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A Study of Whistleblowing among Trainee Auditors

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Abstract

Over the last number of years whistleblowers have been gaining prominence. This paper investigates some of the factors that influence the propensity or willingness to blow the whistle among trainee auditors. Three categories of factors are examined: audit firm organisational structures, personal characteristics of whistleblowers and situational variables.

A survey of 240 final year students of the Institute of Chartered Accountants in Ireland was undertaken. Trainee auditors (just about to sit their finals) were asked about their confidence in internal and external reporting structures in their firms. Using four scenarios, audit trainees were questioned on their willingness to challenge an audit partner's inappropriate response to concerns raised during the audit. Finally, audit trainees were asked about the influence of legal protection on their likelihood of whistleblowing.

Results indicate that where firms have adequate formal structures for reporting wrongdoing, trainee auditors are more likely to report wrongdoing and have greater confidence that this will not adversely affect their careers. Training increases this confidence. Trainee auditors also express a willingness to challenge an audit partner's unsatisfactory response to wrongdoing. Significant differences were found in attitudes depending on whether the reports of wrongdoing were internal or external. The willingness to report wrongdoing externally reduces for older (aged over 25) trainees.

1. Introduction

Nowadays, firms are encouraged to develop whistleblowing policies and such policies are seen as part of their internal control systems. For this reason, one would expect audit practices (who are likely to recommend the introduction of such policies within client firms) to have such policies themselves, and to ensure (for example by training programmes) that such policies are adopted by audit staff. But are auditors willing to confront wrongdoing they observe, by blowing the whistle? Vinten (1992b) has gone so far as to describe whistleblowing auditors as a contradiction in terms.

There are excellent recent examples of whistleblowers being lauded before the public and hailed by the media as heroes. Grant (2002) has gone further to describe them as “Saints of Secular Culture”. Whistleblowers enjoy more public acceptance today than at any other time, so much so that Time Magazine declared the highly celebrated whistleblowers Cynthia Cooper (WorldCom), Coleen Rowley (FBI) and Sherron Watkins (Enron) as Persons of the Year 2002, an accolade that would hardly have been possible a decade ago.

Vinten (2003) reviews classic whistleblowing cases, including cases in the financial services, accounting and auditing sectors, and he points to the paucity of research outside the US on whistleblowing (Vinten 2004). He concludes his two papers by commenting on the growing difference in culture around whistleblowing in the public sector compared with the private sector where commercial pressures may discourage people from coming forward.

Definitions of Whistleblowing

There is no agreed definition of whistleblowing. The term has worked its way into the business vernacular and is widely used to describe the act whereby one exposes wrongdoing (Jubb, 1999; Perry, 1998). Jubb (1999, 78) defines whistleblowing as:

“Whistleblowing is a deliberate non-obligatory act of disclosure, which gets on to public record and is made by a person who has or had privileged access to data or information of an organisation, about non-trivial illegality or other wrongdoing

whether actual, suspected or anticipated which implicates and is under the control of that organisation, to an external entity having potential to rectify the wrongdoing.”

Interesting insights can be gained by comparing the definition of Jubb (1999) to the more widely-accepted and most frequently used definition provided by Near and Miceli (1985, 4):

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

Near and Miceli (1985) do not consider that the disclosure must be non-obligatory. Secondly, while hinting at the need for gravity (i.e. *illegal, immoral or illegitimate*), Near and Miceli (1985) do not directly emphasise the seriousness of the potential wrongdoing. Finally, Near and Miceli (1985) do not preclude reporting internally, unlike Jubb (1999).

Following the definitions above, wrongdoing is a term used to refer to non-trivial illegality, or to illegal, immoral or illegitimate practices. Auditors in Ireland have some legal obligations to blow the whistle.¹ Following from these legal requirements, and taking into consideration accounting requirements and regulations of professional bodies, wrongdoing in an auditing context could include fraud, financial statement fraud resulting from non-application or mis-application of accounting standards, moneylaundering and tax evasion. At the time of this research, legislation had been enacted in Ireland, but not commenced by ministerial order, requiring directors to complete a statement attesting to the company's compliance with “relevant” legal obligations. Thus, in this climate, breaches of corporate legal requirements would also be considered a wrongdoing.

