

**STUDY ON FACTORS INFLUENCING INTERNAL
AUDITORS OF GLC COMPANIES TO WHISTLEBLOW**

By

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TABLE OF CONTENTS

ACKNOWLEDGEMENTS	i
TABLE OF CONTENTS	ii
LIST OF CONTENTS	ii - v
ABSTRAK (MALAY)	vi
ABSTRACT	vii
CHAPTER 1 – INTRODUCTION	1 - 19
1.0	Introduction
1.1	Background
1.2	Problem Statement
1.3	Research Objectives

- 1.4 Research Questions
- 1.5 Definition of Key Terms
- 1.6 Significance of the Study
- 1.7 Organization of Remaining Chapters

CHAPTER 2 - LITERATURE REVIEW 20 - 39

- 2.0 Introduction
- 2.1 Theories
- 2.2 Factors influencing Likelihood to Whistleblow
- 2.3 Theoretical Framework
- 2.4 Hypothesis Development
- 2.5 Summary

CHAPTER 3 - METHODOLOGY 40 - 45

3.0 Introduction

3.1 Research Design

3.2 Population Samples

3.3 Procedure

3.4 Variables and Measurement of Variables

3.5 Data Analysis

3.6 Summary

CHAPTER 4 – Data Analysis and Results 46 - 70

4.0 Introductions

4.1 Data profile

4.2 Overall Factor Analysis

4.3 Multiple Regression Analysis

CHAPTER 5 – DISCUSSION AND CONCLUSIONS

71 - 76

5.0 Introduction

5.1 Recapitulation of the Study Findings

5.2 Discussion of the findings

5.3 Implications of the Study

5.4 Limitations f the Study

5.5 Future Research

5.6 Conclusion

REFERENCES 77 - 88

APPENDIX(ES)

Appendix A Survey Questionnaire **89 - 100**

Appendix B SPSS Analysis **101 - 144**

ABSTRAK

'Whistle blowing' atau dalam erti kata lain 'meniup wisel' adalah satu tindakan untuk mendedahkan perbuatan yang tidak beretika. Terdapat banyak Syarikat yang musnah akibat perbuatan yang tidak beretika seperti penyalahgunaan kuasa , penyalagunaan wang syarikat ataupun penyesuaian akaun syarikat untuk kepentingan diri sendiri atau syarikat dengan membelakangkan kepentingan pekerja atau pemegang saham. Kajian ini dijalankan untuk mengetahui tahap kebarangkalian juruaudit dalaman untuk meniup wisel. Memandangkan kurangnya kajian dibuat didalam syarikat-syarikat GLC , kajian ini menumpukan sepenuh perhatian pada juruaudit dalaman syarikat-syarikat GLC seperti Telekom Malaysia, CIMB Groups , Tenaga Nasional Berhad, Petronas dan Maybank dan anak-anak syarikat GLC. Faktor-faktor yang dikaji termasuk jantina, jawatan, dan pendedahan kepada etika. Seramai 60 responden telah menjawab kertas soal selidik dengan lengkap dan kertas soal selidik ini digunapakai untuk analisis. Kajian mendapati bahawa sampel auditor dalam kajian ini mempunyai tahap kebarangkalian meniup wisel yang tinggi. Daripada tiga faktor yang dikaji , didapati bahawa jantina dan pendedahan kepada etika adalah mempunyai perhubungan yang signifikan dengan keberngkalian meniup wisel. Keputusan Kajian ini berguna kepada Syarikat GLC dan firma audit yang lain dalam usaha meningkatkan lagi tahap etika seseorang juruaudit serta meningkatkan tahap keyakinan pelabur khususnya dan orang awam amnya terhadap syarikat mereka.

ABSTRACT

Whistle blowing is an action to expose an unethical behaviour. There has been many companies bankrupt or demolish because of the unethical behaviour such as misuse of power, money laundering or reframing of account statements for the benefit of oneself or the company without taking into account the benefit of the stakeholders. The research is to identify the level of likelihood to whistleblow by internal auditors. Since not many research done using auditors of GLC companies , this research will focus on the internal auditors of GLC companies such as Telekom Malaysia, CIMB Groups , Tenaga Nasional Berhad, Petronas dan Maybank and its subsidiaries .Factors analysis includes gender, position level and exposure to ethics . 60 respondents had completed the given questionnaire and had been used for the analysis. The study shows that the sample auditor for this study had high level of the likelihood to whistleblow . From the three factors analysed , gender and exposure to ethics to have a significant relationship with level of likelihood to whistleblow. The result of this research will be helpful to the GLC companies and other audit firm to increase the ethics level of their auditors and to increase the confidence level of the stake holder and public at large towards their company.

