

The Effect of Ethical Foundations on the Reporting of Audit Violations: Evidence from the Private Sector of Auditing

Baharat Skandalis*, Palam Perakash

Department of Management, Faculty of Management, Cyprus International University, Cyprus

Abstract

Reporting violations as an ethical behavior can play an effective role in dealing with illegal behaviors and preventing scandals in organizations, especially audit institutions. Therefore, the purpose of the present study is to investigate the effect of the ethical foundations of auditors working in the private sector on their willingness to report audit violations. This research is applied in terms of purpose and descriptive-correlation type. The statistical population of this research is all auditors working in private sector audit institutions, 160 of whom were selected using random sampling method. The research variables were measured using standard questionnaires and finally, multivariate regression test was used to analyze the collected data. The results of the present study confirm the positive and significant effect of ethical foundations on decisions related to reporting violations in private sector audit institutions. Also, the results showed that as the age and job rank of auditors working in private sector audit institutions increases, their tendency to report audit violations decreases. Since the increase in the willingness of auditors to disclose violations, in order to fulfill the task of crediting, leads to the improvement of audit quality; According to the results obtained in this research, it is suggested to the influential organizations in the legislation to consider the ethical foundations as an effective factor in reporting violations and try to strengthen it. In this way, in such a competitive market, auditors can be led to comply with fair treatment to others even in spite of jeopardizing their own well-being and personal safety.

Key words

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Corresponding author: Skandalis.bh@gmail.com

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Introduction

The credibility of each profession is evaluated by the performance of its members. Therefore, the failure of each member to achieve the professional expectations will bring the destruction of the whole group. Due to the type of services it provides, the auditing profession needs a certain credibility and trust from the society (1). The increase in legal claims against audit institutions

has led to scandals, the most important consequence of which is the negative impact on public trust and evaluation of this profession. On the other hand, following the formation of the society of official accountants of Iran, we have seen such an increase in competition among auditing firms that the managers and partners of the firms spend a lot of time on marketing and advertising, and some even publish their audit reports on They adjust according to the employer's opinion (2).



Disclosure of violations is one of the most important monitoring tools that has an effective role in dealing with illegal behaviors (3) and also preventing financial scandals in organizations, especially audit institutions (1). Therefore, studying the factors affecting the willingness to report violations helps to better understand its dimensions and consequently improve and promote ethical behaviors. Because according to some researchers, the issue of reporting violations is still an important and challenging issue in the field of ethics (4). It can be said that the study on the reporting of violations started in the 1980s by various researchers (5 and 6) and this led to the identification of factors that can be effective in the occurrence of such behaviors (7). On the other hand, the significant number of audit quality reduction cases by audit institutions has prompted researchers to analyze the auditor's intention to report audit violations more deeply (8).

Despite the existence of the code of professional conduct that requires a person to report violations observed in audit organizations to a person or institution that is capable of correcting these violations (9); However, studies indicate a general reluctance on the part of auditors to report violations committed by their colleagues (10). Because auditors are trained for group work and decision-making based on consultation with the group. For this reason, according to some, in the audit team, the ethical judgment of the auditor may be affected by the strength of group cohesion (8). However, considering that reporting violations is defined as a voluntary ethical behavior (11), according to some, the level of ethical orientation of auditors can affect their willingness to report violations (12). Studies indicate that as the level of moral severity increases, the tendency to report unethical behavior also increases (13). In fact, ethics is considered an important and influential factor that plays a significant role in decision-making and the direction of people's behavior (14). Similar to that, many researches showed that ethics is the most important motivation for reporting unethical behavior (15, 16) and a large number of conceptual models presented for reporting violations consider ethics as the main driver of disclosure (17, 18).

In the field of ethics, several groups of researchers sought to achieve a set of ethical foundations that play a decisive role in guiding decision-making (19). Among

the ethical foundations, a classification for ethical decisions with 5 components (harm/care, fairness/reciprocity, in-group/loyalty, power/respect, and purity/sanctity) was introduced. Damage/care refers to the degree of importance of the individual to the suffering of others as well as sympathy and care towards others (20) and the component of fairness/reciprocity refers to concepts such as justice and equality. The in-group principle on loyalty (21) and power/respect also includes valuing hierarchy and respect for those in authority (20). Finally, purity/holiness values things like purity (22). According to some, these 5 dimensions represent the basis of human moral judgment (23).

Studies show that the performance of police officers in reporting violations depends on their psychological characteristics (24). In fact, the moral foundations that show the psychological characteristics of people in observing ethics; It is defined as a set of exploratory or cognitive biases that can affect people's judgment in situations with moral tension (25). Auditors are among the people who may face such moral situations when following their judgment (26). Therefore, researchers have provided moral foundations to describe a wide range of moral judgments, and according to their reasoning, moral judgments mainly originate from emotional processing, and reasoning and deliberation are usually after such processing. arises (27). In other words, moral judgment is primarily made by these five components of moral foundations. Disclosure of violations on the one hand promotes justice and fairness (28), but on the other hand, due to the relationship between the whistleblower and the violator, it can be seen as a disloyal act, and the vast majority of people who report violations They report that they face the negative consequences of their actions such as revenge, dismissal and personal discomfort (29).