Legal Protection for Whistleblowers

Common law protects the right of organisations to hold proprietary information and “has never given workers a general right to disclose information about their employment” (Lewis 2001, 171). This common law prohibition on the disclosure of information by employees is grounded in two principles, specifically the duty of trust and the duty of fidelity. In relation to the disclosure of confidential information this is normally the subject of express terms in the employment contract. The only common law defence in

such an action is to prove that the confidential information was disclosed in the public interest.

While other jurisdictions such as the US (Sarbanes-Oxley Act 2002) and the UK (Public Interest Disclosure Act, 1999) have introduced legislation in recent years to protect employees who blow the whistle, Ireland has yet to do so. A private member's bill, the Whistleblowers Protection Bill, was introduced but not passed in the Irish Parliament in 1999. Thus, Ireland still does not have any act or statute designed to protect whistleblowers.

The principal remedy available to those who blow the whistle in Ireland is the Unfair Dismissals Acts, 1977-2001. Under the terms of these Acts it is unlawful for an employer to dismiss an individual who has taken, or is taking part in, civil or criminal action against their employer. Relying on this remedy however is wholly unsatisfactory. Firstly, in the subsequent period after making a report, the whistleblower is not protected from victimisation or harassment. Secondly, whistleblowers must first lose their jobs in order for the provisions of the Act to be invoked. This situation hardly encourages employees to report instances of suspected or actual wrongdoing. Moreover, it is unlikely that employees would report wrongdoing knowing that they would lose their jobs. However, it is possible that employees in auditing firms will, post-Enron, be more willing to report wrongdoing.

Motivations to Blow the Whistle

What motivates people to blow the whistle is not yet fully understood. Dozier and Miceli (1985: 823) state that whistleblowing is "a 'prosocial' behaviour [positive social behaviour intended to benefit other persons], involving both selfish (egoistic) and unselfish (altruistic) motives". Since society's expectations are changing (Likierman, 1989) and such social parameters are constantly evolving, it must be recognised that sometimes whistleblowing is neither politically nor socially acceptable, yet other times to say nothing is to be complicit with the wrongdoers.

External auditors are placed in a unique position by virtue of the access to their clients' company records, accounts and their relationship with the directors. However, the relationship is fraught with potential ethical dilemmas. As Loeb and Cory (1989) point out, auditors are subject to a variety of conflicting pressures both from their employer, their profession and their clients. Yet as Vinten (1992b) notes, auditors find out early on in their careers that they are watchdogs over the company and not bloodhounds, to use the phrase first coined in the Kingston Cotton Mill case.² Vinten (1992b, 3) ponders whether external auditors more closely resemble French poodles rather than watchdogs: "...ornamental and friendly, but unlikely to come up with any surprises."

Contribution of the research

There are a limited number of empirical studies on whistleblowing in organisations. There are few that empirically address whistleblowing in an accounting or auditing context (Arnold and Ponemon (1991) is an exception). This research examines the topic of whistleblowing among trainee auditors and the influences of a variety of variables on the decision to blow the whistle. Although preliminary in nature, this research is one of the first of its kind in accounting and auditing in examining some of the organisational, personal and situational variables peculiar to the auditing profession and the inclination to report wrongdoing.

2. Literature Review and Research Questions

The decision to blow the whistle is not an easy one and is a function of many different organizational, personal and situational variables (Miceli and Near, 1988; Near and Miceli, 1985; Tsui, 1996; King, 1999; Lovell, 2002). This research explores some of these variables, with specific reference to trainee auditors, to establish whether or not they are willing to blow the whistle on wrongdoing of which they become aware.

Discussion of the specific organisational context, the auditing profession, is first considered. Whistleblowing as a process is then outlined. Nine aspects of the role of auditors and audit firms are addressed by reference to three categories of influences on

whistleblowing: (i) Organisational structure, (ii) personal characteristics of whistleblowers and (iii) situational context.

Organisational Context: The Auditing Profession

Auditors are employed by the shareholders to report on the financial affairs of the company and their remuneration is fixed by shareholders. However, in practice the directors, whose stewardship of the company is central to the auditors' report, wield dominant influence when selecting auditors and fixing remuneration. Considering the desire for re-appointment, auditors face situations that give rise to conflicts of interest (Likierman, 1989). Likierman (1989, 620) goes on to cite Irvine (1988) who describes this "catch 22" situation:

"Either he [the accountant] says nothing and compromises himself or he puts his livelihood at stake. If he is a man with family commitments it is extraordinarily difficult to put those on the line and jeopardise his whole future for the sake of a principle."

