

Auditors' Independence, Experience and Ethical Judgments: The Case of Malaysia

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Within the auditing profession, independence and ethical behavior of the auditors are very much related. The auditors' conduct could determine whether or not they are "seen" or "perceived" to be independent in their action. An experiment with 184 auditors is conducted to examine whether changes in auditors' independence threats will consistently increase the auditors' ethical judgments level. This study includes three types of independence threats namely self-interest, familiarity and self-review threats in order to observe their direct and indirect effects on auditors' ethical judgments. In addition, the interaction effect of auditors' experience on the relationship between the auditors' independence threats and their ethical judgments is also being scrutinized. The findings revealed significant positive influence of all the three types of auditors' independence threats on their ethical judgments. Furthermore, the interaction effects of auditors' independence threats and experience were also found significant on the auditors' ethical judgments. Implications of these findings are discussed.

1. Introduction

The ethical dimension of auditor judgment has been generally recognized by judgment and decision making researchers as part of the overall audit process (Cohen & Bennie 2006). In addition, the continuity incidences involving the accounting scandals acts as a support that those auditors continue to make questionable professional judgments that have ethical overtones. According to Uysal (2010), although the number of auditors' ethical judgment studies has been recently increasing, very few studies have focused specifically on auditors' independence issues (Windsor & Ashkanasy 1995; Schatzberg et al. 1996; Shaub & Lawrence 1996; Jones et al. 2003). Within the auditing profession, independence and ethical behavior are very much related as the auditors conduct could determine whether or not they are "seen" or "perceived" to be independent in their action. The fundamental assumption underlying the auditing function and thus the exercise of professional judgment is that auditors must act ethically, especially in relation to independence (Thorne 1998).

In exercising their duties, auditors are being exposed to various independence threats which might influence them in making judgments. Independence threats are situations, actions or relationships that are likely to affect an auditor's ability to comply with the fundamental principles of ethics.

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For example, the independence threats such as auditing own works resulting from the provision of non-audit services, economic fee dependence and familiarities threats developed from lengthy auditor tenure have been alleged to contribute to the erosion of auditor independence. Empirically, the influence of independence threats on auditors' independence has provided very mixed results (e.g. Ashbaugh et al. 2003; Myers et al. 2003; Carcello & Nagy 2004; Ghosh & Moon 2005; Moore et al. 2006; Joshi et al. 2007; 2009). Despite those mixed results, it is noticed that there are limited studies which examined the influence of independence threats on the auditors' ethical judgments. The lack of studies in this area has created a gap in literature of how auditors' independence threats could influence their ethical judgments. This study is carried out in response to Uysal (2010) and Jones et al. (2003) who suggest that more research is needed to investigate auditors' ethical actions in relation to auditors' independence. In addition, these importance issues have been addressed by the specific requirements stipulated by the regulators around the globe (e.g. Ramsay Report 2001; Sarbanes-Oxley Act 2002; Malaysian Corporate Code of Governance (revised) 2007) as a result of previous corporate scandals and audit failure. This brings the first objectives of this study which is to identify the effect of auditors' independence threats on auditors' ethical judgments.

Second, this study investigates the influence of individual characteristic (i.e. auditors' experience) on the relationship between the independence threats and auditors' ethical judgments. It is argued that one's awareness and abilities to solve ethical issues improves with experience. The more experienced auditors are usually exposed to more and greater work-related challenges, resulting in them gaining confidence and competence when dealing with decisions related to ethical issues (Bakar et al. 2002). The inconclusive findings (e.g. Alleyne et al. 2006, who found a positive relationship; Chavez et al. 2001, who posited a negative relationship; and Conroy et al. 2010, who found no association) of the direct influence of auditors' experience on their ethical judgments, require further examination on the possibility of interactions between auditors' experience and independence threats towards ethical judgment. Consequently, the findings of this study are different from previous studies since this study added knowledge to the accounting ethics literature by investigating the direct and indirect effect of auditors' independence threats together with the moderating effect of auditors' experience on auditors' ethical judgment. It is hoped that a better understanding on factors affecting the auditors' ethical judgment from an auditors' independence perspective will assist in untangling the inherent conflict of interest among the auditors.

The following section will provide a review of selected literature on the three types of auditor independence threats and auditors' experience. This section will be followed by discussions of the research methodology and empirical findings. In the final section of the paper, the discussions of the findings and some suggestions for future research are provided.

