

THE INFLUENCE OF INDIVIDUAL AND ORGANIZATIONAL FACTOR ON EXTERNAL AUDITOR WHISTLEBLOWING PRACTICE IN GOVERNMENT-LINKED COMPANIES (GLC'S)

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ABSTRACT

Whistleblowing is a report on any corporate wrongdoing that occurs in organisations. There are many companies that bankrupt or suffer loss due to unethical behaviour such as mismanagement, misuse of company funds, money laundering, and manipulation of income statement for private advantage without considering the employees' or shareholders interest. This study is conducted to examine the factors that could motivate whistleblowing practices by external auditors of Government Linked Company (GLCs). Several predictive variables have been considered, such as individual and organizational factors. However, the findings are still considered as inclusive, especially in Malaysia. 184 respondents from top three audit firms had completed the given questionnaire that was used for the analysis. This study showed that the sample auditors for this study were highly likely to become whistleblowers and individual moral reasoning and audit firms organizational structure have a significant relationship towards external auditor whistleblowing practices. Meanwhile, job satisfaction does not have significant relationship toward external auditor whistleblowing practice. The result of this study will be helpful to the GLCs and audit firms to increase their ethical awareness and at the same time, improve the confidence level of the stakeholders and public at large towards their company.

Keywords: whistleblowing, auditing profession, external auditor and government linked companies (GLCs)

ARTICLE INFO

Article History:

Received: 16 January 2018

Accepted: 20 March 2018

Published: 30 April 2018

INTRODUCTION

According to the survey conducted by Price Water House Coopers (2014), with regard to the Global Economic Crime, almost 35 percent of respondents of the survey population represented publicly traded company from over 95 countries all over the world. The survey showed 69 percent of economic crime involved assets misappropriation, 29 percent from procurement fraud, 27 percent from bribe and corruption, 24 percent from cybercrime and lastly, 22 percent from accounting fraud. This fact showed that the economic crime kept increasing from time to time, especially in publicly traded companies. Other than that, a survey conducted by Deloitte (2015) relating to bribery and corruption, revealed the most common types of domestic corruption is undisclosed conflict of interest, supplier kickback and personal favours. Subsequently, the top three ways in which the instances were discovered is through management review, internal control as well as tip-offs from employees or also known as whistleblowing.

Moreover, with regard to accounting fraud, it has given a significant impact towards accounting landscape which was based on the Enron and Arthur Anderson, WorldCom and KPMG cases. The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act” or “the Act”) was enacted in response to the corporate scandals of the late 1990s and early 2000s, which resulted in major losses for investors and a sudden decline in investor confidence in the U.S. capital markets. The requirements of the Sarbanes-Oxley Act were intended to strengthen public companies’ internal controls over financial reporting and have served to sharpen the focus of senior management, boards of directors, audit committees, internal audit departments, and external auditors on their responsibilities for reliable financial reporting. Although, it is generally accepted that the Sarbanes-Oxley Act has improved corporate governance and decreased the incidence of fraud, recent studies and surveys indicated that investors and management continue to have concerns about financial statement fraud. For example, based on a study from The Association of Certified Fraud Examiners’ (ACFE) (2010), the Report to the Nations on Occupational Fraud and Abuse found that financial statement fraud, while representing less than five percent of the cases of fraud in its report, was by far the most costly, with a median loss of \$1.7 million per incident.

Furthermore, there were several requirements in the Sarbanes-Oxley Act of 2002 regarding fraud issues as it requires evaluations and increased disclosures of a company's internal control over financial reporting by management and a related report by the external auditor for certain companies and also required companies to establish whistleblower programs, which made retaliation against whistleblowers unlawful. Since SOX 2002 focused on whistleblowing as well as duties of the external auditor as the deterrent of fraud, it clearly showed that the whistleblowing practice is one of the best mechanisms to deter fraud and any corporate wrongdoing. Hence, a part of another party, external auditors' can be considered the appropriate persons to take part in this mechanism.

Throughout history, the term "whistleblower" and "whistleblowing" have become popular where the whistleblowers' had received public appreciation and recognition for their contributions in exposing the illegal, immoral or illegitimate practices under the control of their employers. Examples of persons that were recognized as "heroes" and role models throughout history were Sherron Watkins, Cynthia Cooper and Colleen Rowley as Persons of the Year 2002 from Time Magazine (Hwang, Staley, Chen, & Lan, 2008). Whistleblowing is similar to disclosure made by a member of the organization of any illegal or wrongdoing that occurred in the organization.

Whistleblowing can be viewed as an ethical decision making behaviour that commonly produced positive outcome or consequences from such behaviour (Ahmad, 2011). Whistleblowing is also known as public disclosure is as an action taken for the sake of public interest through the disclosure on any organization malpractice or wrongdoing that occurred in an organization with the objective of rectifying it. The example of wrongdoing or illegal and unethical practices were possible fraud, waste, corruption, discriminatory practices or other risks that have a negative impact to the customer, environment, organization or the public (CPA, 2011).

PROBLEM STATEMENT

Whistleblowing can be considered as the best choice for external auditors to inform the public about any corporate wrongdoing. Ethically, whistleblowing cause serious damage to the client's organizations, and it might tarnish the audit firm's reputation to gain their client's trust. Hence, this situation will put external auditors under a dilemma, whether to act on behalf of the company or serve the public interest (Label & Miethe, 2011). Moreover, external auditors provide services for their clients but at the same time, they have a responsibility to carry out their duties according to the established accounting rules and regulations, such as the Malaysia Financial Reporting Standard (MFRS), Company Act 1965, Securities Act and others. However, in relation to certain issues that can be considered wrongs and violate the rules and regulations or harm the organization as well as the public, external auditors have to make their own discretion based on prescribed standards and apply their professional judgement to solve the problem. Whistle-blowing can be one of the-issues commonly faced by external auditors in upholding justice.

The focus of this study is to examine individual and organizational factors in relation to the external auditor's whistle-blowing practice in Malaysia's Government Linked Companies (GLCs). Whistleblowing as the context in this study will cover both internal and external whistleblowing practices. In addition, to report any corporate wrongdoings, either internally or externally is not an easy task, since the external auditors' have to make a better decision after taking into account the benefit and consequences or risks of their action. This paper will provide a better explanation and view on what will be the relevant factor to have power and influence over the external auditor's whistleblowing practice. The individual and organizational factors had been identified as predictive variable that should be able to help an organization to understand the relevant factors to improve the level of whistleblowing practice among external auditors. This study aims to examine the individual factors and the organizational factor on whistleblowing practices among GLCs' external auditors.