For auditors, these divided loyalties are affected by a number of factors, such as their professional and ethical codes, the reporting requirements (voluntary or mandatory) and channels (internal or external), as well as an assessment of the public interest. In many instances auditors are removed from the consequences of their actions or indeed inaction. Auditors must "face the consequences of decisions made by complete strangers while making decisions that will affect the lives of people [they] will never know" (Williams, 2000, 261). This remoteness of the effect of decisions and their consequences is of particular interest when studying whistleblowing.

Auditors rely on ethical guidelines of their professional bodies when confronted with an ethical dilemma. In their study of the effect of ethical and professional codes on ethical decision making, Pater and van Gils (2003) found that, contrary to popular belief, ethical codes (i.e. those introduced by employer organisations) lead to more unethical behaviour. They suggest that this is because ethical codes encourage a "by the book" attitude and that employees are consequently not encouraged to make the right moral decision. In contrast, they found that professional codes have a significant effect on ethical decision making and suggest that this is because professional codes articulate general principles

rather than specify rules. This view is supported by Thorne and Hartwick (2001) who maintain that auditors do not solve ethical dilemmas simply by adhering to the professional rules or codes and apply professional judgement to resolve issues for which rules have not yet been developed, and in some cases question the rules if they are not in accordance with the public interest (Thorne and Hartwick, 2001 354).

As Vinten (1992b, 6) notes “A distinguishing mark of a profession is acceptance of its responsibility to the public”. Most accountancy bodies recognise this duty to act at all times in the best interests, not only of clients, but also of the wider public, for the benefit of the orderly functioning of commerce (Mitschow and Langford, 2000; Doucet and Eprile, 2000). Auditors therefore act at the behest of society which deems their skills to be necessary. As Doucet and Eprile (2000, 223) state “When professionals assume the role of auditors...they assume special duties which derive from their social contracts based on the trust society has in their ability to fulfil these roles”. This implies that if for any reason society no longer trusts auditors then the profession will cease to have a *raison d'être*.

Some authors have sought to further broaden the profession's interpretation of the public interest to incorporate the concept of moral responsibility (Loeb and Cory, 1989). This perspective recognises that in many areas of the professional accountant's work, s/he has the power to influence the outcome of situations that have an effect on society. It is therefore important for professional accountants to note the close association between acting ethically or morally and acting professionally. If one is to accept the social contract opinion of Doucet and Eprile (2000), and the interpretations of ethics and the profession above, then it becomes clear that the accounting/auditing profession must not restrict itself to a narrow duty of acting in the public interest as to do so is to risk the trust society places in the profession.

Furthermore, where a conflict exists, it appears that professionals are more loyal to their profession than to their organisation (Pater and van Gils, 2003). But a cautionary note must be sounded in that the professional associations do not generally play a dominant

role in the everyday activities of professionals. Therefore “unless compliance with professional codes is enforced by the work organisation, professional codes are not likely to bring about any positive effects” (Pater and van Gils, 2003, 766). If this opinion is accepted, then the culture within auditing practices must be the enforcement of ethical guidelines of the accounting profession.