2. Literature Review and Hypotheses Development

According to Hunt and Vitell (1986), the ethical judgments is the stage where a person has recognized the ethical issues and considers alternatives that best solve the problem to attain the most beneficial outcome. At this stage, ethical judgment made will be based on evaluating the outcomes that ought to occur in a given ethical situation. Tentatively, an individual may use more than one philosophical framework to make a single ethical judgment in order to establish his/her intention. In other words,

the judgments are formed after taking all the considerations of what are morally right and wrong in the context of acceptable standards. The ethical judgments process is theorized to lead an individual to the establishment of an ethical intention (Hunt & Vitell 1986; Rest 1986) where an individual formulates an intention to act ethically based on an assessment of the right choice versus other alternatives. This ethical intention is thought to subsequently lead to actual ethical behavior (Ferrell & Gresham 1985; Trevino 1986) because intentions are the best predictors of individual's subsequent behaviors in the theory of reasoned action (Fishbein & Ajzen 1975) and have significantly proven predicted behaviors in previous researches (Taylor & Todd 1997; Leone et al. 1999). Empirically, the auditors' ethical judgments have been researched by various researchers (e.g. Bennie et al. 2011; Thorne et al. 2003; Tsui & Windsor 2001; Windsor & Ashkanasy 1996). Notably, most of the studies done examined the effect of individual and contextual factors on the auditors' ethical judgments and studies which relate to auditor independence issues are very limited. Simnett and Trotman (2002) have highlighted the need for research on factors that could affect auditor independence as a leeway of promoting ethical behaviors among the auditors due to response to global corporate failures.

2.1 Auditor Independence

Auditor independence has been traditionally viewed as the cornerstone of the auditing profession as it being one of the fundamental principles underlying the auditors' work (Firth 1980). To be seen or perceived to be independent is called the unique quality of the auditor that distinguishes it from other professions and professional activities (Mautz & Sharaf 1961). Mautz and Sharaf (1961) recognize this when they consider independence to be the essence of auditing that forms the basis for the professional concept of due care, the requirement of service before personal interest and the standard of professional efficiency. In turn, the unique quality of the audit provides the basis on which public determine the auditors' responsibility to society. It is also regarded as an important prerequisite of a well-functioning capital market and critical in protecting the interests of both creditors and shareholders (Moore et al. 2006).

However, there are several factors at work that created the unethical environment namely independence threats (Wyatt 2004). Independence threats are situations, actions or relationships that are likely to affect an auditor's ability to comply with the fundamental principles of ethics. The occurrences of independence threats such as economic fee dependence, auditing own works resulting from the provision of non-audit services and familiarities developed from lengthy auditor tenure have been alleged to contribute to the erosion of auditor independence. For example, the coziness of the auditor-client relationships has been identified as the major reason in which has disappear the renowned audit firm, Arthur Andersen from the accounting globe and the reputation of the entire profession was tarnished (Lennox 2005).

The independence threats have emerged from the auditor-client relationship which is unique in auditing professional services. The nature of the auditor-client relationship has been identified in the research literature (e.g. Myers et al. 2003; Meyer et al. 2006; Joshi et al. 2009; Rennie et al. 2010) and by regulators, as a factor which may detract from auditor independence. The IFAC's Code of Ethics for Professional Accountants (IFAC Code) published in 2010 (revised), has identified five threats or risks that can compromise the independence of auditors: (1) self-interest threats, (2) self-review threats, (3) advocacy threats, (4) familiarity threats and (5) intimidation threats. Based on previous empirical studies (e.g. Ashbaugh et al. 2003; Lennox 2005; Ghosh &

Moon 2005; Rennie et al. 2010) and interview session that have been conducted with auditor in practice (two audit partner and two audit senior), this study will investigate the impact of self-interest threat (proxy by the economic fee dependence of auditors on audit client) and self-review threat (proxy by the non-audit services to audit client) and familiarity threat (proxy by the impact of employment relationship). Previous empirical studies that have been conducted to test the effect of these factors are based on the audited financial statements or the secondary data. Empirically, their results are mixed and differ (Bennie et al. 2011). Notably, in this study, the effects of the auditors' independence threats are examined by using the primary data which offers the original and unbiased data. In addition, this type of data collection allows the focus to be done on the specific issues that matters to this study.

2.2 Self-Interest Threat

According to IFAC Code (2001), when the total fees from an audit client represents a large proportion of the total revenue of a firm, financial dependence and the concern over losing the client may give rise to a self-interest threat. This study uses a term of "client importance" as to portray the fee dependence of auditors on audit client. According to DeAngelo (1981), the client importance may influence the auditors' incentives to compromise their independence. Empirically, previous studies on the client importance have offered mixed results. A negative impact of client importance on auditors' judgments has been found in studies conducted by Farmer et al. (1987), Nelson et al. (2002) results and Chi et al. (2004). In general, their study found that a higher level of client importance reduces audit quality. Some contrary results were found by Moreno and Bhattacharjee (2003) and Li (2010). Their findings provided evidence on the positive association between the client importance and auditors' judgments. Nevertheless, there are also studies which found no association between client importance and auditors' judgments (e.g. Ashbaugh et al. 2003; Chung & Kallapur 2003; Hunt & Lulseged 2007).

Therefore, based on the preceding discussions, the following hypotheses will be investigated:

H1(a): Self-interest threat (client importance) influences auditors' ethical judgments.

