

Is it possible for two ethical styles to exist and function effectively in one organization?

Do Internal Auditors and Management Accountants Have Different Ethical Philosophies?

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The purpose of this article is to determine if internal auditors and management accountants have different ethical philosophies. Why is this important? Because an individual's personal ethical philosophy has been shown to be the single most important factor in determining how the individual resolves ethical dilemmas[1,2]. Differences in personal ethical philosophies could cause internal auditors and management accountants to make contradictory ethical decisions which could lead to conflict or, worse, to a weakening of the organization's reporting system.

Background

The ultimate responsibility for the reliability of an organization's financial information and internal control structure rests with the organization's management. Although both management accountants and internal auditors aid management in fulfilling this responsibility, each does so in significantly different ways. Management accountants, as preparers, produce this information and are responsible for overseeing the internal control structure. Internal auditors, as reviewers, examine and evaluate the organization's internal control system.

Both functions are important in ensuring reliable financial information, but each requires a different set of skills or other characteristics to accomplish successfully. Preparers (management accountants) are concerned with the production of information and the running of the system, while reviewers (internal auditors) are concerned with the evaluation of the information and system. Preparers must be consistent and accurate in applying accounting standards or common business principles whereas reviewers must be innovative in obtaining and evaluating evidence concerning the information produced or the system run by the preparer. Reviewers also communicate the results of their review and this entails discussion, negotiation, and compromise.

Over time, the organization's selection and evaluation system can be expected to ensure that only individuals with the proper characteristics perform each function. At this point it is important to ask whether this screening process pertains to an individual's ethical philosophy in that only individuals (or a large percentage of individuals) with a specific personal ethical philosophy are permitted to be internal auditors. In other words, do the ethical philosophies of internal auditors differ from those of management accountants?

Answering that question is the primary purpose of this article. A secondary purpose is to determine if other factors (such as age, gender, education and professional certification, or the corporate ethical environment in which an individual works) are also related to an individual's personal ethical philosophy.

Previous Studies

Several studies have dealt with the impact of occupational status on subject's ethical behaviour. For instance, Pearson[3] queried certified public accountants (CPAs) regarding independence impairment in their profession. Schlachter[4] developed a framework for studying the effect of occupational status on individual CPA's ethical behaviour. Westra[5] and Waples and Shaub[6] debated whether the government employment of auditors would resolve ethical dilemmas faced by CPAs. Further analysis of the relationship between

independence and conflict of interest is offered by Gunz and McCutcheon[7] in analysing three specific practices which put the auditor in a conflict of interest.

Studies dealing with management accountants dealt with:

- the adequacy of the Institute of Management Accountants (IMA);
- Standards of Ethical Conduct for Accountants[8,9]; their potential to encounter ethical conflict[9];
- their moral responsibility when faced with an ethical dilemma[9];
- the decision making faced by managers when assessing moral consequences associated with planning proposals[10].

There have been numerous studies on the ethics of internal auditors. Dittenhofer and Klemm[11] found that the reaction of internal auditors to various ethical situations varied according to industry and staff level but not geographical location. They also found a lack of consensus among internal auditors with respect to whistleblowing. Vinten[12,13] provides additional background and discussion on the issues surrounding whistleblowing. One entire issue of *Managerial Auditing Journal*[14] was devoted to a discussion of ethics and internal auditing.

Propositions to Be Tested

This article is an exploratory effort to determine the relationship between occupational status and personal ethical philosophy. In particular, the following questions will be investigated:

- (1) Do internal auditors have a different ethical philosophy or outlook to management accountants?
- (2) Is this relationship stronger than that between personal ethical philosophy and intervening variables pertaining to the individual (i.e. gender, education, etc.) or to work environment (i.e. corporate ethical environment or industry)?

The first question can be answered by surveying a sample of internal auditors and management accountants and comparing their personal ethical philosophies. The second question can be answered by regression analysis to determine to which factors personal ethical philosophy is related.

Given the exploratory nature of this research, no specific hypotheses will be formulated. However, the following propositions will be investigated:

- P1:* The personal ethical philosophies of internal auditors are not significantly different from the ethical philosophies of management accountants.