LITERATURE REVIEW

Whistleblowing and External Auditors

According to Khan (2009), there are many definitions for whistleblowing, and until today, there is no common definition for whistleblowing. The concept of whistleblowing keeps changing over time. This is due to various researches opinion on whistleblowing issues comprising the definition of whistleblower, the activity reported and also the channel of reporting (Greenwood, 2011).

“Whistleblowing is the disclosure by organization members (former or current) of illegal, immoral or illegitimate practices under the control of their employers, to persons or organizations that may be able to effect action”

(Miceli & Near, 1985)

Usually, whistleblowing is similar to disclosure made by members of organizations on any illegal or wrongdoing that occurs in the organization. Whistleblowing can be viewed as an ethical decision making behaviour that commonly produces a positive outcome or consequences from such behaviour (Ahmad, 2011). In line with the conceptualization of whistleblowing from previous literature, this study defines whistleblowing as public disclosure or an action-taken for the sake of public interest through making a disclosure about any organization malpractice or wrongdoing that occurred in that organization, with the objective of rectifying it. These wrongdoings involve illegal or unethical practices such as possible fraud, waste, corruption, discriminatory practices or other risk that can give negative impact to the customer, environment, organization or the public (CPA, 2011).

“Whistle-blowing is when an employee, contractor or supplier goes outside the normal management channels to report suspected wrongdoing at work, example, speaking out in a confidential manner. This can be done via internal processes set up by the organisation (internal whistle-blowing) or to an external body such as a regulator (external whistle-blowing)”

(IIA, 2013)

Whistle-blowing can also be considered as a complex process because it involves personal, as well as organizational factors (Elias, 2008). CPA defined whistle-blowing as primarily to voluntary disclosure. As a result, the disclosure undertaken by auditors is due to legal requirement or professional duty. For example, case in relation to audit engagement. Moreover, for the non-voluntary whistleblowing, it is focused on having the duty to disclose, but the result is still same with the voluntary whistleblowing (CPA, 2011).

“Whistleblowing should be considered an essential safety valve within the internal control environment. In most situations the traditional internal reporting lines will be sufficient to prevent malpractice. However where fraud, corruption or other malpractice has served to undermine the company’s internal controls and lines of reporting, whistleblowing can be an effective safeguard”

(ICAEW, 2004)

According to Susmanschi (2012), a whistleblower is identified as a person who informs the public or people from the organization that he/she works for about any illegal or corporate wrongdoing activities that is occurring in that organization whether it is a public or private organization. Furthermore, the “*whistle-blowing phenomenon*” can arise when there are any suspected wrongdoings and the person takes a step to disclose it to the public to intentionally protect the public’s interest. Greenwood (2011) had identified the characteristic of a whistleblower as an employee of an organization that he or she intends to blow the whistle on and it does not matter whether the employee is a current or a former employee. The employee must also report any corporate wrongdoing that occurs in their organization.

In additions, according to Susmanschi (2012), there are two types of whistle-blowing and this includes internal and external whistle-blowing. Internal whistle blowing occurs when members of the organization report or disclose any misconduct to the people within the organization, commonly there are established channel for members to report any misconduct, such as reporting to the top management, the board as well as shareholders. Meanwhile, external whistle blowing occur when member of the organization report or disclosed any corporate wrongdoing to the

people out of the organization such as reporting to the public, media, law enforcement, other local, state or federal agencies. Furthermore, external whistleblowing is usually promoted or encouraged by monetary reward. Normally, employers prefer their employees to blow the whistle internally rather than externally. This is because, organization can be informed about the wrongdoing and have the opportunity to take further action (CPA, 2011).

According to Khan (2009), in Malaysia, there are provisions regarding whistle-blowers in the regulation which explains on the duty or obligation that is required for the auditor to report to the registrar if there are any breaches of company law. For example, in the Malaysian Companies Act 1965, subsection 174(8), imposes duty on auditors to report breaches of company law to the relevant authorities. Apart from the Companies act, the Capital Market and Services Act 2007 offered protection from victimisation to auditors and specific employees of listed companies who report breaches of securities laws and stock exchange rules to relevant authorities. Other than that, the Whistleblower Protection Act 2010 offers confidentiality, protection and immunity from civil and criminal liability to whistleblowers who report wrongdoing to external authority only (CPA, 2011). According to Seifert (2006), to ensure the most effective whistleblowing mechanisms, external auditors play an important role in verifying the whistleblowing mechanisms since it is usually utilized by other employees such as management accountants and being monitored by internal auditors.

Government Linked Companies (GLCs)

GLCs in Malaysia are defined as companies with a direct control under the Malaysian Government (Putrajaya Committee on GLC High Performance Transformation, 2006). In GLCs, government-appointed board of directors, members and senior management make major decisions regarding major direction for the respective companies such as strategy, contract awards, restructuring and financing, mergers and acquisitions and divestment. The major decision for GLCs can be done either directly or through GLICs. The GLICs controlled GLCs by allocation of funds for their investment. There were seven GLICs, namely, Employees Provident Fund, Khazanah National Bhd, Kumpulan Wang Amanah Pencen, Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji, Menteri Kewangan Diperbadankan and Permodalan Nasional Bhd. The investment arm of the

government is to allocate funds to GLCs, Ministry of Finance and GLICs. In Malaysia, GLCs can be identified as main providers of utilities, public transport, water and sewerage, postal services, airlines, airports, banking and financial services. Moreover, there are some GLCs that participate in the automotive, plantation, and construction industries (Norhayati & Siti Nabiha, 2009).

In 2004, the Malaysian Government had initiated programmes to transform GLCs into high-performing entities. The objective of transformation of GLCs through better governance practices was to achieve developed country status for the country by 2020 (Putrajaya Committee on GLC High Performance Transformation, 2010). The transformation of GLCs was identified as an integral part for national priority as well as Malaysia's aspirations of achieving developed country status. The programme had framed policy guidelines and ten initiatives in their publication of Green Book, Orange Book, Blue Book and Yellow Book. Each book represents different areas such as effectiveness of board structure, building leadership and adopting best practices in management status (Putrajaya Committee on GLC High Performance Transformation, 2006).