2.3 Familiarity Threat

According to Arens et al. (2008), a long association of senior personnel with audit clients, could create a familiarity threat which may have the potential to threaten the auditors' independence. From the literature, the long association of senior personnel with audit client could be associated as one of the circumstances that emerged from auditor tenure. The length of the tenure period will develop the close association between the auditors and their audit client. It is believed that the auditors' independence is compromised when the auditor-client relationship is too intimate as a result of extended audit tenure (Shockley 1981; Lin & Fraser 2008). Recent empirical research on audit tenure and auditor independence has provides mixed results. There are a group of researchers who claim that lengthy auditor tenure erodes auditor independence, which in turn impairs audit quality (e.g. Chi & Huang 2005; Carey & Simnett 2006; Jackson et al. 2008). In contrast, the longer audit tenure has also been proven to reduce auditor failure, which suggests higher audit quality (Myers et al. 2003; Ghosh & Moon 2005; Lin & Fraser 2008; Davis et al. 2009).

Therefore, based on the preceding discussions, the following hypotheses will be investigated:

H1(b): Familiarity threat (long association of senior personnel with audit clients) influences auditors' ethical judgments.

2.4 Self-Review Threat

The provision of non-assurance services to audit clients may create threats to independence, in mind or in appearance. The self-review threat is likely to occur when previous judgment needs to be re-evaluated by the auditor responsible for that judgment. Normally, this situation happens when auditors provide certain non-assurance services to their financial statements audit clients. According to Arens et al. (2008), a self-review threat may be created and could influence any decisions in making judgments if a firm is involved in the preparation of accounting records and financial statements which are subsequently audited by the firm. In such a situation, the auditor is failing to maintain an objective distance and is not focusing on the audit task at hand (Zembke 1994 in Quick & Warming-Rasmussen 2005). In addition, during the audit, the auditor may ignore errors which are related to advisory services or conceal consulting errors detected by audit work (Bartlett 1991).

Therefore, based on the preceding discussions, the following hypotheses will be investigated:

H1(c): Self-review threat (preparing accounting records and financial statements) influences auditors' ethical judgments.

In addition, this study also anticipated that a situation with more independence threats will lead to higher auditors' ethical judgments as previous empirical researches provide some significant influence of the threats on auditor judgments. Therefore, it is believed that if the auditors are being surrounded with a situation that involved more than one threat, it will enhance the auditors in making more ethical judgments.

For this reason, below hypotheses will be investigated:

H2: The interaction effect between two types of independence threats is stronger on auditors' ethical judgments such that more independence threats lead to higher auditors' ethical judgments.

2.5 Experience

Many empirical studies have reported a positive relationship between experience and ethical judgments (e.g. Jones et al. 2003; Singhapakdi et al. 1999; O'Fallon & Butterfield 2005; Sweeney & Roberts 1997). Consequently, it was widely hypothesized that increases in experience would be positively associated with ethical judgments. However, results from empirical studies of the effect of auditors' experience on their ethical judgments have been inconclusive with several researchers have reported a positive relationship (e.g. Alleyne et al. 2006; Shapeero et al. 2003), negative relationship (e.g. Dreike & Moeckel 1995; Chavez et al. 2001; Cohen et al. 2001) and no significant association (e.g. Shaub 1996; Loe et al. 2000; Dickerson 2009; Conroy et al. 2010) between experience and ethical judgments. Therefore, due to the mixed results found within the literature, this study tends to observe the influence of the

auditors' experience on the relationship between the independence threats and auditors' ethical judgments.

Based on these findings, a moderating effect of experience can be expected. Thus, below hypotheses will be investigated:

H3 (a): Experience has a significant moderating effect on the relationship between self-interest threats and auditors' ethical judgments.

H3 (b): Experience has a significant moderating effect on the relationship between familiarity threats and auditors' ethical judgments.

H3 (c): Experience has a significant moderating effect on the relationship between self-review threats and auditors' ethical judgments.

3. Methodology

3.1 Experimental Design

This study adopts a 2 x 2 between subjects factorial experimental design. The experiment has one dependent variable (ethical judgments) and three independent variables (fee dependence, employment relationship and non-audit services). The three independent variables representing the auditors' independence threats (i.e. self-interest threat, familiarity threat and self-review threat, respectively), were manipulated in two different scenarios. In each scenario, two of them were selected to represent Scenario 1 (i.e. self-interest threat and familiarity threat) and Scenario 2 (i.e. self-interest threat and self-review threat). The self-interest threat is manipulated in both scenarios as it represents the direct incentives that affect auditor independence. Whereas the familiarity threat and self-review threat is manipulated in Scenario 1 and Scenario 2, respectively to represent the indirect incentives that affect auditor independence.

3.2 Scenario Construction

In this experiment, the fee dependence (self-interest threat) is proxied by client importance. The client importance is determined by the amount of client's total fees paid to the audit firm. According to MIA By-laws (revised 2010), when the total fees from the client represent a large proportion of the audit firm's total revenue i.e. exceed fifteen percent (15%) of the firm's total annual fees, a financial dependence issue might give rise to a self-interest threat among the auditors. In this experiment, the client importance is manipulated into two levels. It is designated that a low level scenario is when the client's company contributes less than five (5) percent and a high level scenario is when the client's company contributes up to twenty (20) percent of the audit firm's total annual fees.