Chapter 1

INTRODUCTION

This chapter introduces the outline of the study. It covers the background of the study, problem statement, research objectives , research questions , definition of key terms , significance of the study and organization of the remaining chapter.

1.0 Introduction

The East Asia Economic crisis 1997/98 was the catalyst in which the Malaysian government took various measures to uplift the standard of corporate governance; recognizing the crucial role that enhanced standard of corporate governance can play in boosting investor confidence in the market. The financial crisis was triggered in Thailand when foreign investors lost their confidence and started to withdraw capital due to currency devaluation. The problem transmitted to other neighbouring countries. The most affected countries included Indonesia, Malaysia, South Korea, and the Philippines. In Malaysia, attempts to contain further devaluation caused higher level of interest rate and credit contraction. This created severe contractions in output and corporate profitability which was reflected in massive fall of equity prices. The Kuala Lumpur Composite Index declined by 72% during the period from end-June 1997 to end-August 1998. Real estate markets declined sharply due to high interest rates and in crisis environment. Banks, which had a significant portion of their loan exposure in the construction and real estate sector; and stock purchase financing were badly affected. (East Asian Economic Summit 2002 in Kuala Lumpur.)

The crisis above shows the weakness in the corporate practises in Malaysia, these can be seen from the weak financial structure, over-leveraging by companies, lack of transparency, disclosure and accountability. To overcome or to minimise the seriousness of the weaknesses, there has been several reformations. These reformations come from Malaysian Code on Corporate Governance by Finance Committee, Capital Market Master Plan by Securities Commission and Financial Sector Master Plan by Bank Negara Malaysia on the financial sector. It provides guidelines on the principles and best practices in corporate governance and the direction for the implementation as well as charts the future prospects of corporate governance in Malaysia. (Malaysian Code on Corporate Governance by the Committee in March 2000)

GLC companies and Fraud

Accounting fraud continues to hog headlines globally and Malaysia recently witnessed at least two accounting debacles involving Transmile Group Bhd and Megan Media Holdings Bhd.

This has now forced regulators to introduce more stringent filters to continue protecting investors' interest. Despite all these efforts, fraud can still occur as it takes only two people or a small group to conspire.

Tenaga Nasional Bhd (TNB) chief financial officer Datuk Izzaddin Idris put it: "You can never hide an elephant behind a bamboo tree but even if you manage to do so, the elephant smells so you really cannot hide it." He then concludes that it is

important to have trustworthy people to be the CEO or CFO . He also added that there should always have check balance

Procurement is a big area that the Government wants to see revamped at some government-linked companies (GLCs).

Some GLCs have in the past paid exorbitant prices for some items due to improper procurement methods or practices.

For the transformation of GLCs, several guide books were launched so that these companies would be able to put in place proper processes with enough trails based on best practices to avoid fraud.

From the past three years three big GLC companies such as MAS, TNB and Telekom Malaysia have been fighting fraud by taking serious step to apprehend these problem.

Tengku Datuk Azmil Zahrudin,(MAS executive director/CFO) is a professional who is well known for his expertise and experience, states that MAS have stringent procedures and processes in place to ensure that their books are materially accurate and is constantly reviewing its processes to further improve the effectiveness of its financial management controls.

While TM group CFO Bazlan Osman quoted that "creating the right control environment from the top down is vital. Recruiting and developing people within and outside the finance section who have the right behaviour and competency is necessary to leave no room for discrepancies." He also added that TM had a "sound

management information system and internal control system in place with strong IT support to minimise any likelihood of fraud and leakages.”

Izzaddin the TNB president and CEO Datuk Seri Che Khalib Mohamad Noh are accountants. Both agrees that “The CEO has his own clear functions of taking care of operations and support services and there is clearly no room for duplication of work. The TNB president also states “The fact that he is an accountant actually helps my work for he understands issues better and comprehends them faster. On top of that, a sounding board is good. But all decisions at TNB are made collectively. There is no such thing as your way or my way; it is the company’s way and all decisions are predicated in the best interests of the company and shareholders,”.