GLCs can be considered as one of the main players in shaping the economic structure in Malaysia since it has represented a significant role in the corporate sector (Bhatt, 2016). Apart from private companies, Malaysia's economy is also driven by GLCs, otherwise known as state-owned companies. The formation of GLCs was seen as a vehicle to galvanise the country's economic activities as well as moving towards achieving the NEP objectives (Hamid, 2011). Based in 2006, GLCs enhance their contribution to the local economy not only by cultivating a high performance culture, but also in ensuring that they are contributing towards national development (Putrajaya Committee on GLC High Performance Transformation, 2006). Malaysian GLCs are hybrid organizations where they practice profit oriented but at the same time, fulfilling their social responsibilities (Norhayati & Siti Nabiha, 2009). According to Bhatt (2016), in Malaysia, GLCs companies accounted for 41 per cent of the market capitalization of Bursa Malaysia. These companies form the backbone of the economic structure of the Malaysian economy, since they represent 4 per cent of total listed companies with market capitalization of 49 per cent of the Kuala Lumpur Composite Index.

Furthermore, in 2015, GLCs had shown their good corporate performance with a strong ten-year track record in delivering financial performance, catalysing nation-building as well as benefitting all stakeholders. This can be seen through growing market capitalisation which increases almost three times to RM386 billion from 14 May 2004 to 28 July 2015 (Putrajaya Committee on GLC High Performance Transformation, 2015). The facts were supported by Bhatt (2016) where the researcher believed that the main strategy of government economic reforms was corporatization of GLCs without privatization by listing them on stock markets.

Financial performance of the GLCs is always a major concern to the government. Lately, many financial issues relating to GLCs such as the IMDB case which still remains unanswered. According to Norhayati and Siti Nabiha (2009), the argument was that GLCs have dual objectives which were to maximise shareholders' return while meeting their social obligations. This duality may affect the effectiveness of the decision making process. In absence of appropriate incentives or either sufficient monitoring, managers have a high tendency to exercise their own discretion to the detriment of shareholders. Thus, definitely managers would prefer more self-interest strategies, which contradicted with the interest of shareholders to maximize value (Razak, Ahmad, & Joher, 2011). Another problem that commonly occurs in GLCs is the rising issue of the earnings management in the companies. According to the study conducted by Mohamad, Rashid, and Shawtari (2012), after the government launched board effectiveness through its green book, it revealed there was an increase of earnings management activities in the post-transformation policy.

Over spending among government employees is one of the issues arising from GLCs. The majority of the allegations were from government employees who had alleged over spending on the agencies they were working for (Rocha & Kleiner, 2005). Generally, GLCs fund is provided by the government through their investment which involved the Ministry of Finance and GLICs (Norhayati & Siti Nabiha, 2009). In this case, the government could save billions of public money if the over spending was stopped, hence, it is wise for government to revise the whistle-blowing laws and agencies responsible for investigating the claims (Rocha & Kleiner, 2005).

Thus, it is urgent to have an independent party to monitor and prevent any unethical conduct in the company. This monitoring process can be done through auditing. Auditing processes are the best mechanism to detect and prevent fraud and corporate wrongdoing as well as earnings management in GLCs. One effective alternative is through whistleblowing policy respective of the GLCs. External auditors are seen as professional independent parties to be included as the best mechanisms to practice whistleblowing. The established whistleblowing rules and regulations have allowed the auditors to provide full whistleblowing protection for the whistleblowers. Label and Miethe (2011), argued among various professionals, accountants and auditors are considered as having strategic and unique job positions to observe fraud and corporate misconduct. In addition, Othman et al. (2015) found that in public sector, whistleblowing policy, forensic accountant and fraud hotlines are less commonly used. Therefore, whistleblowing practice is a critical aspect that potentially minimises the occurrence of fraud and unethical conduct in Government Linked Company (GLCs).

The Influence of Job Satisfaction on External Auditor Whistleblowing Practice

Job satisfaction is defined as the extent the person derives pleasure from a job and it is not limited to salary, it can comprise from the way employees are treated or being valued by management, the acceptance of their input or contribution from management (Hasin & Omar, 2007). According to the study conducted by Elias (2008), it argued that having *good job performance, holding a supervisory position, highly educated and have higher moral reasoning compared to another when dealing with fraud* tend to be the main characteristics of whistle-blowers. Professional code of ethics is a factor on whistleblowing intention among auditors. In the context of audit setting, fulfilment of professional code of ethics or establishing rules and regulations is part of an auditor's job satisfaction. The code of professional conduct commonly contains a set of principle governing integrity, objectivity, confidentiality and competency, as well as rules of conduct with respect to these principles (O'Leary & Stewart, 2007). Auditors may consider the level of seriousness of wrongdoing whether it is critical or not before they make a decision, or whether a wrongful act has occurred and whether they need to report it.

Job satisfaction has a positive association with whistleblowing practices since job satisfaction affects the whistle-blowers credibility to assess the job, whether it is reasonable and satisfying (Near & Miceli, 1996). Mesmer-Magnus and Viswesvaran (2005), found a small positive association between job satisfaction and actual whistleblowing practice. The study showed job satisfaction has a correlation of whistleblowing intention and action in organization. They argued that, employees' who were more satisfied might feel more comfortable to express dissent as compared to less satisfied employees. Cassematis and Wortley (2013), argued that, lower levels of job satisfaction tend to discourage whistle-blowers to report any wrongdoing. They tend to respond to relatively minor wrongdoing as compared to serious wrongdoing. Alternatively, high levels of job satisfaction have positive relationship towards whistleblowing practice since they are more extreme than a 'reasonable' employee. Similarly, Miceli and Near (2005), suggested that, there is positive association between job satisfaction and whistleblowing practice since job satisfaction fluctuate in response to a specific job situation. As compared to non-reporting observers, whistle-blowers may feel less job satisfaction when they cannot respond to specific job situations.

Many of the researches suggested job satisfaction have positive relationship to whistleblowing, Sims and Keenan (1999), were unable to finds further evidence to supports the relationship between job satisfaction and external whistleblowing. There is negative relationship between job satisfaction and denial of employee voice which means even the employee voice is not heard by top management, the level of job satisfaction is not affected. This showed that there is negative association between job satisfaction and whistle blowing practice (Vakola & Bouradas, 2005). According to Gene A. Brewer (1998), based on their study on whistleblowing in the federal agencies, revealed federal whistle-blowers who have high level of job commitment and satisfaction, also known as high performance, are more likely to blow the whistle as part of their concern with public interest, even if their act will put themselves at risk. Kaplan and Whitecotton (2001), found a positive relationship between professional commitment and auditors' whistleblowing intentions, they conclude that accountants with higher professional commitment were more likely to blow the whistle. The employee who was less committed to the organization is less likely to blow the whistle, since based on their position characteristic, lack of knowledge

about whistleblowing channel and belief the wrongdoing is less serious had discouraged them to engage in whistleblowing practice. This group of people are also known as inactive observers (Near & Miceli, 1985).