The employment relationship (familiarity threat) is proxied by duration of association of auditors with the audit client. A close relationship due to long association of auditors and their audit client will cause a familiarity threat to occur. In this experiment, the employment relationship (familiarity threat) is measured by the years of doing auditing works in the client's company. The IFAC Code (2010) stipulates that the engagement of auditors involved in auditing works should be rotated after serving a particular audit client for a pre-defined period. In accordance with this notion, the accounting bodies in

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Malaysia through the MIA By-laws (2010), have specified the period as not more than five (5) years (Arens et al. 2008). Therefore, in order to construct a low level scenario, the auditor is said to be involved in the audit of the client's company starting from the last year (1) audit. Whereas in the high level scenario, the auditor is said to be involved in the audit of the client's company starting from the last seven (7) years audit.

Finally, the provision of non-audit services (self-review threat) is proxied by the involvement of auditors in the preparation of accounting records and financial statements which are subsequently audited by the firm. In this experiment, a scenario is constructed where the auditor agrees to prepare the interim financial statements for his client's company. In the low level scenario, the auditor will not be involved in the upcoming year of financial statement audit of the client's company. On the other hand, in the high level scenario the auditor is designated as a person in-charge of the audit team for the upcoming year of financial statement audit of client's company.

3.3 Participants

The sample group of this experiment is the practicing external auditor registered with the Malaysian Institute of Accountants in Malaysia. Of the 883 research instruments sent out, 233 completed questionnaires were returned. The data were reviewed to seek out errors in the form of invalid data including a blank questionnaire or missing values and those questionnaires that came from auditors which having less than one year experience in auditing. This procedure was carried out to produce clean data for the research analysis (Jackson 2008; Alreach & Settle 1995). Upon reviewing, forty nine (49) of the returned questionnaires were excluded from the analysis. Twenty six (26) questionnaires were found to have not answered the scenarios properly or left a few items in the questionnaire incomplete and another twenty three (23) participants were indicated as having experience less than one year in audit firm. As a result of this process, 184 usable questionnaires were finalized which represents a 21 percent response rate. The response rate is calculated as the percentage of the number of usable returned questionnaires to the number of questionnaires sent. This response rate is consistent with Maheran (2010) and Smith et al. (2005) who studied auditors in Malaysia which received a 23 percent response rate.

4. Findings

4.1 Descriptive Analysis of the Participants

In total, the sample comprised of one hundred and eighty four (184) auditors who worked in audit firms throughout Malaysia. Table 1 presents the selected demographic characteristics of participants in this experiment. Out of the total respondents, there are seventy (70) males (38 percent) and one hundred and fourteen (114) females (62 percent). The number of female auditors is about double than the number of male auditors. This rate is consistent with Mohd. Sanusi et al. (2007), who studied auditors in Malaysia.

Seventy nine (79) of the respondents are Malays (42.9 percent), eighty (80) are Chinese (43.5 percent) and twenty five (25) are Indians (13.6 percent). Majority of the respondents were degree holders (69.6 percent) followed by professional qualification (23.4 percent) and the rest are diploma holders (7.1 percent). The sample of

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respondents included audit junior (21.7 percent), audit senior (44 percent), audit manager (23.9 percent) and audit partner (10.3 percent). Majority of them (83.2 percent) are being attached to a non Big-4 audit firm category. The age of the respondents ranged from twenty three (23) to fifty five (56) years with a mean value of twenty eight (28) years and a standard deviation of five (5). Meanwhile, the average working experience of respondents is six (6) years with a standard deviation of three and a half (3.5) years.

Table 1: Demographic Characteristics

Item		Overall (N=184)	
		Frequency	Percent
Gender	Male	70	38.0
	Female	114	62.0
Race	Malay	79	42.9
	Chinese	80	43.5
	Indian	25	13.6
Qualification	Diploma	13	7.1
	Degree	128	69.6
	Professional	43	23.4
Job Position	Audit Junior	40	21.7
	Audit Senior	81	44.0
	Audit Manager	44	23.9
	Audit Partner	19	10.3
Audit Firm Category	Big 4	31	16.8
	Non Big-4	153	83.2

4.2 Allocation of Participants for the Research Design

As this study adopts a 2 x 2 between-subjects factorial experimental design, there were four sets of questionnaires being distributed to the participants. Each of the participants received a research instrument either with low or high level of self-interest threat (between-subject factorial design) and they responded to both Scenario1 and Scenario 2 (with either low or high level of familiarity threat and self-review threat, respectively).