P2: The personal ethical philosophies of internal auditors and management accountants will not be related to their age, education, and professional certification, or the industry or corporate ethical environment in which they work.

P3: The personal ethical philosophies of internal auditors and management accountants will not be more significantly related to their occupational status than to their age, education, and professional certification, or the industry or corporate ethical environment in which they work.

Operationalization

The major purpose of this study is to determine if the personal ethical philosophies of internal auditors differs from those of management accountants. Moreover, this relationship will be compared with selected personal and corporate factors, namely: age, gender, education, professional certification, industry, salary, and corporate ethical values. The operationalization of each follows.

Personal Ethical Philosophy

According to Forsyth[15] and Schlenker and Forsyth[16] individual differences as predictors of moral judgement may be parsimoniously described by taking into account two basic dimensions of personal ethical philosophies: relativism and idealism. Forsyth[15, p. 176] conceptualizes "idealism" as the extent that individuals "believe in and make use of moral absolutes when making judgements". The dimension "relativism" is defined as "the extent to which the individual rejects universal moral rules".

For this study, a respondent's ethical philosophy was measured by Forsyth's two dimensional (idealism-relativism) Ethics Position Questionnaire (EPQ)[15]. The EPQ consists of two scales – ten items to measure idealism and ten items to measure relativism (see Appendix 1). The respondents were asked to indicate their extent of agreement or disagreement with each of the 20 items by a five-point Likert-type scale. The idealism and relativism scores for each respondent were measured as the sum of scores on the ten items measuring idealism and relativism respectively. Therefore, a high idealism score indicates that the respondent tends to favour "moral absolutes" when making moral judgements and vice versa. A high relativism score indicates that the respondent tends to rely less on universal ethical rules when making moral judgements and vice versa. The reliability assessments for both idealism and relativism scales were also carried out. The Cronbach's coefficient alpha indices for idealism and relativism are 0.89 and 0.85 respectively. The results are judged to be adequate for this research.

Following Forsyth's methodology, the respondents were further classified into one of four "Personal Ethical Philosophy" (PEP) categories depending on their relative levels of "idealism" and "relativism". In particular, respondents with high idealism and high relativism were identified as "situationists" (assigned a PEP value of one) – individuals who reject moral rules and advocate individualistic analysis of each act in each situation; those with high "idealism" but low "relativism" as "absolutists" (assigned a PEP value of two) – individuals who assume that the best possible outcome can always be achieved by following universal moral rules; those with low "idealism" but high "relativism" as "subjectivists" (assigned a PEP value of three) – individuals who base appraisals on personal values rather than universal moral principals; and those with low "idealism" and low "relativism" as "exceptionists" (assigned a PEP value of four) – individuals whose moral absolutes guide judgements but are pragmatically open to exceptions to these standards.

We believe that internal auditors will have a higher proportion of "subjectivists" because as reviewers they must often negotiate or sell their findings. Also, they are exposed to more issues related to the development and enforcement of rules. Management accountants, on the other hand, in preparing the financial statements, often apply the results of their analysis within the confines of a small group. It is much easier for them to look on ethical issues in terms of "black and white". We therefore feel that management accountants will tend to be "absolutists". Thus, two different ethical styles can exist and function effectively to the organization's benefit.

Personal Variables

The following variables were included to measure personal characteristics of the respondents, which could offer alternative explanations to the relationships being studied. These variables included: age, gender, education, professional certification, industry and salary. Age was measured as the actual age given by the respondent. For the purpose of analysis, gender was assigned a value of zero for female and one for male respondents. Values for the variable measuring education were based on the highest educational level attained by the respondent (one for high school, two for baccalaureate degree, three for master's degree, four for doctoral degree, and zero for all others). Professional certification was measured based on the number of certifications held. This was done because most respondents who held only one certification held the Certified Public Accountant (CPA) certification. The other certifications, Certified Internal Auditor (CIA, for internal auditors) and Certified Management Accountants (CMA, for management accountants) were generally obtained as a second certification. The certification variable was given a value of zero for a respondent with no

certifications, one for one with one certification, and two for two or more certifications. Each respondent was asked to list the industry in which they worked. The responses were then classified into one of the following industries: wholesale/retail, transportation/utilities, financial/ insurance/real estate, services, government, and industrial/others. Finally, each respondent was asked to indicate a range of salary which matched theirs. The response were then assigned a value from one to nine based on the salary range indicated.