The Influence of Individual Moral Reasoning on External Auditor Whistleblowing Practice

To determine the reasons for motivating auditor whistleblowing intention, Arnold Sr and Ponemon (1991) came out with several reasons why auditors are likely to blow the whistle, where motivation is associated with an individual's level of moral reasoning that includes fear of losing their jobs, responsibility to the public, moral belief and value, personal welfare and safety, plus professional responsibility. Near and Miceli (1985), argued that individuals with lower levels of moral reasoning may view certain situations as less report warranting when compared to those with high level of moral reasoning. Whistleblowing intention may be motivated by management retaliation relating to penalty, where penalty or consequences here focuses more on threats to the auditor such as termination of job and relationship or affiliation with other employees (Greenwood, 2011). The research done by Hwang et al. (2008) in Chinese society, provided that whistle-blowing intention may be discouraged by personal relationship, fear of retaliation and fear of media coverage. In addition, auditors have higher likelihood of reporting as compared to management accountant which is only reporting in one circumstance that is known as interactional fair whistleblowing. This is because; management accountants are influenced by the fear of retribution as compared to auditors are more protected by their jobs (Seifert, 2006).

According to the study conducted by Soni et al. (2015a), there are various motivation for auditors to blow the whistle such as good performance, morality, seniority, length of service and age, gender, seriousness of the wrongdoing and legal protection. Larsson (2005), found that auditors' self-identity were more influenced on their ethical judgement rather than their client's relations. Auditors are responsive towards utilization of the duty which is complemented to control the crime. Hwang et al. (2008), found in Chinese environment, a general sense of morality became the most important factor to encourage whistleblowing practices, apart from abiding organization policy. Moreover, having professional qualification as Certified Public Accountant (CPA) this qualification improved auditors' morality to

engage in whistleblowing practice. According to a survey by Parisi (2009), the public mostly believed Certified Public Accountant (CPA) had a moral duty to blow the whistle such as duty to ensure accuracy, detecting financial fraud and assure client honesty. On the other hand, Miceli et al. (1991), found that auditors were less likely interested to report any wrongdoing when they did not feel compelled morally or by role of prescription to do so.

Auditors were more likely to blow the whistle when they obtain enough evidence of the wrongdoing, especially a serious wrongdoing which have a direct effect on them (Miceli & Near, 1985). Regarding self-perception, auditors may consider the extent that he or she may be credible to others. The responsibility awareness can be one of the factors influencing auditor's perceptions of the organization. Thus, auditors may believe that his or her organization's performance and culture will be damaged if the wrongdoing continues (Miceli et al., 1991). However, if auditors perceive that the wrongdoing can harm the organization in some way and at the same time they are highly committed as well as loyal to the organization, they will be discouraged to blow the whistle (Miceli et al., 1991). In Asian society, whistleblowing is considered as disloyalty where the "loyalty" is a particularly strong trait. Thus, whistle-blowers might face a dilemma whether to be-loyal to the management and colleagues or act on the public interest (Abu Bakar et al., 2010). Chiu (2003), found that, in a Chinese environment, all traditional values, loyalty, respect of authority, harmony, social reciprocity and face saving may explain the reasons why individual Chinese are reluctant to blow the whistle, as they anticipate negative reactions from their peers. Furthermore, they also fear of being accused of disloyalty to the company, of not being grateful to the employer, of not being a team player, and of not being considerate of other member's feelings.

The Influence of Audit Firm Organization Structure on External Auditor Whistleblowing Practice

Any organization may be experiencing whistleblowing issues, regardless whether they are large or small, public or private and young or old (Miceli & Near, 1985). Whistle-blowing is also relevant in a professional audit firm setting (Soni et al., 2015a). Audit firm organizational structures may influence external auditor whistleblowing practice. Audit firm organizational structure comprises of audit firm formal reporting structure that consists of internal and external reporting structure, whistleblowing

policy and training (Brennan & Kelly, 2007). Organizational factors focus more on how organization is reacting towards whistle-blowing issues. This issue can be through the level of a variety of questionable activities and whether the organization is more tolerant to the wrongdoer. If there is high level of questionable activities, auditors may believe that organizations are more dependent upon tolerating-wrongdoing. For example, an organization may send additional cues, similar to threatened retaliation in order to warn members that they should not question their act (Miceli & Near, 1985).

Brennan and Kelly (2007) argued that, many auditing practices have formal or hierarchal structure, especially the larger firms, which are considered important to improve internal reporting structure to create confidence among trainee auditors to report unethical conduct as well as suspected or actual corporate wrongdoing. According to Teen (2007) culture can be another factor to influence auditor whistleblowing intention, since culture promotes good whistle-blowing policy in organizations, especially organizations that are very hierarchical with a top down structure. To stimulate the likelihood of whistleblowing, Zakaria (2015), argued that good and ethical organization culture is a best mechanisms to realize. Moreover, culture can be categorized into two types which are corporate culture and societal culture that definitely allow employees to express their opinion, seeking feedback as well as give suggestions for the top management in organization (Hwang et al., 2008). The organizational climate also influences whistleblowing practice. The organizational climate for whistleblowing is separated into two dimensions, which are dependence or tolerance on wrongdoing, including the level of members of organization sensed retaliation and to what extent organizations encourage whistleblowing practice, either formal or informal communication (Miceli & Near, 1985). Alleyne, Hudaib, and Pike (2013) argued that decision to blow the whistle are influenced by the organization culture than responsibility and social influence, characteristic of the wrongdoing and personal characteristics of the observer. Kaplan and Whitecotton (2001), also stated that organization culture as well as audit firm norms might have positive relationship towards auditor whistleblowing practice. The research conducted by O'Leary and Stewart (2007) found corporate governance mechanisms are likely to have less impact or influence the auditor's decision making regarding managing workplace dilemma. This mechanism did not directly impact the auditor's ability to act ethically.