Table 2: Subjects per Cell

			Self-Interest Threat	
			High	Low
Scenario 1	Familiarity Threat	High	44	47
		Low	54	39
Scenario 2	Self-Review Threat	High	44	47
		Low	54	39

The 184 respondents are divided into two groups based on the self-interest threat (since both of the scenarios manipulated this independent variable), to determine the number of subjects for each cell. Table 2 represents four experimental cells with the allocation of participants. The number of subjects per cell is considered as adequate because as a general rule, Hair et al. (2010) state that each cell should contain a minimum of five observations.

4.3 Manipulation Checks

In order to determine whether the independence threats in this experiment are successfully manipulated, five questions regarding the type of auditors' independence

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threats are examined. Out of the five questions, only one question is related to the respective independence threats that have been manipulated in each scenario. The respondents are expected to mark the correct independence threats by giving higher rate to the respective independence threats that being manipulated as compared to other independence threats that being listed in the questionnaire. The manipulation is successful when there is a significant mean difference on the question representing the independence threats between respondents who received the low independence threats and high independence threats. This analysis is conducted through the test of differences in group means via independent samples t-tests. A manipulation check for Scenario 1 and Scenario 2 is examined, as presented in Table 3 and Table 4, respectively.

Table 3 (Panel A): Independent Samples T-Test of Group

		Group Statistics									
		Manipulation group	N	Mean	Std. Deviation	Std. Error					
S1 Self-Interest Threat		Group 1 - Low Client Importance	86	2.97	1.111	.120					
		Group 2 - High Client Importance	98	3.20	.984	.099					
		Independent Samples Test									
		Levene's Test for Equality of Variances			t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference		
									Lower	Upper	
S1 Self-Interest Threat	Equal variances assumed	2.436	.120	-1.547	182	.038	-.239	.154	-.544	.066	
	Equal variances not assumed			-1.535	171.217	.041	-.239	.156	-.546	.068	

Table 3 (Panel B): Independent Samples T-Test of Group

		Group Statistics							
		Manipulation group		N	Mean	Std. Deviation	Std. Error	Mean	
S1 Familiarity Threat	Group 1 - Low Familiarity			93	2.73	1.085		.112	
	Group 2 - High Familiarity			91	3.38	.853		.089	

		Independent Samples Test								
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference Lower Upper	
S1 Familiarity Threat	Equal variances assumed	7.615	.106	-4.535	182	.000	-.653	.144	-.938	-.369
	Equal variances not assumed			-4.546	174.011	.000	-.653	.144	-.937	-.370

Table 4 (Panel A): Independent Samples T-Test of Group

		Group Statistics							
		Manipulation group		N	Mean	Std. Deviation	Std. Error	Mean	
S2 Self-Interest Threat	Group 1 - Low Client Importance			86	2.58	1.011		.109	
	Group 2 - High Client Importance			98	3.00	1.065		.108	

		Independent Samples Test								
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference Lower Upper	
S1 Self-Interest Threat	Equal variances assumed	.341	.560	-2.724	182	.007	-.419	.154	-.722	-.115
	Equal variances not assumed			-2.733	180.850	.007	-.419	.153	-.721	-.116

Table 4 (Panel B): Independent Samples T-Test of Group

		Group Statistics				
Manipulation group		N	Mean	Std. Deviation	Std. Error Mean	
S2 Self-Review Threat	Group 1 - Low (Not Audit Team)	93	2.67	1.046	.108	
	Group 2 - High (Audit Team)	91	3.10	.967	.101	

		Independent Samples Test								
		Levene's Test for Equality of Variances			t-test for Equality of Means					
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference Lower	Upper
Self-Review Threat	Equal variances assumed	2.352	.127	-2.909	182	.004	-.432	.149	-.725	-.139
	Equal variances not assumed			-2.912	181.413	.004	-.432	.148	-.725	-.139

The Sig. (2-tailed) is used to test for a difference in the mean scores of each independence threat between the groups with low and high threat. With the value below .05, significant differences between the two compared groups would exist (Pallant 2007; Wagner 2007). From the findings presented in Table 3 and Table 4, it is indicated that the manipulation of self-interest threat, familiarity threat and self-review threat are all successful with Sig. (2-tailed) value of .038 (.007), .000 and .004, respectively. The result showed that there were significant differences in each independence threats between those having low and high level of threats.

4.4 Hypotheses Testing

The hypotheses in this study have been tested by using the Analysis of Variance (ANOVA). The Hypotheses 1 is developed to examine whether the different type of independence threats i.e. self-interest, familiarity and self-review threat impact the auditors' ethical judgments. The expectation is, if the independence threats are high, they will influence high auditors' ethical judgments. Since there are two scenarios tested on the independence threats (Scenario 1: self-interest threat and familiarity threat; Scenario 2: self-interest threat and self-review threat), Hypotheses 1 shall be discussed under each of the test conducted on the respective scenario by examining the main effects of each independence threats on auditors' ethical judgments. Table 5 and Table 6 demonstrate the results of the general linear model two-way between-groups ANOVA.