Corporate Ethical Environment

Consistent with the literature cited earlier, the culture in which the internal auditor works was also included as another covariate in this study. The particular dimension of corporate ethical environment measured is "corporate ethical values", which are probably the most important dimension of organization culture. Corporate values have long been referred to as the central dimension of an organization's culture and have been recognized as powerful influences differentiating one firm from another [17,18].

In their national study of practitioner members of the American Marketing Association, Hunt *et al.* [19] found a positive relationship between corporate ethical values and organizational commitment. A five-item scale to measure corporate ethical values (CEV) developed by Hunt and his colleagues was used in this study (see Appendix 2). Likewise, we used a five-point Likert-type scale (agree/disagree). Following Hunt *et al.*'s method, the CEV score was computed, for each respondent by totalling the scores of all five CEV statements together. The reliability assessment for this scale was computed and results in a Cronbach's coefficient alpha index of 68 (judged to be adequate for this study).

The Sample

In order to improve the quality of the measurement, the questionnaire was pretested using 50 members of the Tidewater Chapter, IIA, and 50 members of the Hampton Rhoads Chapter, IMA at their monthly meetings. Of the 100 questionnaires distributed, 64 (64 per cent) were returned. The responses were subsequently reviewed and the questionnaire revised.

The revised survey instrument was mailed to 1,000 internal auditors and 1,500 management accountants located in the Southeastern United States. In order to increase the response rate, a second mailing was sent out approximately four weeks after the first mailing. Due to conditions of anonymity, all respondents were sent this second request. The two mailings resulted in a total of 1,032 (41.3 per cent) usable responses. The response rate

was 47.4 per cent for internal auditors and 37.2 per cent for management accountants.

A detailed profile of the respondents is contained in Table I. As a group, the management accountants have a higher percentage of males (67 to 60 per cent), graduate degrees

Table I. Demographic Profile of Sample

Demographic factors	Internal auditors (%)	Management accountants (%)
<i>Gender</i>		
Male	59.5	67.0
Female	40.5	33.0
<i>Age</i>		
Under 30	24.9	20.6
30 to 39	44.5	32.8
40 to 49	20.7	27.6
50 to 59	8.4	12.2
60 and over	1.5	6.8
<i>Education</i>		
High school	3.2	6.6
Bachelor's degree	77.8	62.9
Graduate degree	18.8	26.5
Doctorate	0.2	4.0
<i>Annual compensation</i>		
Under \$30,000	24.9	19.2
\$30,000 to \$39,999	41.6	17.7
\$40,000 to \$49,999	20.9	16.3
\$50,000 to \$59,999	9.1	13.1
\$60,000 to \$69,999	2.3	8.8
\$70,000 to \$79,999	0.8	9.0
\$80,000 to \$89,999	0.2	3.6
\$90,000 and above	0.2	12.4
<i>Industry</i>		
Wholesale/retail	6.0	6.1
Transportation/utilities	12.8	5.8
Financial/insurance/ real estate	27.0	5.9
Services	0.8	3.9
Government	28.5	16.3
Industrial/others	24.9	62.0
<i>Certifications</i>		
None	43.9	45.5
One	42.0	47.7
Two	13.8	6.1
More than two	0.3	0.7
<i>Years' experience</i>		
Less than 5	32.1	57.7
5 to 9	40.1	12.4
10 to 14	14.1	4.5
More than 14	13.7	25.4

(27 to 19 per cent), and those who work in heavy industry (62 to 25 per cent) than the internal auditors. They also tend to be older. The distribution of the respondents' years of experience for management accountants was not even with those respondents having little experience (less than five years) or much experience (greater than ten years) making up a disproportionately large portion of the respondents. This could be the result of layoffs and the elimination of middle management positions by heavy industry in the 1980s.

Results

See Table II for descriptive statistics for all pertinent variables measured in this study. As a preliminary step, we conducted a Pearson correlation analysis of the personal variables to identify and eliminate multicollinearity. The results of this analysis are shown in Table III. It indicates that much multicollinearity exists among the personal variables. We therefore eliminated all of the personal factors except for age because it appears to be related to more of the other factors.