Another famous GLC company Kumpulan Darul Ehsan Bhd (‘KDEB’), An enquiry was carried out by the Selangor State Assembly’s Select Committee on Competance, Accountability and Transparency (Selcat) on the contributions disbursed to the Balkis revealed that KDEB paid for the flight tickets of seven members of the Balkis for a ‘souvenir shopping’ trip to Guangzhou, China on May 2007. The cost of flight tickets for one business class and six economy class seats was RM17,438.

KDEB head, Datuk Abdul Karim Munisar was reported to have said that the company paid more than RM206,000 for the souvenirs bought in China, RM65,300 worth of Songket material as gifts toVIPs at a function hosted by Balkis in February 2006, and about RM25,000 for souvenir chocolates borne by KDEB under its Corporate Social Responsibility (CSR) programme.

Datin Khairiyah Abu Hassan Permodalan Negeri Selangor Berhad (PNSB) CEO was questioned by Selcat on the matter. Khairiyah was reported to have admitted that it was a common practice for the state subsidiary to adhere to all 'request' for funds from Balkis, which amounted to between almost RM500,000 to RM1.6 million, annually.

Khairiyah, who was deputy CEO in 2002, disclosed that it was 'usual practice' for Balkis officials to make verbal requests for project funds, and it was not unusual for the payments to be made in cash. She was also reported to have admitted that PNSB made payments on behalf of Balkis without really knowing who the recipients were.

Malaysian Code on Corporate Governance

The initiative started with the establishment of Finance Committee on Corporate Governance in 1998 that consists of both representatives from the government and industry. Recognition of corporate governance in Malaysia was significantly evidenced by the release of the Malaysian Code on Corporate Governance by the Committee in March 2000. The principles underlying the report focus on four areas including: (i) board of directors, (ii) director's remuneration, (iii) shareholders and (iv) accountability and audit. The code is hybrid in nature, which is similar to the Combined Code on Corporate Governance (United Kingdom). Under the approach, the companies in Malaysia should apply the broad principles of good corporate governance set out by the code flexibly and with common sense to the varying circumstances of individual companies.

Capital Market Master Plan (CMP)

Complementing the reforms is the introduction of Capital Market Master Plan by the Securities Commission whose purpose is to chart the direction of the Malaysian capital market for the next ten years. It was initially announced by the Second Finance Minister and Chairman of Securities Commission on August 6, 1999 and subsequently approved by the Minister of Finance in December 2000 before it's launching in February 2001. The efficient mobilization and allocation of funds together with high degree of confidence to market participants are the visions outline by the CMP. Corporate governance is a key strategic thrust of the CMP as the Securities Commission considers good corporate governance among public listed companies is vital to achieve the objective of promoting a more conducive environment for investors in the Malaysian capital market. One of the recommendations by the CMP is a mandatory disclosure on the state of compliance with the Malaysian Code on Corporate Governance which were issued in the revamped exchange listing requirements on January 22, 2001 to listed companies)

Financial Sector Master Plan (FSMP)

Financial Sector Master Plan (FSMP) was launched in March 2001 by Bank Negara Malaysia to chart the future direction of the financial sector over the next ten years. It has the objective of developing a more resilient, competitive and dynamic financial systems that contributes to the economic growth and technology. Elements of corporate governance that are recommended by the master plan would include promoting shareholders' and consumers' activisms, regulatory control and priority sector financing. Some of the specific recommendations to the banking sector

indicated the requirement of having board committees to further improve corporate governance, the implementation of a transparent and clearly structured early warning system for weak banking institutions, encourage mergers between banking institutions and establish a deposit insurance funds. Financial Sector Master Plan (2001)

The role of internal auditors

An internal auditor plays a very important role in any organisation. They maintain check and balance of a company. Internal auditing as defined by the Institute of Internal Auditors (IIA) is: 'an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes'.

'The Malaysian Code on Corporate Governance [2] (the Code) in Best Practices Provision AA I Part 2" has clearly outlined six boards' specific responsibilities of Internal Auditors in discharging their stewardship responsibilities. According to Newsome RM in the 9th International Anti Corruption Conference(1999), there are several roles and responsibilities of internal auditors, such as assisting management by ensuring the process followed is sufficiently robust in considering all factors affecting the business, introduction of strategic management concepts/methodologies for executive consideration and benchmark the strategic plans against accepted models (if not part of the strategic process) such as the Balanced Scorecard.

