

**RELATIONSHIP BETWEEN MORAL DEVELOPMENT
AND ETHICAL JUDGEMENT: EVIDENCE FROM EAST
JAVA**

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Abstract

Auditor moral issue is an interesting topic for study. This study aims to determine the relationship between the level of auditor's moral development with ethical judgment. Theoretical approaches/models are used as guides for exploring the influence of moral reasoning of public accountants is Kohlberg's model of moral development (Kohlberg 1982). The study was conducted in the public accounting firm of East Java amounted 97 auditors. Data were collected by questionnaire and interview techniques. Data analysis using multiple regression and t-test (different test) to determine the effect of the level of auditor's moral development on ethical judgment. The result shows that level of moral development and auditor's experience have significant effect on ethical judgment but this research found that there is no correlation between gender, education, level/position of auditor, and age on ethical judgment. This research suggested to further research developing research model dan sample.

Keywords: Moral Development, Ethical Judgment

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I. INTRODUCTION

Auditors are always in the spotlight of various parties because of corporate scandals that happened. Enron scandal that occurred in 2001 was one case of manipulation of financial statements made by the company. The Enron case involving the firm Arthur Anderson as the external auditor of the company Enron. In this case, Arthur Anderson violated the code of conduct that should be owned by an auditor: independence and integrity. Independence and integrity of an auditor will affect the quality of the audit.

Brooks (1989), quoted by Ludigdo (2005) said that the quality of accounting services is a function of technical competence and judgment (judgment) where the consideration is dependent on the integrity of accountants who make decisions. In conducting the financial audit, which is one of the areas of expertise of accountants, accountants are required to not only have the technical competence but also morally should be free of conflicts of interest (independent). With the competence and independence, the accountant will be able to make judgments and decisions concerning the proper object of the audit.

Auditors are often faced with difficult decisions when faced with a dilemma situation. Dilemma situation arises as a consequence of conflict in audit because the auditor is in a situation of decision-making related to the decision that is ethical or unethical. This situation in the conflict audit formed because there are parties interested in the auditor's decision so that the auditor is faced with the choice of ethical and unethical decisions. Auditors expect that their behavior will not harm the company. This is because the auditor has to be in compliance with a code of ethics that sometimes conflict and ethical dilemmas often faced by an auditor when faced with a difficult situation to decide. When auditors are confronted with these conditions, moral considerations have a very important role in making decisions by looking at the consequences of his decision.

Gafikkin and Lindawati (2012) stated that moral considerations are defined as arguments show individuals should act or give a reason to justify or criticize the behavior of why certain behavior is considered as good and another not. Furthermore, Gafikkin and Lindawati (2012) provides empirical evidence that moral development is a very important component and influence the moral judgment of an auditor. The results also found that the level of professionalism of an

auditoris determined by the level of moral development. Because of that, moral development of individuals improve the effectiveness of the implementation of the code of ethics of auditors.

The development of moral reasoning (cognitive moral development), often called moral conscience (moral reasoning, moral judgment, moral thinking) is a decisive factor which delivered to moral behavior in ethical decision making, so as to find an actual moral behavior can only be traced through reasoning. That is, the morally correct measurement not only observe the moral behavior that looks, but should look at the moral sense underlying the decision of moral behavior. By measuring the level of moral awareness will be able to know the level of moral (Jones, 1991).

Kohlberg (1969) examined the moral development of individuals and divide it into three (3) levels, namely pre-conventional, conventional and post-conventional, known as cognitive moral judgment. Pre-conventional level is the lowest level that has two stages / phases. This level suggests that an act was immoral or not correlated with reward and punishment system. In this case, an auditor who has a level of moral development on this level act / behave just to get a reward or to avoid punishment and this action is the lowest in the cognitive moral judgments. Furthermore, conventional level is moral development which is in the second level where the level is an action or behavior is no longer simply based on a system of reward and punishment but whether or not the actions of an auditor based on rules or norms applicable in a particular group and expectations of organization where the auditor is working while the post-conventional level of moral development is the highest level at which a person's actions in this case the auditor said to be good or bad with attention to social fairness and believe and obey the choice he made based on ethical principles.

Rasmundson and Windsor (2003), which examines the moral development of 174 auditors working on an international accounting firm found that the average respondent is at the pre-conventional level. At this level, whether or not the individual behavior based on reward or punishment. This indicates that most of the auditors who work at the firm acted as expected by the client and when faced with an ethical dilemma will prioritize her/his interest than another person / organization / community. Furthermore, Juarti (2010) also proved that moral reasoning is correlated with the quality of the audit. Gafikkin and Lindawati (2012) conducted on managers

of a company both companies categorized as family owned companies (FOC), state owned companies (SOC) and Multinationals, or foreign-owned companies (Froc), in which this kind of research is a qualitative use a case study approach with a number of respondents as many as 15 managers provide empirical evidence that the level of professionalism of an auditor is determined by the level of moral development and moral development of individuals improve the effectiveness of the implementation of the code of ethics of auditors. This study will test the level of auditor's moral development in East Java on ethical decision making.