Recall that the first proposition to be tested was whether the personal ethical philosophies of internal auditors differ from management accountants. This was determined by using the Wilcoxon rank-sum test (equivalent to the Mann-Whitney U-test) to compare the personal ethical philosophies (PEP) values of internal auditors with management accountants. The results of this analysis, which are presented in Table IV, are statistically significant (at the 0.0309 level or the *t*-test equivalent of 0.0312). Therefore, we can conclude that internal auditors have different personal ethical philosophies from management accountants.

A review of the frequency table of PEP types by occupational status (Table V) shows that a greater percentage of internal auditors (30 to 27 per cent) are

Table II. Descriptive Statistics of Research Variables

Variable	Mean	Standard deviation	Minimum	Maximum
Age	38.1211	10.7566	19.0	79.0
Gender	0.6257	0.4815	0	1.0
Education	2.2306	0.6112	0	9.0
Certification	1.8585	2.8149	0	12.0
Industry	657.300	2548.8000	0	9999.0
Experience	9.7364	12.4283	0	43.0
Salary	3.0921	2.0636	0	9.0
Personal ethical philosophy	2.3946	1.0550	1.0	4.0

Table III. Correlation Matrix

Correlation	Age	Gender	Education	Certification	Industry	Experience	Salary
Age	1.0000	0.26267*	0.15302*	0.07841	0.02698	0.36338*	0.43848*
Gender		1.00000	0.12101*	0.13669*	-0.05864	0.13695*	0.26906*
Education			1.00000	0.07367	-0.12183*	-0.06746	0.21310*
Certifications				1.00000	0.04886	-0.05058	0.10009*
Industry					1.00000	-0.02458	0.05683
Experience						1.00000	0.31659
Salary							1.00000

Number of cases: 1,032; 1 – tailed significance: * = 0.001

“subjectivists” but more management accountants (29 to 24 per cent) are “absolutists”.

The second and third propositions concern the relationship between PEP and occupation status, personal variables (represented by age) and corporate ethical values. Logit regression was performed with PEP as the dependent variable and occupation, corporate ethical value (CEV), and age as independent variables. Theil[20] and McFadden[21] favour logit analysis because it avoids all the problems of ordinary least squares and multivariate discriminant analysis. Theil[20] argues that ordinary least squares regression is faulty because, first, the estimating equation is unbounded and there is no guarantee that the practical value of the dependent variable will be in the zero to one interval, second, the residuals will be heteroscedastic and ordinary least squares will yield inefficient estimators and, third, because the dependent variable is dichotomous, the residuals cannot be assumed to be normal. Likewise, multivariate discriminant analysis was rejected. Eisenbeis[22] and

Ohlson[23] point out that the variance-covariance matrices of the independent variables must be identical for both groups (they are not) and that multivariate discriminant analysis assumes normally distributed independent variables (not a valid assumption in this study).

The results of the regression are presented in Table VI. The regression equation is significant at the 0.0001 level with a C (equivalent to the R^2) of 54 per cent. The only independent variables related to PEP were occupation (significant at the 0.015 level) and CEV (significant at the 0.011 level). These results do not allow us to reject the second proposition since one of the intervening variables is significantly related to PEP. Likewise, the third proposition cannot be eliminated because CEV is more significantly related to PEP than occupation.

Conclusions and Implications

The primary purpose of this study was to determine whether internal auditors and management accountants

Table IV. Personal Ethical Philosophy Classified by Occupation

Occupation	Obs.	Sum of scores	Rank sums		Mean score
			Expected scores	Standard deviation	
Internal auditors	474	254,779	244,821	4614,79	537,51
Management accountants	558	278,249	288,207	4614,79	498,65

Wilcoxon 2-sample test:
 $s = 254,779$ $z = 2.15.774$ $\text{Prob} > z = 0.0309$
t-test approximation significant = 0.0312
Kruskal-Wallis test (Chi-square approximation)
 $\chi^2 = 4.6563$; $DF = 1$; $\text{Probability} > \chi^2 = 0.0309$