Internal auditors can add considerable value to the direction in this area such as in the area of verification of performance criteria per performance contract, providing input for self assessment criteria of various committees and identifying management/succession issues e.g. key dependencies.

Another area where internal audit is becoming increasingly active is in providing criteria to enable the effectiveness of corporate governance structures to be assessed - usually on a self assessment basis. Such structures include Board of Directors, Audit Committees, senior management forums, Remuneration Committees.

Internal auditors can clearly establish a name for themselves by verifying the matters reported (often an area of overlap with external audit), benchmarking matters reported against performance criteria - for example CCAF (Canadian Comprehensive Audit Foundation - criteria for effectiveness), reviewing the appropriateness of accounting policies and impact on reported results and participation in Corporate Governance awards etc.(Newsome RM in the 9th International Anti-Corruption Conference 1999)

The discussion would involve the significance of maintaining ethics within the organization through whistleblowing procedures and policies which will not only benefit the employee but the organization on a long term basis.

1.1 Background of the study

Firstly one will need to understand the definition of whistle blowing, Secondly the factors influencing such an act , such as gender, exposure to ethics and position level in the organization. We will also examine the 'likelihood to whistleblow and ethical judgment behind such act.

Whistle blowing refers to the disclosure by either former or current organization members of illegal, immoral or illegitimate practices which are under employer control to persons or organizations that may be able to effect action. A widely accepted definition, by Lord Borrie QC in Policy: Public Interest Disclosure (Whistle blowing) 1998 is as follows: '...the disclosure by an employee (or professional) of confidential information which relates to some danger, fraud or other illegal or unethical conduct connected with the workplace, be it of the employer or of his fellow employees.' Professional in the above definition is taken to refer to self-employed workers working for an organization

Whistle blowing defined by Norman Bowie (1988). as 'the act stems from appropriate moral motives of preventing unnecessary harm to others, the whistleblower should use the proper internal channel and procedures to overcome unethical behavior before public disclosure (except when special circumstances preclude this), the whistleblower has evidence that would persuade reasonable person, he or she perceives serious danger than can result from the violation, as a result the whistleblower acts in accordance with his or her responsibilities for avoiding

/exposing moral violations and the whistleblowers action has some reasonable chance of success. While Johnson (1990) in her research concluded that a full defined case of whistle blowing occurs when 'an Individual performs an action or series of actions intended to make information public, the information is made a matter of public record, the information is about possible or actual nontrivial wrongdoing in an organization, and the individual who perform the action is a member or former member of the organization. Vinten (1995) defines it as the unauthorized disclosure of information that an employee reasonably believes evidences the contravention of any law, rule or regulation, code of practice, or professional statement, or that involves mismanagement, corruption, abuse of authority, or danger to public or worker health and safety.

Whistle blowing has become one of the important aspects of quality management in an organization. To improve the management system, an organization should take whistle blowing seriously and improve the communication channel and of course to include whistle blowing as one of quality management element.

According to Blair (1995) corporate governance is about "the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how the risks and return from the activities they undertake are allocated.

Corporate governance refers to how a corporation is governed. In the United States, the governance of corporations is largely determined by state laws of incorporation.

State laws typically say that each corporation must be "managed by or under the direction of its boards of directors." More specifically, corporate boards of directors are responsible for certain decisions on behalf of the corporation. At a minimum, as stated in most state statutes of incorporation, director approval is usually required for amending corporation bylaws, issuing shares, or declaring dividends. Also, the board alone can recommend that shareholders vote to amend articles of incorporation, dissolve the corporation, or sell the corporation. No other person or entity except the board can take these actions. That is why discussions of "corporate governance" often focus on boards. (A Practical guide, NACD. Commission on Director Professionalism, 2005)

Internal control would be one of the way to govern whistle blowing, Internal control as defined by The Committee of Sponsoring Organizations of the Tread way Commission(COSO) is "a process effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance to achieve the objectives in the categories of (i) Effectiveness and efficiency of operations, (ii)Reliability of financial reporting and (iii)Compliance with applicable laws and regulations "

This definition reflects certain fundamental concepts which is firstly ,internal control is a process. It's a means to an end , not an end itself; secondly internal control is effected by people. It's not merely policy manuals and forms, but people at every level of an organisation and that internal control can be expected to provide only reasonable assurance , not absolute assurance to an entity 's management and board. (Verschoor C.C , 2007)