Studies have shown that individual differences in valuing the components of moral foundations play a decisive role in decision-making and people's willingness to report violations and unethical behaviors. In such a way that people remember the report of unethical behavior due to fairness evaluation, while others remember their decisions not to report unethical behavior due to the evaluation of the loyalty component. In fact, confirming the component of fairness versus loyalty increases the tendency to report unethical behavior (30).

Other research findings indicate that moral concerns predict decisions related to reporting violations and psychological motivations in the field of disclosure have the ability to highlight the power of moral concerns in these decisions (31). According to the study of these researchers, ethical concerns consistently place disclosure decisions above and beyond other organizational and situational factors, and decisions related to reporting violations are always associated with a trade-off between ethical concerns, whereby concern in the case of treating others fairly, it leads to the reporting of unethical behavior, while loyalty to the organization is related to not reporting unethical behavior (31).

According to these materials and also according to the research of researchers, the level of moral reasoning is considered to be an influencing factor on the intention to disclose violations (32). On the other hand, gender, age and seniority in the organization are among the factors that can affect people's willingness to report violations. In this context, some researchers showed that there is no significant difference between male and female auditors in the field of reporting violations, but with the increase in the job rank of auditors, the tendency to disclose violations also increases (33). This is while other research results in this field indicated that none of the variables of gender, age and seniority in the organization have a significant effect on the intention to report fraud and illegal cases (34).

Considering the importance and necessity of ethics in the auditing profession, the purpose of this study is to investigate the effect of ethical characteristics of auditors working in private institutions on their willingness to report audit violations. Since the effect of moral foundation, as a valid tool for determining various moral dimensions (23), has not been studied in this field; Therefore, this issue can be considered as innovation and knowledge enhancement of the current research.

Research Methodology

The current research is of applied type and is part of descriptive-correlational research. The statistical population consists of auditors working in private sector audit institutions, and Cochran's formula was used to determine the sample size. According to this formula, the number of samples was estimated to be 96 people at

the error level of 10%. In this research, 200 questionnaires were distributed among the respondents, of which 160 were usable and were used in the analysis. The demographic characteristics of the statistical sample members show that 61% of the participants are male and 39% are female. Most of the respondents are people with bachelor's degrees and the least are doctoral students. Also, in terms of job rank, 48% of the respondents are auditors, 31% are senior auditors, 9% are supervisors, 5% are managers, and the rest are partners.

The tools used in this research to collect data are two questionnaires of ethical foundations and reports of violations. The Ethical Foundations Questionnaire was created by researchers (35) in order to evaluate and measure the dimensions of ethics and it has 32 questions in two parts. This questionnaire includes five components of care/harm, fairness, loyalty to the group, respect for authority and purity. The questions of the first part of the questionnaire include questions 1 to 16, which are scored based on a 5-point Likert scale (from "not at all" score 0 to "very much" score 5). The second part also includes questions 17 to 32, which are graded based on a 5-point Likert scale (from "completely disagree" to "completely agree"). Statements 6 and 22 are not graded. Finally, the scores of each respondent were added up and after averaging, the resulting number was considered as an indicator of ethics for the respondents. A standard questionnaire (36) has been used to measure "reporting violations". This questionnaire depicts three hypothetical situations in the field of auditing and in each scenario, it puts the questioner in a situation to make a decision regarding the report of violations. The answers are based on a six-option Likert scale, with a score of 1 for the lowest motivation to report and a score of 6 for the highest motivation to report. Both questionnaires are standard and have been used in previous researches; Therefore, they have content validity. Cronbach's alpha of the questionnaires of ethical foundations and report of violations is equal to 72% and 76%, respectively, which indicates the reliability of these questionnaires. It should be noted that the auditor's age and job rank are considered as control variables in the research. Finally, the data obtained was analyzed using SPSS software. In the descriptive

statistics section, mean and standard deviation indicators were used, and in the inferential statistics section, multivariate regression was used to test the hypotheses.

Findings

Descriptive indices of research variables including mean, median, standard deviation, minimum and maximum are presented in table1.