Table 5: Test of Between-Subjects Effects – Scenario 1

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared	Observed power
Corrected Model	43.904 ^a	13	3.377	1.285	.226	.089	.731
Intercept	147.655	1	147.655	56.171	.000	.248	1.000
Race	.026	1	.026	.010	.921	.000	.051
Gender	5.031	1	5.031	1.914	.168	.011	.280
Self-Interest	13.514	1	13.514	3.962	.036	.077	.614
Familiarity	10.416	1	10.416	3.611	.048	.041	.508
Position	2.217	2	1.108	.422	.657	.005	.118
Self-Interest * Familiarity	9.612	1	14.612	4.171	.044	.047	.488
Self-Interest * Position	17.874	2	8.437	3.166	.031	.084	.675
Familiarity * Position	20.032	2	10.016	3.810	.024	.149	.887
Error	446.873	170	2.629				
Total	5721.000	184					
Corrected Total	490.777	183					

a. R Squared = .089 (Adjusted R Squared = .020) b. Computed using alpha = .05

Table 6: Test of Between-Subjects Effects – Scenario 2

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared	Observed power
Corrected Model	138.925 ^a	13	10.687	5.413	.000	.293	1.000
Intercept	93.497	1	93.497	47.356	.000	.218	1.000
Race	13.740	1	13.740	1.959	.109	.019	.346
Gender	.948	1	.948	.480	.489	.003	.106
Self-Interest	25.170	1	25.170	12.749	.000	.234	.944
Self-Review	21.769	1	21.769	11.026	.011	.163	.910
Position	4.593	2	2.715	1.349	.284	.012	.291
Self-Interest * Self-Review	.504	1	.504	.255	.614	.009	.079
Self-Interest * Position	11.426	2	5.713	2.894	.048	.033	.560
Self-Review * Position	19.056	2	9.528	4.826	.009	.154	.893
Error	335.635	170	1.974				
Total	4985.000	184					
Corrected Total	474.560	183					

a. R Squared = .293 (Adjusted R Squared = .239) b. Computed using alpha = .05

The results in Table 5 show that there are significant main effects in Scenario 1 with $p < .05$ level for self-interest threat ($F(1,170) = 3.962, p = .036$) and for familiarity threat ($F(1,170) = 3.611, p = .048$). The main effects in Scenario 2 as shown in Table 6, are also significant with $p < .01$ level for self-interest threat ($F(1,170) = 12.749, p = .000$) and for self-review threat ($F(1,170) = 11.026, p = .011$). This indicates that the means on the auditors' ethical judgment are different between high and low self-interest, familiarity and self-review threat. Above findings support the Hypotheses 1(a), (b) and (c) of the study. It is indicated that higher independence threats (self-interest, familiarity and self-review) would influence higher auditors' ethical judgments. In other words, the findings revealed the direct effect of the self-interest, familiarity and self-review threat on the auditors' ethical judgments.

Following the above analysis, a test to observe the interaction effect between the different type of independence threats (self-interest, familiarity and self-review) on auditors' ethical judgments (Hypotheses 2) is performed. It is anticipated that the more independence threats will lead to higher auditors' ethical judgment. The results as shown in Table 5 demonstrate that there is a significant interaction effect between self interest threat and familiarity threat (Scenario 1) on auditors' ethical judgments ($F(1,170) = 4.171, p = .044$). However, the interaction between self interest threat and

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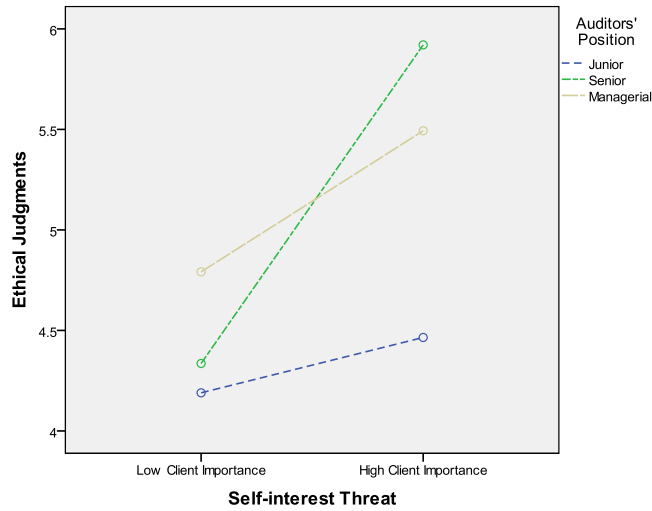
self-review threat (Scenario 2) on auditors' ethical judgments is not found to be significant ($F(1,170) = .255, p = .614$) (Table 6). The results indicate that the interaction effect of independence threats on auditors' ethical judgments is different due to the type of threats manipulated in the scenarios constructed. Thus, based on above results, the findings partially supported Hypotheses 2 of the study.