According to 'the Institute of Internal Auditors' internal auditing is a profession separate and apart from the profession of public accounting. Internal auditing standards and ethical codes as well as certification requirements differ from those of the independent public accountant. Internal auditing addresses all aspects of the company that safeguard assets and promote the achievement of objectives as compared with the emphasis on accounting controls and public reporting which are the primary domain of external auditors. The objectives of a system of internal control address as the reliability of financial information, the efficiency and effectiveness of operations, and compliance with laws, regulations and policies. One of the primary responsibilities of an internal auditor is to provide to directors and executives, an assessment of the adequacy of internal controls. Understanding the role of internal auditors is the key to assessing the degree of service that can be provided by the external auditor in a non-audit engagement.

Ethics is stated as the rules of conduct recognised in respect of particular class of human actions. For this study ethics will be seen in the perspective of the auditors in the GLC.(Oxford dictionary, 2002)

(Reidenbach & Robin (1991) indicates that ethics training interventions are more effective than moral imperatives to "do the right thing" or codes of conduct with complex rules and regulations (Goolsby & Hunt, 1992; Nelson & Obremski,1990). At the same time, there is evidence that certain states have begun to mandate ethical training.

The ethical standing of any profession is critical to its acceptance in society (Mintz, 1995). Ethics plays an important role in the business.

Like other branches of the profession, The Institute of Internal Auditors (IIA) has a code of ethics which is designed to promote an ethical culture within internal auditing (IIA, 2000). The code sets out the principles governing integrity, objectivity, confidentiality and competency, together with rules of conduct with respect to these principles.

Larkin, (2000); Goodwin & Yeo,(2001); Thompson, (2003) contends that Ethical principles are particularly important for internal auditors for two reasons. First, internal auditors are frequently faced with ethical dilemmas which can challenge their standards.

The auditors like any other profession will be facing situations which require them (auditor) to speak out (Barrier, 2003) and this is not always easy, particularly when pressure is being exerted by senior management to “go with the flow” and not to “make waves” (Thompson, 2003,). Second, with the current emphasis on corporate governance, it is becoming increasingly recognized that internal auditors can play a key role in strengthening business ethics and corporate integrity (Brown et al., 2003; Jennings, 2003; Moeller, 2004).

Personal factors like position level, and exposure to ethics are a subjective question. It differs from one auditor to another. Exposure to ethics starts from young, when a person was a child, the environment around he/she plays an important role. Parents would be the first platform for the child to learn or be exposed to ethics, next would be action done by their siblings. These actions will influence a person’s decision. When a person starts working , their peers and friends will be the next platform to be

exposed to ethics. And of course, the level of education will have a great impact on the ethical judgement .

The next factor influencing an auditors judgement whether or not to whistleblow would be the gender factors. Researchers has mix findings on these subject matter. As Gilligan (1982) states that women tend to be more sensitive and more caring than men. Male are said to be more aggressive and result oriented.

Researchers states that generally suggests female executives evince higher ethical behaviour than their male counterparts, the question of whether ethics of the business community will improve now that women are involved in greater numbers in the work force remains to be settled.

1.2 Problem statement

There are a few famous cases which involves whistleblower such as the Enron Case, Dr Jefry Jiggard case (1990), or even a Malaysian case Perwaja Steel (1999) , these cases has shown that the ability and the awareness of the employee or the whistleblower to bring forward the complaint or the wrongdoer had at last brought justice to life, further had motivated other employee to follow the same path . My focus is investigating the attitudes of internal auditors in GLC companies towards whistle blowing as a mechanism in the fight against corruption , i.e. to analyze the factors involved and encouraging the whistleblower to blow the whistle and the willingness of the whistleblower to bring the matter forward. The question arose is the ethical judgement involved and the level of likelihood to whistleblow behind it. These two factors would be our main concern in this research.

Exposure to ethics would be one of the factors that would be looked into. If the organization have no ethical exposure, the employee will not be able to understand the real meaning of ethics unlike an organization which punishes the wrong doer or rewards the auditors who follows the standard that have been set by the organization. Any rules and regulation adapted by organization would be very important for the employees to understand it.