Table V. Frequency Table PEP by Occupation

	Situationists	PEP absolutists	Subjectivists	Exceptionists	Total
Internal auditors	105 (22%)	113 (24%)	143 (30%)	113 (24%)	474
Management accountants 558	137 (25%)	162 (29%)	150	(27%)	109 (19%)
Total	242	275	293	222	1,032

Note: Percentages in parentheses

had different personal ethical philosophies. A secondary purpose was to determine if other factors (such as age, gender, education and professional certification or the corporate ethical environment in which an individual works) are also related to an individual's personal ethical philosophy. The results indicate the following:

- The personal ethical philosophies of internal auditors are different from those of management accountants, with management accountants having more "absolutists" than internal auditors, and internal auditors having more "subjectivists" management accountants.
- The personal ethical philosophies of internal auditors and management accountants are related to their occupational status and the corporate ethical environment in which they work.
- The personal ethical philosophies of internal auditors and management accountants are related more to the corporate ethical values of the organizations employing them than their occupational status.

The first finding means that management accountants are more likely to see ethical issues in terms of black and white or right and wrong than internal auditors. Internal auditors, because they have dealt with a wider cross-

section of personnel and situations within the organization, are less likely to see hard and fast ethical rules but rather are more apt to weigh the "rightness" or "wrongness" of an ethical act in terms relative to extenuating circumstances.

What implications can be drawn from this finding? First, internal auditors and management accountants may take contradictory positions in resolving the same ethical issue. This could lead to conflict and embarrassment to both parties or to a breakdown in the reporting system.

The second and third findings are important because they show that individuals' personal ethical philosophy can be influenced almost equally by their occupational status and the corporate ethical environment in which they work. This is important because it reinforces the findings of the Treadway Commission[24] and others who have stressed the importance of the "Tone at the Top" or corporate ethical environment in affecting the ethics of personnel they employ.

Comparing the results of this study with others is important to determine its contribution to the literature. The study results corroborate the Dittenhofer and Klemm[11] study in which they found a lack of consensus

Table VI. Regression Analysis Results

Variables	Personal ethical philosophy as dependent variable		
	Beta	χ^2	Prob.> χ^2
Occupation	0.076694	5.9073	0.015
Corporate ethical philosophy	0.080283	6.5455	0.011
Age	0.005219	0.0275	0.868

$\chi^2 = 63.9045$; Probability > $\chi^2 = 0.001$; C = 0.540

among internal auditors concerning key ethical issues (such as whistleblowing). This research also tends to support Vinten's[12,13] call for more guidance by the IIA. The results also support the work of Singhapakdi and Vitell[25], which found that corporate codes of ethics (a key part of corporate ethical environment) influence ethical perceptions.

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Appendix 1. Ethics Position Questionnaire

- EP1 A person should make certain that their actions never intentionally harm another, even to a small degree.
- EP2 Risks to another should never be tolerated, irrespective of how small the risks might be.
- EP3 The existence of potential harm to others is always wrong, irrespective of the benefits to be gained.
- EP4 One should never psychologically or physically harm another person.
- EP5 One should not perform an action which might, in any way, threaten the dignity and welfare of another individual.
- EP6 If an action could harm an innocent other, then it should not be done.
- EP7 Deciding whether to perform an act by balancing the positive consequences of the act against the negative consequences of the act is immoral.
- EP8 The dignity and welfare of people should be the most important concern in any society.
- EP9 It is never necessary to sacrifice the welfare of others.
- EP10 Moral actions are those which closely match ideals of the most "perfect" action.

- EP11 There are no ethical principles that are so important that they should be a part of any code of ethics.
- EP12 What is ethical, varies from one situation and society to another.
- EP13 Moral standards should be seen as being individualistic; what one person considers to be moral may be judged to be immoral by another person.
- EP14 Different types of moralities cannot be compared as to "rightness".
- EP15 Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual.
- EP16 Moral standards are simply *personal* rules which indicate how a person should behave, and are not to be applied in making judgements of others.
- EP17 Ethical consideration in interpersonal relations are so complex that individuals should be allowed to formulate their own individual codes.
- EP18 Rigidly codifying an ethical position which prevents certain types of actions could stand in the way of better human relations and adjustment.
- EP19 No rule concerning lying can be formulated; whether a lie is permissible or not permissible totally depends on the situation.