Whistleblowing as a Process

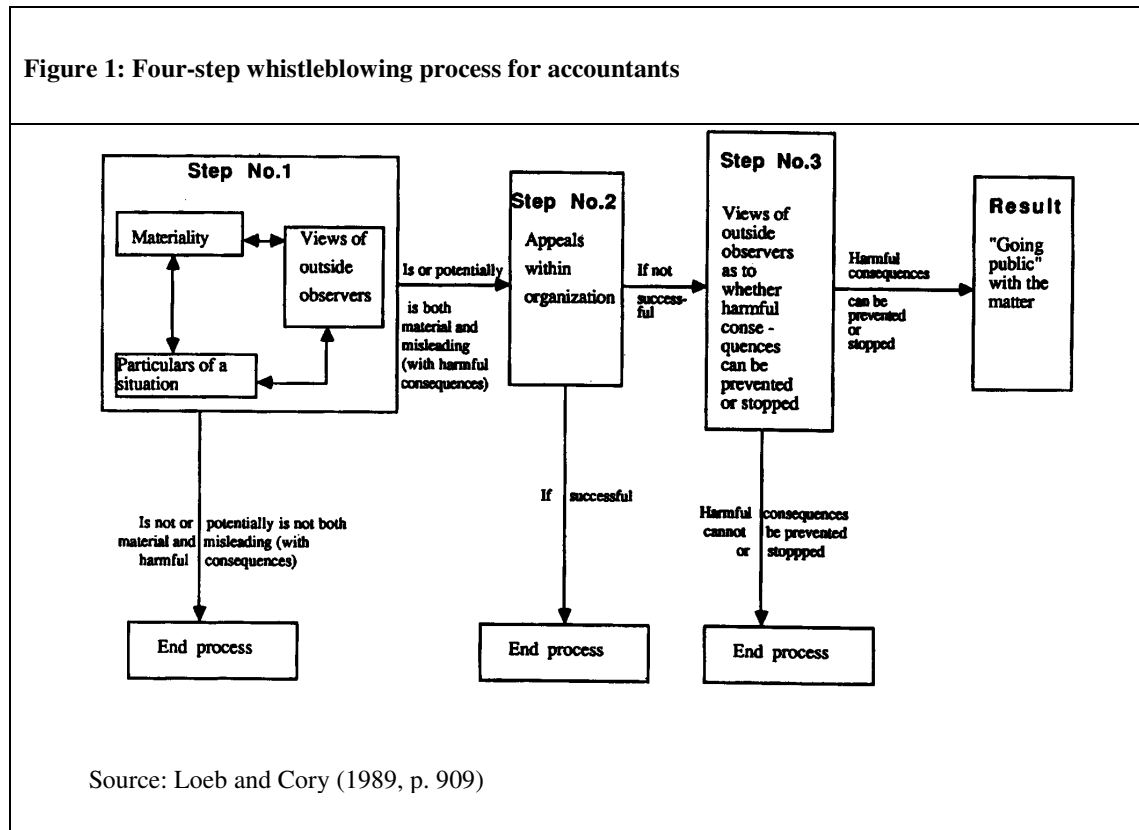
Whistleblowing is generally viewed a process rather than an event (Near and Miceli, 1985; Loeb and Cory, 1989; Somers and Casal, 1994; Jubb, 1999; Grant, 2002). This process consists of at least four elements (Near and Miceli 1985):

- the whistleblower,
- the whistle-blowing act,
- the party to whom the complaint is made (i.e. the complaint receiver), and finally,
- the organisation against which the complaint is made.

Dozier and Miceli (1995) suggest that the use of bystander intervention theory to examine the decision process might be useful. They cite the work of Latané and Darley (1970) who identified a five-step approach; firstly the observer must be aware of the wrongdoing; secondly s/he must decide whether it warrants action; thirdly, s/he must decide if s/he is responsible for taking such action; fourthly, an appropriate method of action must be selected; and finally, the action must be undertaken. This process view emphasises the stages in the ethical decision making process for the would-be whistleblower and in so doing highlights the ethical dilemmas inherent in the decision to blow the whistle.

Loeb and Cory (1989) extend this process view with a depiction of the decision process for accountants in industry as adapted from that suggested by De George (1981) for professional engineers (see Figure 1). This depiction is congruent with the process view expressed by Near and Miceli (1985) and the bystander intervention theory as depicted by Latané and Darley (1970). While this paper deals with auditors, not accountants in

industry, Figure 1 illustrates how a more generalised view of whistleblowing can be adapted to specific contexts such as engineering, to accounting, to auditing.



Organisational Structure: Internal vs. External Reporting Structures

There exists in the literature “substantial disagreement” (Near and Miceli 1985, 3) concerning whether or not internal reporting of suspected or actual wrongdoing should be considered whistleblowing. Those who argue that internal reporting should not constitute whistleblowing do so from different perspectives. Jubb (1999) cites De George (1990) who argues that internal disclosures neither breach the organisation’s confidences nor violate its proprietary rights, therefore it is doubtful whether such disclosures constitute whistleblowing. Courtemanche (1988, 39) similarly advocates that internal disclosures should not be considered whistleblowing, stating instead “Whistleblowing is commonly understood as being a gratuitous act unrelated to one’s official duties and responsibilities”.