Finally, it is expected that the positive effect of each independence threat (self-interest, familiarity and self-review) on auditors' ethical judgments varies by different level of auditors' experience (H3 a, b & c). In this study, the auditors' experience is measured by the position level of the auditors' i.e. junior, senior and managerial level. Initially, the main effect of position level on the auditors' ethical judgments is analysed. The results (please refer Table 5 - 6), show that the position level main effects, $p = .657$ and $.284$ for the respective scenario 1 and 2. The results demonstrate insignificant main effects of position level on the auditors' ethical judgments. This indicates that different position level present insignificant difference in terms of its effect on the auditors' ethical judgments. These findings meet the expectation, in which the auditors' position level is expected to have moderating effects on the relationship between the independence threats and the auditors' ethical judgments.

Next, a test on the interaction effect of each independence threat and auditors' position level on the auditors' ethical judgments is examined. From the Table 5, there is a significant interaction effect between the self-interest threat and position level (Hypothesis 3a) on auditors' ethical judgments ($F(1,170) = 3.166, p = .031$) as well as the familiarity threat and position level (Hypothesis 3b) with ($F(1,170) = 3.810, p = .024$). Besides, in Table 6, both of the interactions between self-interest threat and position level (again, testing on Hypothesis 3a) and between self-review threat and position level (Hypothesis 3c) on auditors' ethical judgments are also significant with ($F(1,170) = 2.894, p = .048$) and ($F(1,170) = 4.826, p = .009$), respectively. Above analysis show that the differences in the populations means on the auditors' ethical judgments among the different types of the independence threats does vary as a function of the levels of the position level. These findings indicate the interaction effects do exist between all types of the auditors' independence threats and auditors' position level on auditors' ethical judgments. Therefore, they lend support for Hypotheses 3a, 3b and 3c. In summary, it can be concluded that the auditors' position level does have a moderating effect on the relationship between the independence threats (self-interest threat, familiarity threat, and self-review threat) and the auditors' ethical judgments.

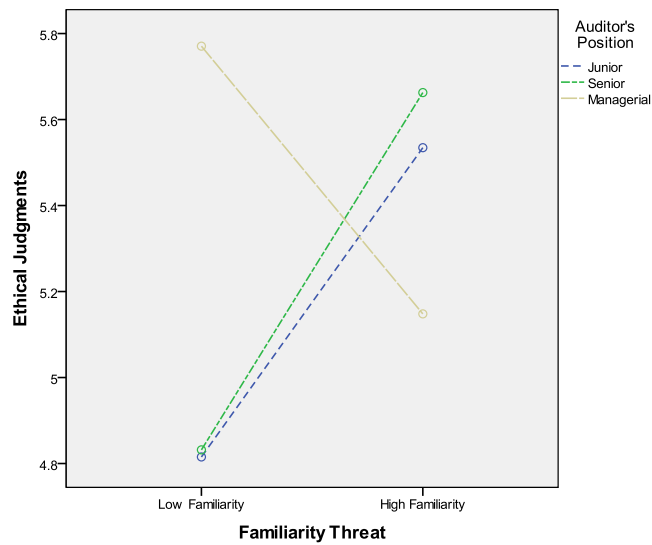
The effect of interactions between the independence threats and auditors' position level on auditors' ethical judgments presented graphically in Figure 1 – Figure 3 and consistent with Frazier et al. (2004). The plots show that the effects of the independence threats (self-interest threat, familiarity threat, and self-review threat) on the auditors' ethical judgments are depends on the auditors' position level.

Figure 1: Graphical representation of the moderating effect of auditors' position level on the relationship between self-interest threat and auditors' ethical judgments.



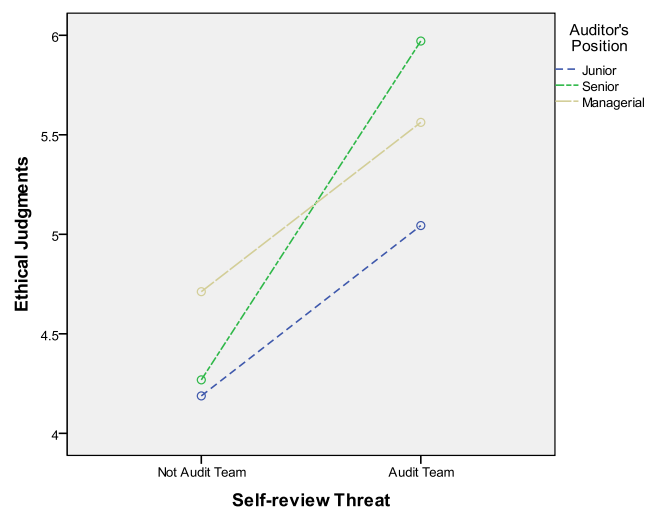
Covariates appearing in the model are evaluated at the following values: Recode race = 1.57, Respondent's Gender = 1.62

Figure 2: Graphical representation of the moderating effect of auditors' position level on the relationship between familiarity threat and auditors' ethical judgments.