There has been much criticism levelled at the auditing profession, ranging from the failure revealing accounting documents to revealing financial statement or financial accurateness and the collusion accountants in the preparation and validation of those documents of a firm, even there have been cases whereby the internal auditors himself taking advantage of the situation involved. Of all these unethical behaviour involving auditors had taken place worldwide , the most unethical behaviour would the failure to take into account the public interest in the determination of the future of auditing practice , these failures had lead to the collapses of corporate organization such as Maxwell Communication, Polly Pack , Bank of Credit and Commerce International. We would need to analyst the quality of audit conducted by audit firms. These collapses shows that serious action need to be taken, these cases also indicate that a good standard of quality internal audits need to implement.

Though until today professional bodies had set rules and regulation, yet there are still cases involving unethical decision made by internal auditors. As soothe question is to find out the factors influencing internal auditor's to whistleblow.

1.3 Research Objectives

The study attempts to achieve the objectives below :

1. To examine the level of likelihood of internal auditors of GLC companies to whistleblow.
2. To examine the influence of gender, position level and exposure to ethics to likelihood of GLC auditors to whistleblow.
3. To examine the influence of gender , position level and exposure to ethics to likely hood whistle blow of GLC auditors for big five firms
4. To examine the influence of gender, position level and exposure to ethics to likely hood whistleblow of GLC auditors for small and medium firms.

1.4 Research Questions

The main aim or purpose of the study is to investigate the effectiveness role of internal audit function in comprehending whistle blowing. Below is the research questions developed:

1. Does gender, position level and exposure to ethics influence likelihood of GLC auditors to whistleblow?
2. Does gender, position level and exposure to ethics influence likelihood of GLC auditors to whistleblow for big five firms?

3. Does gender, position level and exposure to ethics influence likelihood of auditors GLC to whistleblow for small and medium firms?

1.5 Definition of key terms

Below here is the definition of key terms used in this research

GLC Company's: GLCs are defined as companies that have a primary commercial objective and in which the Malaysian Government has a direct controlling stake. Controlling stake refers to the Government's ability (not just percentage ownership) to appoint BOD members, senior management, make major decisions (e.g. contract awards, strategy, restructuring and financing, acquisitions and divestments etc.) for GLCs either directly or through GLICs. The category of GLCs comprises companies that are controlled by the respective State Governments and State-level agencies. This includes companies that the Government of Malaysia controls directly as its agencies such as Khazanah Nasional, MOF Inc., KWSP and Bank Negara Malaysia. Includes companies where GLCs themselves have a controlling stake, i.e. subsidiaries and affiliates of GLCs. ((<http://www.khazanah.com.my/faq.htm#ques8>))

Ethical judgement:

Ethical judgement means an individual decision as to what is right or wrong or whether the decision made is ethical or unethical (Schwepker , 1999) or as stated by Alderson & Maxwell as a decision which is made based on the standard or right or wrong.

Exposure to Ethics

Exposure means the act of subjecting someone to an influencing experience. Exposure to ethics concerns with the level of rules and conduct that have been made to known to the individual. (WorldReference.com)

1.6 Significance of the study

I would like quote our Prime Minister Datuk Seri Abdullah Ahmad Badawi say “ There is a popular belief that corruption is only fought if many more people are charged in court, I believe the punitive aspect is important , but before punitive action being taken , wrongdoings must be reported and properly investigated.’

The above statement shows the importance of the role of internal auditors. Never the less as these auditors are human, there are factors influencing decision made by them whether morally or ethically. The findings from this study can be useful and contribute to the literature of the ethical judgement in the auditing industry.

The study will shows whether internal auditors of GLC companies are ethical in carrying their duties as internal auditors and also to measure how exposed are them to ethics. Factors influencing this ethical judgment such as position level and gender will also be analyst. The findings of the study would help the GLC companies to improve firstly the understanding of ethics in auditing firm, secondly to identify the areas of their governance that need improvement.

1.7 Organization of the remaining chapters

This research consists of five chapters which includes this chapter of introduction. Chapter two discusses of Literature Review which includes theories, theoretical framework and hypothesis. Chapter three would be detailed of methodology of the study which includes the research design the variables, the population and the sample, the procedure, the measures and the data analyses. Chapter four discusses the analysis done for the study and also the findings of the study, implications of the findings, limitations of the study and suggestion for future research. The last part would be the conclusions part.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter will discuss previous literatures also examine theories used in previous studies.