However, Near and Miceli (1985) and King (1999) argue that reporting wrongdoing externally or internally is largely the same process. Although the effects of reporting internally or externally may be different, they argue that conceptually both instances represent a direct challenge to the offending organisation's authority structure and both should therefore be considered legitimate cases of whistleblowing. Moreover, Mitschow and Langford (2000) contend that given the numerous restrictions upon external auditors from "going public", whistleblowing should not be restricted only to incidents where the whistleblower reports the matter externally.

The decision concerning to whom to report wrongdoing involves considerable ambiguity (Dworkin and Baucus 1998). For external auditors this decision is further complicated by a number of issues. Firstly, external auditors are faced with the problem of dual loyalty both to the client and to the wider public interest (Mitschow and Langford, 2000). Secondly, external auditors faces many ethical, professional and legal restrictions on "going public" with confidential information concerning their client's wrongdoing. Indeed it would appear that independent auditors face more severe penalties than other professions for disclosing confidential information publicly (Mitschow and Langford, 2000). Finally, external auditors face a multitude of situations where statute compels them to report certain matters externally.

Whistleblowing – Formal Structures

Given these complications peculiar to the auditing profession, the results of previous research take on a greater significance. Such research has emphasised the need for clear and proper channels for reporting actual or suspected wrongdoing internally within organisations (Near and Miceli, 1994; Barnett, 1992; Barnett *et al.*, 1993). Furthermore, Near *et al.* (1993) found that firms with a climate where individuals knew to whom a report of actual or suspected wrongdoing should be made, was positively related to the incidence of whistleblowing. Sims and Keenan (1998) emphasise the important role of clear organisational policies with respect to ethical issues within organisations. The first research question addresses reporting from a process rather than relationship perspective.

RQ_{1a}: To what extent do audit firms have adequate formal reporting structures in place?

RQ_{1b}: To what extent do audit firms have a whistleblowing policy in place?

Whistleblowing – Internal Reporting Structures

King (1999) argues that larger, hierarchal, authoritarian and more bureaucratic organisations stifle upward communication and are therefore a more hostile environment within which to report unethical behaviour (Barnett, 1992). This chain of command may be a barrier to the upward communication of concerns and is a particularly important feature of auditing practices. Many audit firms employ a hierarchal structure from managing partner, partner, director, assistant director, manager, audit senior down to audit junior. Otley and Pierce (1995) report higher levels of dysfunctional behaviour amongst audit seniors where the leadership style is more structured (orientated towards goal attainment) and demonstrates low consideration (mutual trust and respect) towards subordinates. However, this effect may be decreasing as Pierce and Sweeney (2004) and Sweeney and Pierce (2004) report changes in audit firm structures and increased flattening of hierarchical structures. They found major changes such that there are more varied internal reporting structures and performance evaluation. More varied reporting lines were found (with juniors reporting directly to audit managers, audit partners, as well as to audit seniors), such that direct reporting with immediate superiors is less frequent. However, this reporting behaviour found in relation to performance evaluation systems in audit firms may not apply in relation to reporting of ethical concerns. Given that many auditing practices (especially the large firms) have formal, hierarchal structures, it is important that there are robust internal reporting structures in which trainee auditors have confidence if they are to be encouraged to report suspected or actual wrongdoing. The second research question is therefore:

RQ₂: Do trainee auditors have confidence in the internal reporting structures within their firm?

Whistleblowing – External Reporting Structures

In light of the numerous legal obligations upon auditors to blow the whistle in certain circumstances discussed earlier, it is relevant to investigate whether or not trainee auditors are willing to report a matter of concern to an external authority. The third research question deals with external reporting structures, and is similar to RQ₂ on internal reporting structures:

RQ₃: Do trainee auditors have confidence in the external reporting structures within their firm?

Organisational Structure: Influence of Firm Size on Whistleblowing

Audit firm size has been used as a proxy in prior research for audit quality (Francis and Wilson, 1988; DeFond, 1992). For example, Craswell *et al.* (1995) and DeFond *et al.* (2000) find large firms earn significantly larger fees, confirming DeAngelo's (1981) rationale for the view that large accounting firms conduct high-quality audits.