Covariates appearing in the model are evaluated at the following values: Recode race = 1.57, Respondent's Gender = 1.62

Figure 3: Graphical representation of the moderating effect of auditors' position level on the relationship between self-review threat and auditors' ethical judgments



Covariates appearing in the model are evaluated at the following values: Recode race = 1.5657, Respondent's Gender = 1.62

In summary, Figures 1 – 3 clarify the moderating effect of auditors' position level on the relationship between each independence threat and auditors' ethical judgments. Generally, at a low level of threat, all position level is more stable in making their ethical judgments. The differences of their judgments are close to each other with managerial level provides the most ethical judgments followed by senior level and junior level. As the threats getting higher, the ethical judgments of the auditors are also significantly higher but with different slope between the position levels. For the self-interest and self-review threats, the senior level outperformed the managerial level and from the graph, it is obviously shown that it provides the biggest slope as compared to managerial and junior level. However, for the familiarity threat, at the high level of threat, the managerial level marked the lowest ethical judgments. The graphs revealed that the managerial level's ethical judgments are decreased as the familiarity threat increased, which is contra to the ethical judgments made by the senior and junior level.

5. Discussion and Conclusions

This study aims to provide evidence, in relation to three types of auditors' independence threats potentially linked to auditors' ethical judgments namely the self-interest threat (proxy by fee dependence), the familiarity threat (proxy by employment relationship) and the self-review threat (proxy by non-audit services). It is found that all the independence threats under study provide significant positive influence on the auditors' ethical judgments. The results support the previous studies on the positive effect of self-interest threat (e.g. Moreno & Bhattacharjee 2003; Li 2010) and familiarity threat (e.g. Ghosh & Moon 2005; Davis et al. 2009; Bennie et al. 2011) on audit judgments. In addition, the results also highlighted the positive significant effect of self-review threat arising from the non-audit services on the auditors' ethical judgments. From the findings it is advocated that in such situations, auditors acknowledge the effect of this threat in their ethical judgments. Thus, this finding resists the claims made by (Bartlett 1991) and Zembke (1994) in Quick and Warming-Rasmussen (2005). In addition, this study also found a significant interaction effect

between self-interest threat and familiarity threat which indicates that more threats will encourage the auditors to behave more ethically.

This study also revealed a significant interaction effect of auditors' position on the relationship between the auditors' independence threats and their ethical judgments. From the analysis, at a low level of threats, all position level is more stable in making their ethical judgments. The managerial level provides the most ethical judgments followed by the senior and junior levels. This finding could be supported by the fact that as the auditors increased in their position, their experiences increased too (Abu Bakar et al. 2005). The longer they become auditors, the more problems they will encounter and exposed to, giving them greater confidence to make decisions on issues raised. However, at a high level of threats, the auditors' ethical judgments are also significantly higher but with different incline among the position levels. For the self-interest and self-review threats, although the auditors' ethical judgments increased as the threats increased, the senior auditors outperformed the managerial level and junior auditors. Whereas, for the familiarity threat, the finding shows that the managerial level are making an inverse judgments as compared to the senior and junior levels. This finding shows that as the managerial level auditors are getting closer to their audit client, they are more in a position to secure the relationship by being more flexible in their ethical judgments. This finding could be supported by other empirical studies which suggested the same pattern of results (e.g. Cianci & Bierstaker 2009; Chi et al. 2004). Their findings indicate that at the managerial level, auditors are tending to compromise their independence which in turn will result in reducing their ethical consideration.

As a conclusion, the results in this study strongly supported the calls made by Uysal (2010) and Jones et al. (2003) who suggest that more research is needed to investigate the auditors' ethical actions in relation to auditors' independence issue. Given the increased scrutiny of auditors' independence by regulators, the profession and the public due to various corporate scandals and audit failure around the globe, it is not unexpected that auditors are likely to be more aware of these issues in making their ethical judgments. Therefore, by having the results of this study it is hoped that the profession could enhancing more effort in scrutinizing and dealing with various types of auditors' independence threats especially the familiarity threats which inherently surrounds the auditing working environment. The study has possible practical contributions and implications. First, the results of the study can inform the profession and professional accounting bodies of the importance to expose the auditors to the various possible circumstances that could create the threats to independence. Normally, auditors especially the junior staff are given responsibilities to do auditing work without possessing any non-technical abilities. Perhaps, a series of relevant training on ethics could be provided by the professional accounting bodies or the audit firms in order to develop the ethical considerations. Second, the study serves to enhance the awareness of auditors about the contextual factors surrounding the role of an auditor, in addition to the possible threats and enhancement factors that affect their independence and ethical judgments.

There are several limitations that should also be noted thus will highlighted the future research to be done. First, respondents of this study were given two ethical scenarios which might limit the respondents' perception towards the differences of independence threats. The second limitation is that each independence threat was narrowly defined within the context of each scenario. These components may have been more or less intense depending upon the issue without the researcher detecting

these differences. Finally, this study looked at auditor perceptions and not user perceptions of the potential effect of independence threats on auditors' ethical judgments. A future research could evaluate whether there is an expectation gaps between what auditors perceive the effect as compare to what users perceive.

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