II. METHOD

This study focuses on whether there is any difference in the level of moral development of auditors to ethical judgment. The study was conducted at the Public Accounting Firm (KAP) in East Java. The study population was auditor junior, senior, manager or partner in Public Accounting Firm (KAP) of East Java totaling 397 auditors. This study uses primary data obtained directly from the respondents. Data collection techniques using questionnaires and given directly to the auditor in public accounting firm in East Java, which totaled 397 auditors. Interviews are also conducted to obtain information/data that have not been covered in the questionnaire. Auditor moral development is measured using a questionnaire based on the level of moral development Kolberg (1969), which consists of three levels, namely pre-conventional, conventional and post-conventional. Respondents were given the case and requested to provide a response to the case when ethical judgment is measured using the case of ethical dilemmas and auditors were asked to provide answers to the statements in the questionnaire. This study uses multiple regression which aims to examine the effect of the level of development of the ethical judgment.

III. RESULT

This study aims to examine the relationship between the level of moral development of auditors with ethical judgment. The results showed that only the auditor's level of moral development and work experience had an influence on ethical judgment. Results of hypothesis testing can be seen in table 5.8 below:

Table 5.8 Hypothesis Testing Results

Independent variable	Standardized		T	Sig	Description
	coefficients	Beta			
(Constant)			10.653		
Gender	0,182		1.809	0,074	Not significant
Age	-0,098		-0,686	0,494	Not significant
Education	-0,220		-1,555	0,124	Not significant
Work experience	0,312		2.081	0,040	Significant
Moral development	0,346		3.280-	0,001	Significant
Position	-0,113		0,891	0,376	Not significant

Dependent variable: ethical judgment

Based on Table 5.8 revealed that only work experience of auditors and auditor's level of moral development are significant. It can be shown from the significant value that is smaller than value of 0.05. These results indicate that the level of auditor's work experience has an influence on the development of ethical judgment. However, this study failed to provide empirical evidence of the influence of gender, age, education and occupation of the ethical judgment. It is shown from the significant value that is greater than value of 0.05 thus failing H_0 rejected. To strengthen the results of the analysis using a different test. Different test (t-test) is used to determine whether two samples are unrelated having an average value that is different. Results of the analysis can be shown in table 5.9 below:

Table 5.9 Test results Independent sample t-test

Keterangan	Levene's Test for <i>t-test for Equality of Means</i>					
	Equality of Variances					
	F	Sig.	t	Df	Sig. (2-tailed)	
Moral	Equal variances assumed	0,425	0,516	-0,117	94	0,907

development	Equal	variances	not	-0,114	50.154	0,910
	assumed					

Based on Table 5.9 shows that the F count Levene test for the moral development of 0,425 with probability $0.516 > 0.05$ so it can be concluded that they have the same variance. Thus using a different test analysis assumed equal variance. Based on the results obtained by analysis of the significance probability value for the variable of moral development 0.907. This indicates that the audit of moral development among male respondents and women did not differ significantly. This is in line with the opinion of Kohlberg (1958) which states that every individual must pass through the stages of moral development is pre-conventional, conventional and post-conventional that this result proved that the men and women have the same developmental stage. Furthermore, this study also examines whether there are differences in ethical decision making among respondents male and female. Hypothesis testing results shown in the table below 5:10.

Table 5.10 Results of the t test variable ethical judgment

Keterangan		Levene's Test for Equality of Variances		t-test for Equality of Means		
		F	Sig.	T	Df	Sig. (2-tailed)
<i>Ethical</i>	Equal variances assumed	0,294	0,589	-1.410	94	0,162
<i>judgment</i>	Equal variances not assumed			-1.409	50.198	0,165

Based on the table 5.10 shows that the F count Levene test for ethical judgment is 0.294 with probability $0.589 > 0.05$ so it can be concluded that they have the same variance. Thus using a different test analysis assumed equal variance. Based on the results obtained by analysis of the significance probability value for the variable of moral development 0.162. This shows that

theethical/auditorethical decision makingamongrespondentsmen andwomendid not differ significantly. This showsthatmen andwomen do notdifferin making decisionswhenfaced witha dilemma situation.