Thorley *et al.* (1998) found that small firm practitioners generally have the same level of moral reasoning as big six practitioners. They provide an extensive discussion as to why small firm practitioners might differ from those in big-six firms, primarily that larger auditors are expected to be higher quality auditors. Following this argument, more whistleblowing is expected in higher quality larger audit firms. However, there are reasons for expecting the opposite result, such as the arguments of King (1999) concerning the more hostile environments of larger, hierarchal, authoritarian and bureaucratic organisations stifling upward communication. The influence of audit firm size on whistleblowing is therefore tested.

RQ_{4a}: Are adequate formal reporting structures / a whistleblowing policy related to audit firm size?

RQ_{4b}: Is trainee auditors' confidence in the internal reporting structures within their firm influenced by audit firm size?

RQ_{4c}: Is trainee auditors' confidence in the external reporting structures within their firm influenced by audit firm size?

Organisational Structure: Influence of Training on Whistleblowing

An organisation's management control system can play an important role in influencing ethical behaviour amongst employees. Seven mechanisms have been identified in the literature, one of which is employee training (Lindsay *et al.*, 1996). Near and Miceli (1994) state that training must be provided concerning employees' duty to report wrongdoing. Applebaum *et al.* (2006) suggest that better education and training is likely to encourage whistleblowing. Thus, training is expected to affect auditors' inclination to blow the whistle.

RQ_{5a}: Is trainee auditors' confidence in the internal reporting structures within their firm influenced by the training they receive?

RQ_{5b}: Is trainee auditors' confidence in the external reporting structures within their firm influenced by the training they receive?

Personal Characteristics: Influence of Demographic Factors on Whistleblowing

Prior accounting research reports conflicting results on moral reasoning ability depending on age and gender. Miceli and Near (1988) find that women are less likely to be whistleblowers than men. Arnold and Ponemon (1991) found experience and education not to be related to the moral reasoning ability of a group of internal auditors. Thorley *et al.* (1998) found that gender and age were related to the moral reasoning ability of accounting students and accountants, with female accountants and younger accountants (contrary to expectations) having higher levels of moral reasoning ability. Gender and grade (a proxy for experience) are included as control variables by Pierce and Sweeney (2004) in their study of auditors' dysfunctional behaviour around cost-quality conflicts. To capture these influences, three control variables are included in this research: gender, age and experience of respondents.

RQ_{6a}: Is trainee auditors' confidence in the internal reporting structures within their firm influenced by gender, age or experience of respondent?

RQ_{6b}: Is trainee auditors' confidence in the external reporting structures within their firm influenced by gender, age or experience of respondent?

Situational Context: Effect of Protecting Legislation on Whistleblowing

The possibility of retaliation has been accepted as a major determinate in the decision to blow the whistle (Near and Miceli, 1985; Dozier and Miceli, 1985; Perry, 1998; Dworkin and Baucus, 1998). Dworkin and Baucus (1998) found that in response to concerns raised by whistleblowers managers tend to retaliate quickly against those who report the matter internally, and more cautiously against those who report the matter externally. Nevertheless retaliation is a factor in both internal and external reporting of wrongdoing. Given that Ireland has no general legislative protection for whistleblowers, the seventh research question is:

- RQ_{7a}: Are trainee auditors aware of the whistleblowing legislation applying to auditors, and protecting employees?
- RQ_{7b}: Is trainee auditors' confidence in the internal reporting structures within their firm influenced by their awareness of legislation?
- RQ_{7c}: Is trainee auditors' confidence in the external reporting structures within their firm influenced by their awareness of legislation?
- RQ_{7d}: What is the impact of whistleblowing legislation on trainee auditors' willingness to challenge an audit partner's unsatisfactory response to concerns they raise?

Situational Context: Seriousness of the Wrongdoing and Willingness to Challenge Authority

Ethical behaviour is a vital component of society's acceptance of any profession (O'Leary and Radich, 2001) and higher standards of ethical behaviour are now demanded by a more educated and discerning society (Perry, 1998; O'Clock and Okleshen 1993; Pater and van Gils, 2003). It is therefore vital as the auditing profession evolves that the new generation of professional accountants maintain high ethical standards, even if this results in organisational disagreement. As Vinten (1992a, 45) points out "An element of organizational disagreement is not only normal, but may also be regarded as healthy." To test whether or not trainee auditors are willing to stick by their initial convictions we ask an eight question:

RQ_{8a}: What is the impact of the seriousness of the wrongdoing on trainee auditors' further actions taken?