A well-developed whistleblowing policy in the workplace will encourage reporting of serious unethical act, improve trust in the organization, as well as discourage frivolous complaints (Teen, 2007). Lewis (2006), stated that, whistleblowing policy can deter malpractice and avoid management crisis which can contribute to efficient organization operation, providing accountability to maintain organization reputation, reduce external disclosure and low implementation costs. In addition, whistleblowing policy has to properly develop to improve the level of responsiveness to the complaint. According to Miceli and Near (1985), organization leaders may reinforce silence towards the complaint and the level of responsiveness of complaint is determined whether the complaint can be easily manipulated or not. It means, if the compliant is easily manipulated, it will discourage whistleblowing intention. Organization has to respond and take an action quickly to stop wrongdoing when it is reported. Furthermore, organizations should provide support to establish unbiased whistleblowing procedure and also to treat whistle-blowers with respect (Seifert, 2006). Kaplan and Whitecotton (2001), also argued that the level of organizational support has positive relationship towards acceptability of whistleblowing among auditors. This is because auditors might perceive high personal costs of reporting will be eliminated when they feel the organization will support them.

Conceptual Framework

Figure 1 shows the framework that generally covers the whole picture of the study. As shown in the figure, this study examines the relationship between independent variable that represented by individual factors (job satisfaction and level of moral reasoning) and organizational factor (audit firm organization structure). Meanwhile, a dependent variable was represented by the external auditor's decision to blow the whistle as a proxy of whistleblowing practice. Furthermore, Figure 3.1 indicates that the independent variables have a direct relationship with the dependent variable, which is external auditor whistleblowing decision.

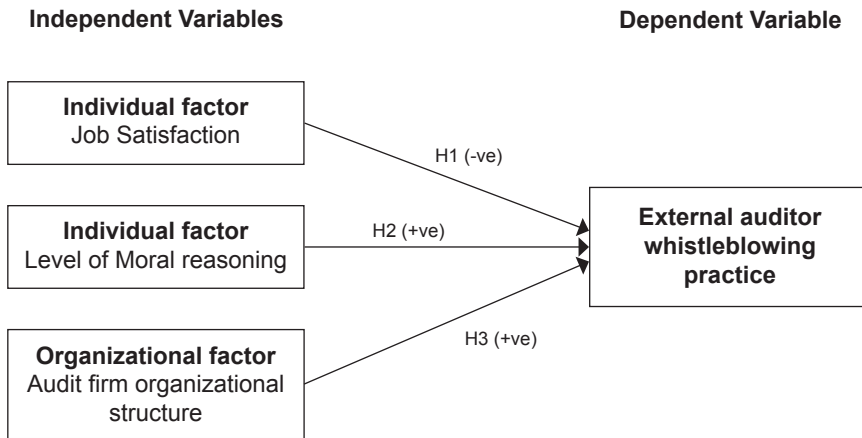


Figure 1: Conceptual Framework

METHODOLOGY

Research Methodology

This study is based on a cross-sectional study and targets external auditors who have been auditing GLCs listed in Bursa Malaysia. The target of GLCs covers a wide range of economic activities such as transportation, banking and financial, plantation, telecommunication, infrastructure and others. Since the type of study is descriptive & correlate, it requires the participants to describe their actual organization ethical climate regarding whistleblowing intention. This study will use primary data to gain the reliable and relevant information regarding the issues. GLC's external auditors are chosen as a sample as GLCs receive funds from the government where the source comes from taxpayers' money (Norhayati & Siti Nabiha, 2009). Hence, it is important to know whether external auditors who had been appointed by the government are willing to blow the whistle, especially relating to fraud and mismanagement (Othman et al., 2015). Moreover, it also able to identifies the level of transparency and accountability of GLCs in utilizing government money.

The sample of listed audit firms auditing GLCs in Bursa Malaysia was taken from Suzardi (2014). It consisted of 43 Government Linked Companies and it represented the entire population. Based on the 43 GLCs

Listed in Bursa Malaysia 2014, there are seven audit firms which had been identified to audit the respective GLCs namely Ernst & Young (EY), KPMG, Price Water House Coopers (PWC), MAZARS, Hanafiah Raslan & Mohamad, Al jeffri Dean and Wong Weng Foo & Co. The list of GLCs with their respective auditors is attached in the appendices. However, in this study only three out of seven audit firms had been chosen since it represents the most frequent auditing of the GLCs. The three audit firms' consists of Ernst and Young, KPMG and Price Water House Coopers. These three audit firms represent the top auditing companies in the industry and are also known as the Big Four. According to Sr, Dorminey, Neidermeyer, and Neidermeyer (2013), it is often easier to choose the sample from Big Four firms since they are larger in size thus the pool of subject is available. Based on the three chosen audit firm, the total number of respondents that will be involved in this study are 184 and it will represent the entire total sample size. In addition, in actual study, the respondents are selected randomly regardless their position. The softcopy and hardcopy of the survey were sent to each respondent.

The pilot study has been employed in order to determine the respondents understanding regarding the questionnaire. Based on the pilot study conducted on 20 external auditors, it showed the majority of the respondents clearly understand the questionnaire and answered it well. This result provided a clear path to continue distributing questionnaires to target respondents.

This study aims to identify the relevant factors that support the relationship between individual and organizational factor towards external auditor whistleblowing decision. The individual factor that will be tested in this study comprises of job satisfaction and level of moral reasoning. Later, for the organizational factor, audit firm organization structure will be tested as factors influencing external auditors' whistleblowing decision. For testing the above hypotheses, a questionnaire was designed in which it has been adopted from several previous study that were conducted by Lavena (2013a), Hwang (2013), Brennan and Kelly (2007) and Abrie (2007). The survey questionnaire in this study consists of seven-point Likert scale to measure the relationship between variable and question. According to Hwang (2013), seven-point Likert scale was the most suitable scale to determine the external auditors' willingness to blow the whistle. The questionnaires are targeted to all levels of auditors, regardless of their position or experience.

Hypothesis Development

Job satisfaction and whistleblowing practice

The first independent variable that was examined in the study is individual factor which is solely focused on individual job satisfaction. Based on the previous study, there are mixed results regarding the relationship between job satisfaction and external auditor whistleblowing practice. Most of literatures agree that job satisfaction have negative association towards external auditor whistleblowing practice. This argument was supported by Shawver and Clements (2008), which aimed to determine the levels of job satisfaction among accountants in the Institute of Management Accountant. Based on the results, accounting professionals that have high job satisfaction are less influenced to engage in whistleblowing practice. There are limited evidence that support job satisfaction influence or able to increase likelihood of whistleblowing among professional accountants towards corporate wrongdoings. The association of level of job performance and organizational commitment with the job satisfaction is seen to be less relevant. Moreover, Sims and Keenan (1999), were unable to finds further evidence to support the relationship between job satisfaction and external whistleblowing.