2.1 Theories

This section will be discussing the relevant theories that are used in this study.

Hunt –Vitell , general theory of Marketing ethics.

His theory was developed by Hunt and Vitell in 1986. The framework was developed to as teaching materials focusing on the subject of marketing ethics. In the year 1990's scholars started to use these theory as a model. Scholars also began to point out that most of the theory was really applicable to ethical decision making in general and not just to decision making in marketing or business. The model was revised in 1993.

The purpose of developing this theory is (1) provide a general of ethical decision making and (2) represent the theory in a process model. This theory had drawn on both the deontological and teleological ethical traditions in moral philosophy.

Theory incorporates other perspectives and concepts in the area of ethics. For example, the theory incorporates concepts from works on integrated social contracts (e.g., Donaldson & Dunfee 1994), moral intensity (Jones 1991), opportunity (e.g., Zey-Ferrell, Weaver, & Ferrell 1979), religiosity (e.g., Wilkes, Burnett, and Howell

1986; Vitell & Paolillo 2003), organizational commitment (e.g., Hunt, Wood, & Chonko 1989), Machiavellianism (e.g., Singhapakdi & Vitell 1991), strength of moral character (e.g., Williams & Murphy 1990), cognitive moral development (e.g., Trevino 1986), and ethical sensitivity (e.g., Sparks & Hunt 1998).

Though the theory is basically developed and used for marketing research but researchers have used this framework for other field. This includes, Menguc (1998) replicated the Hunt & Vasquez-Parraga (1993) study to research on Turkish salesmen ethical.

Burns & Kiecker (1995) used the experimental design of the Hunt & Vasquez-Parraga (1993) study, but with a sample of 418 certified public accountants (CPAs) and scenarios that involved a CPA making recommendations on clients' tax returns.

For the purpose of this study the marketing theory of Hunt-Vintell are used to as a model and process of decision making. But yet only a part of the theory will be used. The part of personal characteristic which includes gender, position level and exposure to ethics will examined in determining the ethical judgement of the auditors.

Below is the figure (2.1) which shows the Hunt-Vitell General theory of Marketing.

Figure 2.1

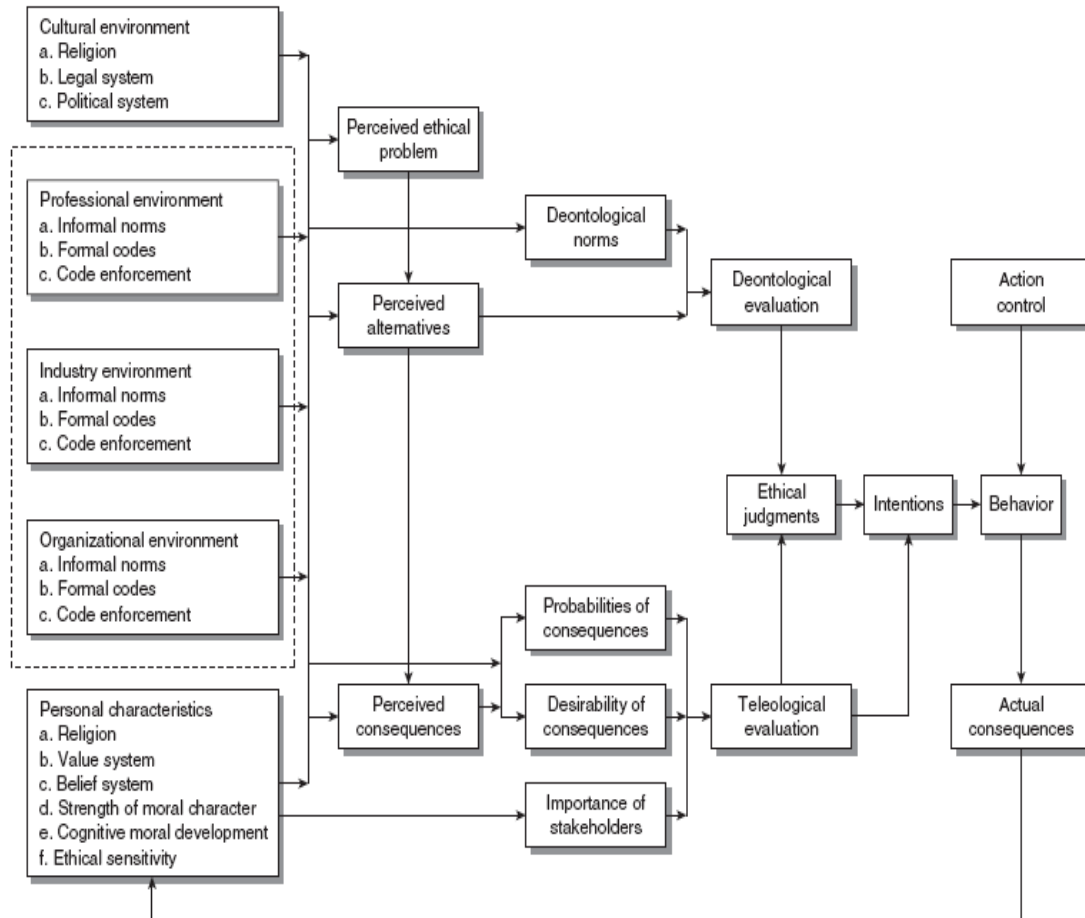
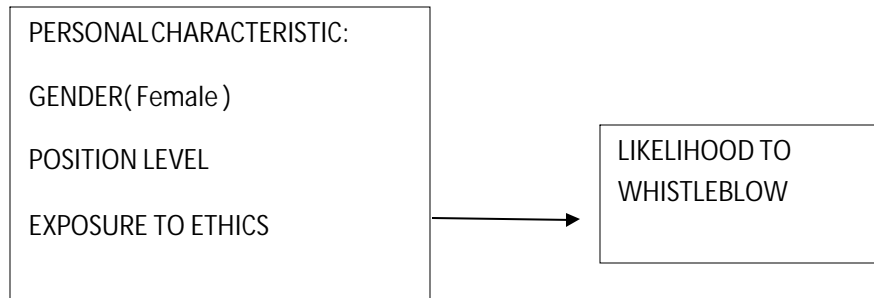