EP20 Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the action.

Note: Items EP1 to EP10 are idealism items. Items EP11 to EP20 are relativism items.

Source:[15].

Appendix 2. Corporate Ethical Value Questionnaire

- CEV1 Managers in my company often engage in behaviours that I consider to be unethical.
- CEV2 In order to succeed in my company, it is often necessary to compromise one's ethics.
- CEV3 Top management in my company has let it be known in no uncertain terms that unethical behaviours will not be tolerated.
- CEV4 If a manager in my company is discovered to have engaged in unethical behaviour that results primarily in personal gain (rather than corporate gain), he or she will be promptly reprimanded.
- CEV5 If a manager in my company is discovered to have engaged in unethical behaviour that results primarily in corporate gain (rather than personal gain), he or she will be promptly reprimanded.

Source:[19].

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Abstracts and Keywords

Do Internal Auditors and Management Accountants Have Different Ethical Philosophies?

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Codes of Practice, Ethics, Internal Audit, Management Accounting, USA, Whistleblowing

Examines whether internal auditors and management accountants have different personal ethical philosophies. Also examines the possible presence of intervening variables such as personal (i.e. age, gender, experience, education, professional certification and salary) or environmental factors (i.e. industry and corporate ethical environment). Data were obtained from questionnaires returned by 474 internal auditors (47.4 per cent response rate) and 558 management accountants (37.2 per cent response rate) located in the southeastern United States. The results indicate that significant differences exist between the ethical philosophies of internal auditors and management accountants. Of the other factors tested, only corporate ethical environment was found to be related to the ethical philosophies of the respondents.

The IIA Code of Ethics: An International Perspective

Rocco R. Vanasco

Auditors, Codes of Practice, Ethics, Role Conflict

Highlights similarities among the codes of ethics promulgated by professional societies in the United States such as The Institute of Internal Auditors (IIA), the American Institute of Certified Public Accountants (AICPA), the Institute of Management Accountants (IMA), and the EDP Auditors Association (EDPAA). Takes the Code of Ethics of the Institute of Internal Auditors, an international professional association, as an example to demonstrate that most of the articles of professional codes do not reflect the cultural dimensions of Asian, European, and other countries. Since one single universal code of ethics may not meet the needs of an international group, international professional societies may wish to consider alternatives to incorporate in their codes of ethics, especially the cultural dimensions of other countries. Cultural differences often limit the effectiveness of a uniform international code of ethics because they create a lack of consensus within a profession as to what constitutes acceptable behaviour.

Ethical Perceptions of CPAs

Don W. Finn, Paul Munter and Thomas E. McCaslin

Accounting, Codes of Practice, Ethics, Psychology, Role Conflict

There has been an increasing concern about ethical behaviour in the accounting profession. Examines CPAs' perceptions about the ethical behaviour which currently exists in the accounting profession. Results indicate that there is a polarity which exists among CPAs. Many believe that accountants, generally, do act in an ethical manner. Importantly, however, many others believe that unethical behaviour has increased in recent years. Further, there is a growing belief among some practitioners that the actions of partners of CPA firms may be condoning that unethical behaviour.

The Social Audit and Ethics

Samuel M. Natale and Joseph W. Ford

Ethics, Quality Control, Social Audit

Written in response to many enquiries about how the social audit is linked to quality control issues, reviews the developmental history of the social audit and its links to government regulations. Discusses and analyses ethical dilemmas.

Professional Values and the Ethical Perceptions of Internal Auditors

Douglas E. Ziegenfuss and Anusorn Singhapakdi

Codes of Practice, Ethics, Internal Audit

Examines the influence which the Institute of Internal Auditors' Code of Ethics has on its members' ethical perceptions. Also determines whether this influence is greater than members' personal moral philosophies (i.e. idealism and relativism), and corporate ethical values. Data for the study were obtained by questionnaires sent to 1,000 members of the Institute of Internal Auditors, located in the Southeastern United States. The results generally indicate that professional values, as operationalized by the members' use of the code of ethics, influence their perceptions of ethical problems in a positive way. However, no significant linkages were found to exist between the internal auditors' personal moral philosophies or corporate ethical values and their perceptions of ethical problems.