According to Vakola and Bouradas (2005), there is negative relationship between job satisfaction and denial of employee voice which means even the employee voice is not heard by top management, the level of job satisfaction is not affected. In additions, Lavena (2013b), the study was conducted in federal government agency. The result shows a negative association between job satisfaction and likelihood of whistleblowing among federal government employees. The result is more or less relevant to be applied to external auditors' who are auditing government agencies since the environment of the study is almost similar. Hence, based on collected of findings on the relationship between job satisfaction and external auditor whistleblowing practice, the first hypothesis is drawn:

H₁: There is a significant negative relationship between job satisfaction and external auditors' whistleblowing practice.

Individual moral reasoning and whistleblowing practice

The second independent variable to be examined in the study is individual moral reasoning which, falls under individual factor. Based on the previous study, there are mixed results regarding the relationship between individual moral reasoning and external auditor whistleblowing practice. Most of the literatures agree that individual moral reasoning have positive association towards external auditor whistleblowing practice. Arnold Sr and Ponemon (1991), argued that auditors are likely to blow the whistle since they are mostly influenced by individual level of moral reasoning such as fear of losing their job, responsibility to the public, moral belief and value, personal welfare and safety, and professional responsibility. Miceli and Near (1985), found there is positive relationship between levels of moral reasoning towards reporting intention.

Greenwood (2011), argued that management retaliation relating to penalty will influence auditors whistleblowing intention. This is because it is a threat for auditors—especially regarding termination of jobs and relationship or affiliation with other employees. Hwang et al. (2008), found whistleblowing intention may be discouraged by personal relationship, fear of retaliation and fear of media coverage. Moreover, self-perception also has a positive association with whistleblowing practice, auditors may consider the extent that he or she may be credible to others. This means that auditors may believe that his or her organization’s performance and culture will be damaged if the wrongdoing continues (Miceli et al., 1991). Based on collection of finding, second hypothesis is drawn:

H₂: There is a significant positive relationship between individual moral reasoning and external auditors’ whistleblowing practice.

Audit firm organization structure and whistleblowing practice

The last independent variable examined in the study is audit firm organizational structures which fall under organizational factor. Based on the previous study, there are mixed results regarding the relationship between audit firm organizational structures and external auditor whistleblowing practice. Most of the literatures agree that audit firm organizational structures have positive association towards external auditor whistleblowing practice. Brennan and Kelly (2007), examined the trainee auditors’ confidence in the internal and external reporting structures in their firms. The results

show there is positive association between audit firms formal structures for reporting wrongdoing with auditors whistleblowing intention since auditors have greater confidence when their career prospects is not negatively affected. Moreover, legal protections also increase the likelihood of auditors' whistleblowing intention.

Teen (2007), argued that organization culture has positive relationship towards auditors whistleblowing intention. Good culture will promote good whistleblowing policy in organizations, especially in hierarchical and top down structures. Alleyne et al. (2013), also argued that the decision to blow the whistle is mostly influenced by organization culture than responsibility and social influence, characteristic of the wrongdoing and personal characteristic of the observer.

Near and Miceli (1985), suggested properly drawn whistleblowing in the organization will increase the likelihood of whistleblowing practice. Well-developed whistleblowing policy in the workplace would encourage reporting of serious unethical act, improve trust in the organization, as well as discourage frivolous complaints. This means the organization should provide support in order to establish unbiased whistleblowing procedure and also treat whistle-blowers with respect (Seifert, 2006). Marcia. P Miceli (1994), found that training has positive relationship towards whistleblowing intention. The training must be concerned with reporting any suspected or actual wrongdoing. According to Grewal (2006) who suggested that a part of better education among employees, sufficient training is likely able to encourage whistleblowing. Thus, training is expected to influence the external auditors' whistleblowing practice. Hence, in order to determine the relationship between audit firm organizational structures and external auditor whistleblowing practice, the third hypothesis is drawn:

H₃: There is a significant positive relationship between audit firm organization structure and external auditors' whistleblowing practice.

RESULTS

Descriptive Statistic Analysis

The external auditors' whistleblowing practice scale was developed for this study. The scale consists of 7 Likert format question with responses for each item ranging from one to seven. A score of one indicate that it is highly improbable that the respondent would blow the whistle, while a score of seven indicate that it is highly probable that the respondent would blow the whistle. Descriptive statistic is employed to determine minimum and maximum score, as well as mean value, standard deviation and variance for each variable.

Based on the table 1, the highest mean score for job satisfaction is registered at 5.46 (sd = 1.050) which is represented by "The work I do is meaningful to me". This indicated that respondents slightly agreed than disagree that their job is meaningful for them. Meanwhile, the lowest mean score is 5.18 (sd =1.183) which is represented by "I would recommend my company as a place to work". This indicated that respondents slightly agreed than disagree that they would recommend the company for others to work in.

Table 1: Job Satisfaction

	Mean	Std. Deviation
I am satisfied with the task given to me	5.23	1.027
All job done by me were appreciated by upper level management	5.22	1.066
I felt motivated working in this organization	5.24	1.056
I would recommend my company as a place to work	5.13	1.183
Co-worker always support me in doing my job	5.41	1.041
The work I do is meaningful to me	5.46	1.050
In general, I am satisfied with my job	5.45	1.023

N = 184

Table 2 shows descriptive analysis for second variable tested in the study, which is individual moral reasoning. The highest mean score for this variable is 5.49 (sd = 1.155) which was represented by "I would be a whistleblower because of social justice and professional ethics". This indicated

that respondent slightly agreed that social justice and professional ethics are the main reasons why they blow the whistle. Meanwhile, the lowest mean score for individual moral reasoning is 4.23 (sd = 1.903) which was represented by “I would be a whistle-blower to receive a monetary reward or promotion”.

