various guidelines such as Sarbanes Oxley Act (2002) has been imposed on the profession.

Continuing the effort that have been taken by the regulators and audit firms, accounting educators were also placed their concerns on the matters that