FIGURE 1 HUNT-VITELL THEORY OF ETHICS
 SOURCE: Hunt and Vitell (1986, 1993). Copyright © 1991 by Shelby D. Hunt and Scott J. Vitell.
 NOTE: The portion of the model outside the dashed lines constitutes the general theory. The portion inside the dashed lines individualizes the general model for professional and managerial contexts.

Figure 2.2 SIMPLIFIED VERSION OF GENERAL THEORY OF MARKETING



Virtue Ethics

One of the important elements that would be discussed in this paper is ethics, For this purpose the theory of virtue ethics will be based. Virtue ethics founders are Plato and Aristotle and were used as dominant theory in Moral philosophy by the westerners for centuries. Its popularity was gained during Anscombe's periods with his famous article titled "Modern Moral Philosophy" (1958). This theory became more popular when there was dissatisfaction raised with deontology and utilitarianism theory. The later theories had not been able to discuss in depth topics such as virtues, motives and moral character, moral education, moral wisdom or discernment, friendship and family relationship, deep concept of happiness, the role of the emotion in our life and the fundamentally important questions of what sort of person a person should be or should live.

This theory is used in this study to relate moral reasoning to ethical judgement, the famous quote form the above theory is ' a person with high moral reasoning will be

more likely to act more ethically than a person with who has lower moral reasoning level.' (Anscombe 1958)

Deontological theory

Deontological theory is relationship between values and right action, According to C.D Broad (1930) Theories which hold that there is some special connection between [Moral Obligation and Moral Value], might take the following forms. The concepts of obligation are fundamental and the concepts of value are definable in terms of them. Thus it might be held that the notion of fittingness is fundamental, and that "X is intrinsically good" means that it is fitting for every rational being to desire X. Such theories might be called Deontological. The concepts of value are fundamental, and the concepts of obligation are definable in terms of them. Such theories may be called Teleological. E.g., it might be held that "X is a right action" means that X is likely to produce at least as good consequences as any action open to the agent at the time. (Broad, C. D. 1930)

As according to the above statement 'deontological' term is based upon the idea that an action's being right or wrong and whether a situation is good or bad depends on whether the action that brought it was right or wrong . (<http://www.wikipedia.com>)

As so each and every action taken by us must be followed in accordance of our morally obliged duty. If a person is obliged by such duties, he or she will do what is right and avoid what is wrong. The choices that we choose will decide of our moral value, those who failed to follow these moral duties is said to be behaving immorally.