Table 2: Individual Moral Reasoning

	Mean	Std. Deviation
I would be a whistle-blower because of social justice and professional ethics	5.49	1.155
I would be a whistle-blower because I follow my general sense of morality	5.48	1.173
I would be a whistle-blower to receive a monetary reward or promotion	4.23	1.903
I would be a whistle-blower to abide by the policies and/or law/regulation on whistle-blowing	5.30	1.212
I would be a whistle-blower because of the encouragement of my peers	4.75	1.446
I would be a whistle-blower because of (reasonable) job protection as provided by laws and policies	5.10	1.389

N = 184

Table 3 shows descriptive analysis for last independent variable tested in the study, which is audit firms organizational structure. There are two highest mean score for this variable which is 5.43 (sd=1.148) which was represented by “I am aware of the whistleblowing legislation applying to the auditors, and protecting employees” and secondly is 5.43(sd=1.069) which was presented by “I am aware of the statutory duties for auditors to whistle blow”. This indicated that majority of respondents tend to whistleblow due to law and professional duties. Meanwhile, the lowest mean score is 5.09 (sd= 1.234) which was represented by “I am confident in the external reporting structure within the firm influence by the training that I receive”.

Table 3: Audit Firm Organizational Factor

	Mean	Std. Deviation
My workplace have adequate formal reporting structure in place	5.40	1.046
My workplace have a whistleblowing policy in place	5.18	1.414
I have confidence in the internal reporting structure within the firm	5.18	1.278
I have confidence in the external reporting structure within the firm	5.23	1.151
I believe internal reporting structure will not suffer my career prospects	5.20	1.301
I believe external reporting structure will not suffer my career prospects	5.18	1.230
My workplace provide sufficient training regarding whistleblowing	4.84	1.551
I am confident in the internal reporting structure within the firm influence by the training that I receive	5.12	1.268
I am confident in the external reporting structure within the firm influence by the training that I receive	5.09	1.234
I am aware of the whistleblowing legislation applying to the auditors, and protecting employees	5.43	1.148
I am aware of the statutory duties for auditors to whistleblow	5.43	1.069
I am aware of legislation that able to protect whistleblowing auditors	5.42	1.185
If I were forced to “blow the whistle”, I am confident that current employment legislation would protect me	5.18	1.308
If I discovered serious wrongdoing I would pursue the matter until it was fully corrected regardless of whether specific legislative protection existed or not	5.29	1.236

N=184

Table 4 shows descriptive analysis for dependent variable tested in the study, which is whistleblowing practice. The highest mean score for this variable which is 5.59 (sd =1.057) was represented by “I would report crime and unethical behaviour because my audit firm enforce the Professional Ethics, Conduct and Practice”. This indicated that a majority of respondents tend to report wrongdoing because they follow Professional Ethic, Conduct

and Practice that had been enforced in their organization. Meanwhile, the lowest mean score is 4.93 (sd = 1.261) which was represented by “I would report crime and unethical behaviour because I believe my clients will not sue me and my organization”.

Table 4: Whistleblowing Practice

	Mean	Std. Deviation
...top manager of this audit firm regularly show that they care about ethic, policy and procedure	5.47	1.159
...my audit firm enforce the Professional Ethics, Conduct and Practice	5.59	1.057
...I believe it is not an act of disloyalty towards my organization	5.46	1.120
...I do not fear retaliation by management	5.20	1.196
...I believe my clients will take action to correct the problem or punish the wrongdoer	5.21	1.150
...I believe my clients will not sue me and my organization	4.93	1.261
...I believe report on crime and unethical conduct of my client will not tarnish my organization reputation	4.94	1.298
...I believe it is my duty and responsibility to report the crime and unethical conduct of my client	5.43	1.059

N= 184

The Regression Model

Multiple regression statistical technique was used to test the study hypotheses as well as investigate the relative influence of the study variable on external auditors’ whistleblowing practice. Variance inflation factor (VIF) was used in order to determine whether the findings could confirm whether multicollinearity problems exist or not. Normally, multicollinearity problem exist where the VIF values is above from 10. Based on the findings, the VIF value for job satisfaction is 1.536, for individual moral reasoning is 1.773 and lastly, audit firms organizational structure is 1.885. Overall VIF values for each variable is lower than 10. Apart from VIF, Tolerance is also employed where if the tolerance value is less than 0.10 it indicates the possibility of multicollinearity. Based on the findings, the tolerance value for

each variable is exceeding 0.10. Thus, multicollinearity does not exist in this study. The p-value tells the gradient of the regression line and the strength of the relationship between a predictor and the outcome variable. If it is significant which is (*Sig.* < 0.05), then the predictor variable significantly predicts the outcome variable. Hence, based on table 5, the finding in this study shows the p-value of each variable is 0.268 which is represented by job satisfaction, individual moral reasoning is at 0.027 and lastly, audit firm organizational structure which is 0.000. Firstly, for job satisfaction, it indicates there is no significant relationship towards whistleblowing practice. Secondly, there is significant relationship between individual moral reasoning and whistleblowing practice. Lastly, audit firm organizational structure also has significant relationship towards whistleblowing practice.

The first objective of this study is to determine whether job satisfaction has no significant relationship towards external auditor whistleblowing practice. Hence, based on the analysis, the table show there is significant negative relationship between these two variables (coefficient = 0.066, $t = 1.111$, $p = 0.268$). Since the p-value is more than 0.05, thus hypothesis 1 is accepted. This also indicates that job satisfaction which involves personal advancement, position of individual, co-worker support as well as motivation in the organization did not influence external auditor whistleblowing practice.

The second objective of this study is to determine whether individual moral reasoning has a significant relationship towards external auditor whistleblowing practice. Hence, based on the analysis, the table show there is significant positive relationship between these two variables (coefficient = 0.143, $t = 2.237$, $p = 0.027$). Since the p-value is less than 0.05, thus hypothesis 2 is accepted. This indicates that, individual moral reasoning that consists of professional ethics, morality, reward and promotion; law and regulation as well as responsibility to public have significant positive relationship towards external auditor whistleblowing practice.

The last objective of this study is to determine whether audit firm organizational structure has a significant relationship towards external auditor whistleblowing practice. Hence, based on the analysis, the table show there is significant positive relationship between these two variables (coefficient = 0.627, $t = 9.536$, $p < 0.001$). Since the p-value is less than 0.05,

thus hypothesis 3 is accepted. This indicates that, audit firm organizational structure that involve audit firms formal structure, whistleblowing policy and procedure, as well as whistleblowing training, have significant positive relationship towards external auditor whistleblowing practice.