Table 1: Descriptive statistics

Description	Ethical foundations	Audit violation	Age
Mean	45.59	4.98	32.0818
Median	47	5	30
SD	9.668	1.067	7.158
Min.	18	1	20
Max.	60	6	67

In the following, the results of the linear regression between the research variables and the estimation of the model are shown in Table 2. As can be seen, the value of the significance level of ethical foundations is equal to (0.000), that is, less than 5%. Therefore, at the confidence level of 95%, ethical foundations with a regression coefficient (0.036) have a positive and significant effect on the reporting of audit violations. In addition, the results show that according to the significance level (-0.045), age has a negative (-0.024) and significant effect on the dependent variable of reporting audit violations. In other words, as the age level increases, the tendency to report audit violations decreases. Also, the

job rank has a negative effect (-0.134) on the report of audit violations, and according to the significance level (0.038), this effect is significant.

The value (4.181) for the F statistic with a significant level confirms the correctness and existence of the regression line. On the other hand, since the value of the variance inflation factor for each independent and control variable is less than 5, there is no autocorrelation between the independent and control variables. The value of 1.848 for the Durbin-Watson test also confirms the absence of autocorrelation between the model error values.

Table 2: Results of regression analysis and hypothesis testing

Description	Coefficient	t-value	Sig.	VIF
Stable coefficient	3.755	6.875	0.000	-
Ethical foundations	0.036	4.282	0.000	1.041
Age	-0.024	-2.017	0.045	1.258
Job rank	-0.134	-2.734	0.038	1.269
Gender	-0.058	-0.346	0.730	1.023
F-value: 4.181 Sig.: 0.000 R ² adjusted: 0.120 Durbin-Watson: 1.848				

Discussion

The present research has investigated the effect of the ethical foundations of auditors working in the private sector on their willingness to report audit violations. According to researchers, reporting violations is an ethical decision (4, 11). In this context, the results of previous researches showed that as the level of moral severity increases, the tendency to report unethical behaviors also increases (13). Another research indicated that the level of moral reasoning is

considered to be an influencing factor on the intention to disclose violations (32). Considering the decisive role of ethics in guiding decision-making, ethical foundations were presented to describe judgments and moral behaviors of people based on moral feelings; which according to some people can be considered as a valid tool for determining moral dimensions (23). According to the findings of this research, ethical foundations have a positive and significant effect on auditors' willingness to report audit violations. These

results are in line with the theoretical foundations as well as previous researches (30). Because the research showed that the components of moral foundations play a decisive role in people's willingness to report violations (28, 30). In fact, psychological motivations in such revelations can have a significant impact on moral decision-making (31). The results of this study also showed that, like some previous studies (33 and 34), the auditor's gender does not have a significant effect on the willingness to report violations. This is while age and job rank have a negative and significant effect on reporting violations. In other words, as the rank and age of auditors working in private institutions increases, their tendency to report violations decreases. These results are contrary to previous studies in this field (33). This result can be interpreted in such a way that the reason for this can be the increase in competition among the private sector audit institutions, which in order to remain in this competitive market, do not report the observed violations and even in some cases report their own. are adjusted according to the employer's opinion (2).

Since the increase in the willingness of auditors to disclose violations, in order to fulfill the task of crediting, leads to the improvement of audit quality; According to the results obtained in this research, it is suggested to the influential organizations in the legislation to consider the ethical foundations as an effective factor in reporting violations and try to strengthen it. In this way, in such a competitive market, auditors can be led to comply with fair treatment to others even in spite of jeopardizing their own well-being and personal safety. On the other hand, considering the individual differences in valuing the components of moral foundations and the impact of this classification on the decision-making process, it is suggested to investigate which component is the most important in future researches. It is important to be considered. Finally, due to the use of the questionnaire tool, the current research was faced with limitations such as the conservatism of some respondents, which may lead to limitations in the generalization of the results.

Conclusion

Violation reporting is an important and challenging issue in the field of ethics, which, as one of the most

important monitoring tools, plays an effective role in dealing with illegal behaviors in organizations, especially audit institutions. Disclosure is a voluntary ethical decision. Therefore, knowing the effective factors on auditors' judgments and decisions can lead to the achievement of solutions that help to improve and promote ethical behaviors in the auditing profession. Whistleblowers bear a lot of personal costs for disclosing injustice (31). Confirming the relationship between ethical foundations and decisions related to reporting violations in private sector audit institutions shows that people report observed violations despite the risk of personal costs to maintain moral principles or values. In other words, ethics is considered an important and influential factor that plays a significant role in auditors' decisions (14). These results can provide useful information to legislators and regulatory institutions. Considering that individual differences in valuing the components of moral foundations have an effective role on the willingness of people to report violations and unethical behaviors, and on the other hand, cultural factors also play a decisive role in the prominence of any type of moral foundation. Therefore, it is suggested to the authorities and decision-making institutions to try to cultivate and strengthen the moral components so that the whistleblowers are willing and able to abandon their group obligations and endanger their personal safety and well-being for the sake of treating others fairly. In this way, it is possible to prevent the negative consequences caused by the increase in competition among private sector audit institutions and to improve the audit quality.

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