IV. DISCUSSION

This study aimstoprovideempiricalevidence ofthe relationshipbetween thelevelof moral developmentwith theethicaljudgment. The results showedthat thelevelof moral developmentof auditorsandauditorswork experiencesignificantly affectethicaljudgment.This supportsthe theory ofmoral developmentproposed byKholberg(1958). Kholbergdividethe stagesof moral developmentinto threelevels, namelylevelpreconventional, conventionalandpostconventional. Each levelindicatethe level ofindividualmoral development.Individuals who are at the level of moral development preconventional have the lowest since at this stage only basing individual behavior by only considering reward and punishment. Auditors who are at this level tend to choose the actions / behaviors that are safe for themselves when faced with a dilemma situation. In contrast to the conventional level, at this stage the individual not only consider himself when making decisions but also will consider the organization / work environment whether its actions will have an impact on the organizations / he works. Stages of the most high level of postconventional moral development is that, at this stage an individual to behave in accordance with the principle of moral principles, ethics, code of professional ethics and norms that exist. At this stage, the auditor would consider ways and decisions that will be taken because the decision will have an impact on the community in which auditors at the level of moral development has heightened awareness of the consequences that will result from the decision.

Based on the resultsof descriptive data analysisit appears thatthe majority of respondents(auditor) is in thepostconventionallevelthat is equal to51.04%, amounting to47.9% at the level ofconventional, while only1.04% was atpreconventional. Results ofthe studyprovedthat thelevelof moral developmentauditor'sinfluence ondecision-makingwhenfaced witha dilemma situation. The higher theauditor'sstagesof moral developmentindicatesbetter and morewisely inethical decision making.In addition, it also shows that the level of awareness of the auditor is also correlated with the stages of moral development proposed by Kholberg. Auditor with postconventional level has a high level of awareness for not doing things that are unethical and

more sensitive in identifying actions unethical. This is supported by the results of research Jones (1991) which states that the development of moral reasoning (cognitive moral development), often called moral conscience (moral reasoning, moral judgment, moral thinking) is a decisive factor which delivered to moral behavior in ethical decision making, so that to find the real moral behavior can only be traced through reasoning. That is, the morally correct measurement not only observe the moral behavior that looks, but should look at the moral sense underlying the decision of moral behavior. By measuring the level of moral awareness will be able to know the level of moral.

Results of analysis using the t test (t-test) also reinforce the findings of the research. Different tests conducted to determine differences in moral development and decision-making for respondents male and female. The results showed that there was no significant difference between men and women in the development of moral and ethical decision making. This study proves that men and women have the same stages of moral development. These findings support the Kohlberg's theory which states that each individual must be passed through the stages of moral development according to the theory that this will have an impact on the way of individuals make decisions which will be reflected in the behavior. The results also support research by Lindawati and Gafikkin (2012) and Juarti (2010) who found that moral development is correlated with the professionalism and quality of the resulting audit.

Research has also proved that the work experience influence on decision making. This shows that the higher the auditor's experience shows that the more often auditor faced with dilemma situations in which auditors will be more wise in making decisions. However, the study can not prove a correlation between gender, age, education, and occupation. It is indicating that men and women have the same action/behavior when faced with dilemma situation. Age was also not proven to affect ethical judgment. The average age of respondents in this study is 27 years. This shows that the majority of respondents can be classified as young. These findings prove that a person's age is not a determining factor of an auditor can take decisions ethically or not. Education is also not proven to influence ethical decision making. The majority of respondents were undergraduate education. This indicates that the level of knowledge and experience of the auditor is still very low, it is supported with an average age of respondents was 27 years old so it

can be said that the auditor's are less knowledgeable and experience in dealing with situations of stress from clients so there are possibilities of auditors rarely confronted in a dilemma situation. Position of auditor also not been shown to influence decision making. Not proven this hypothesis can be caused by several factors including, the majority of respondents who participated in this study was a junior auditor, the low contribution of junior auditor in decision-making because the work to audit is the work performed in groups (teams) so that any findings will be discussed with the senior auditor or partner where the decision is the result of discussions, the latter factor that a majority of auditors who participated in the study came from the small Public Accounting Firm (KAP) where Public Accounting Firm level positions in smaller Accounting Firm less well organized and unclear.

V. CONCLUSION

The results showed that the majority of auditors in East Java - sex male with an average level of education is an undergraduate (S1). The average work experience of auditors of 2.5 years and the average age is 27 years auditor. Based on these characteristics it appears that most of the auditors in East Java still has a low work period that is based on the level of office/employment in KAP majority still occupying the post of junior auditor auditor. The results also show that the level of moral development of auditors at the level of post-conventional. Hypothesis testing results showed that the only variable levels of moral development of auditors and work experience had an influence on ethical judgment. However, studies have not proved the existence of a correlation between age, education, gender, and auditor positions with ethical judgment.

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