Table 5: Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	10.673	2.317		4.607	.000		
Job Satisfaction	.078	.070	.066	1.111	.268	.651	1.536
Individual Moral Reasoning	.174	.078	.143	2.237	.027	.564	1.773
Audit Firms Organizational Structure	.319	.034	.627	9.536	.000	.530	1.885

Dependent Variable: Whistleblowing Practice

DISCUSSION AND CONCLUSION

Discussion

The study aims to determine the individual and organizational influence on external auditor whistleblowing practice in Government-Linked Companies in Malaysia. There are three variables indentified in this study namely job satisfaction, individual moral reasoning and audit firms organizational structure. Meanwhile, external auditor whistleblowing practice is a dependent variable. In other words, combinations of individual and organizational factors are employed to examine external auditor reporting on any wrongdoing and unethical act. Whistleblowing is a complex process because it involves individual and organization factors (Elias, 2008). The findings of this study related to whistleblowing practice among junior auditors who have 1 to 3 years of experience and a majority of them are were ages between 20 to 25 years.

The first objective of this study is to examine whether there is relationship between job satisfaction and external auditors' whistleblowing

practice. Therefore, based on the analysis, job satisfaction has negative significant relationship towards external auditor whistleblowing practice. The finding was parallel with the developed hypothesis as well as previous related research. The job satisfaction which is more associated with personal advancement, position of individual, co-worker support as well as motivation in the organization did not influence external auditor whistleblowing practice. This finding is similar with the study conducted by Shawver and Clements (2008), which aimed to determine the levels of job satisfaction among accountants in the Institute of Management Accountant. Based on the results shown, the accounting professional whom has a high job satisfaction are less influenced to engage in whistleblowing practice. There are limited evidence that support job satisfaction influence or able to increase the likelihood of whistleblowing among professional accountants towards corporate wrongdoings. The association of level of job performance and organizational commitment with the job satisfaction seemed less relevant. Moreover, Sims and Keenan (1999), were unable to find further evidence to support the relationship between job satisfaction and external whistleblowing. Other than that, this finding was also supported by Lavena (2013b), on the study conducted in federal government agency. The result shows a negative association between job satisfaction and likelihood of whistleblowing among federal government employees. The result more or less was relevant and could be applied to external auditors who audit government agencies since the environment of the study is almost similar.

However, the finding is contradicted with the study conducted by Near and Miceli (1996) who found that job satisfaction had association with whistleblowing practice since job satisfaction was able to affect the whistleblowers' credibility to assesses the job, whether it is reasonable and satisfying. In addition, Cassematis and Wortley (2013), argued that, lower levels of job satisfaction tend to discourage whistleblowers to report the wrongdoing. They tend to respond to relatively minor wrongdoing as compared to serious wrongdoing. Alternatively, high levels of job satisfaction have positive relationship towards whistleblowing practice since they are more extreme than a 'reasonable' employee.

The second objective of this study is to examine whether there is relationship between individual moral reasoning and external auditors' whistleblowing practice. Based on finding, it is found that, individual moral

reasoning has positive significant relationship towards external auditor whistleblowing practice. The finding is also parallel with the developed hypothesis as well as previous related research. Individual moral reasoning that seemed related to professional ethics, morality, reward and promotion, law and regulation, as well as responsibility to the public have significant positive relationship towards external auditor whistleblowing practice. This finding is in line with the study conducted by Arnold Sr and Ponemon (1991) whom argued that auditors likely to blow the whistle are mostly influenced by individual level of moral reasoning such as fear of losing their job, responsibility to the public, moral belief and value, personal welfare and safety plus professional responsibility. The finding was also supported by Near and Miceli (1985) whom found there is positive relationship between levels of moral reasoning towards reporting intention. Moreover, morality and self-perception also have positive association with whistleblowing practice; auditors may consider the extent that he or she may be credible to others. Auditors might believe that his or her organization's performance and culture will be damaged if the wrongdoing continues (Miceli et al., 1991).

The last objective of this study is to examine whether there is relationship between audit firm organizational structures with the external auditors' whistleblowing practice. Based on results, audit firm organizational structures seem to have positive significant relationship towards external auditor whistleblowing practice. The finding is also parallel with the developed hypothesis as well previous related research. Hence, it is believed that, audit firms organizational structure that consists of audit firm formal structure, whistleblowing policy and procedure as well as whistleblowing training has significant positive relationship towards external auditor whistleblowing practice. The result of this study is also in line with the previous study conducted by Brennan and Kelly (2007) that examined the trainee auditors' confidence in the internal and external reporting structures in their firms. The result showed there is positive association between audit firms formal structures for reporting wrongdoing with auditor whistleblowing intention since auditors have greater confidence that their career prospect will not be affected. Moreover, legal protections also increase the likelihood on auditors' whistleblowing intention. Well developed whistleblowing policy in the workplace could encourage reporting of serious unethical act, improve trust in the organization as well as discourage frivolous complaint. Thus, organizations should provide support to establish

unbiased whistleblowing procedure and also treat whistleblowers with respect (Seifert, 2006).

Conclusion

Whistleblowing is no longer a new issue in Malaysia. The introduction of Whistleblowing Protection Act 2010 in Malaysia provided a clear picture on awareness and benefit that could be derived from such action. In addition, changes in the corporate environment in Malaysia such as increase in financial scandal, mismanagement, corruption and bribery also might be one of the reasons of introduction to this law. However, whistleblowing or also known as public disclosure is common issue for external auditors, since external auditors as independent parties who are responsible to examine company financial statements already have their own established prescribe rules and standards that allow them to report any suspected or actual fraud and corporate wrongdoing in organizations. The truthfulness of financial statement and integrity of management in managing a corporation become major challenges to external auditor nowadays, especially when it involves government related companies. Since there is limited study regarding external auditor whistleblowing practice in Malaysia, the objective of the study is to examine the factors that will affect Malaysia's external auditor towards whistleblowing practice in the Government Linked Companies (GLCs). The focus of the study is to examine job satisfaction, individual moral reasoning and audit firm organizational structure plus their impact on the external auditor whistleblowing practice.

The main findings of this study emerged from previous studies which reveal that individual moral reasoning (individual factor) and audit firm organizational factor (organizational factor) has positive significant relationship towards external auditor whistleblowing practice. Meanwhile, job satisfaction (individual factor) has negative significant relationship towards external auditor whistleblowing practice. Hence, it clearly shows that both factors play an important role as motivation for external auditors to engage in whistleblowing practice.

ACKNOWLEDGEMENTS

The authors would like to express their gratitude to Universiti Teknologi MARA for facilitating this research project.

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