RQ_{8b}: What is the impact of the seriousness of the wrongdoing on trainee auditors' willingness to challenge an audit partner's unsatisfactory response to concerns they raise?

RQ_{8c}: What is the impact of the trainee auditors' satisfaction with the audit partners' response and his/her willingness to challenge an audit partner's response to concerns they raise?

4. Research Methodology

This section of the paper describes the population and selection of the sample, non-response bias, preparation of the questionnaire, measurement of variables and statistical analysis of the data.

Population and Selection of Sample

The population selected for this research is trainee accountants just about to sit their finals. This population is chosen for a number of reasons. Trainee accountants have practical experience of working in a professional environment and therefore may have experienced ethical dilemmas such as those contained in the survey. Secondly, as trainees are studying for their exams, respondents should be reasonably familiar with legislation

and practice and should therefore appreciate the complexities presented in the scenarios section of the questionnaire. Finally, given that the population are at an early stage in their careers, they may have greater dilemmas in deciding whether to report their concerns at the possible risk of career progression.

The sample selected consists of 240 accountancy students of the Institute of Chartered Accountants in Ireland (ICAI) due to sit their Final Admittance Examinations (FAE) in September 2004.

The survey instrument was distributed to 240 final year ICAI students attending a FAE Auditing lecture in July 2004.³ The respondents received the instrument prior to the commencement of the lecture. They were given ten to fifteen minutes of lecture time to complete the questionnaire. Of the 240 questionnaires distributed, 142 (59%) were returned, with 98 questionnaires not returned by trainees. Of the returned questionnaires, only 100 (42%) were fully completed. The 42 incomplete returned questionnaires were excluded from the sample. Although the response rate is low⁴, it is nonetheless representative of surveys in business ethics research. In their study of average response rates, Randall and Gibson (1990) found that the mean response rate was 43%.

Representativeness of Sample and Non-response Bias

Two types of non-response bias may be present in this study: self-presentation/social desirability bias and participation bias.

The term whistleblowing is used in the questionnaire. It is possible that the use of this term may have influenced the responses. For example, some respondents may have interpreted the term as socially desirable, leading to socially desirable response bias. Socially desirable response bias is a tendency to provide answers that make the respondent look good. However, maximising participant anonymity is known to reduce socially desirable response bias (King and Bruner, 2000). In this research, the researcher was not known previously to the respondents, nor did the researcher have access to the names or any other details of the respondents. The administrator of the survey instrument

was thus socially distant from the respondents. The questionnaire was not administered in the respondent's workplace. Thus, participants would have known that there would be little or no consequences for them arising from their responses. The survey instrument was accompanied by a letter from the researcher guaranteeing anonymity.

Participation non-response bias may arise from two sources. Firstly, only audit trainees attending the Institute of Chartered Accountants in Ireland courses were included in the initial sample. Secondly, from amongst this group, some students did not complete the questionnaire. Thus, our sample of respondents may not be representative of all audit trainees in that they are at the end of their training and are close to qualification. It cannot be assumed that the findings will be representative of the overall population, that is, trainee accountants. One of the standard tests for non-response bias, early versus late respondents, was not applicable in this research as all responses were made at the same time.

Selecting a sample based on convenience is generally regarded to be a weakness as there is no guarantee that the results will be representative of the general population. Nevertheless it is an adequate methodology to employ once this weakness is recognised (Randall and Gibson 1990). The use of student samples by researchers interested in studying the ethical decision-making process is appropriate and furthermore does not pose any threat to generalisability of the findings. Studies focusing on decision-making have found considerable similarities between the decisions and assumed behaviour of student and non-student samples (Randall and Gibson 1990).

Few researchers in business ethics test for non-response bias. This is often because data on the population from which the sample was drawn is not available. In this research, no data is available on the non-respondents to determine selection bias. However, in prior studies when information was available, researchers tested for differences in demographic characteristics between respondents and non-respondents, without correcting for differences found.

Thus, it cannot be assumed that the final sample of participants is the same as non-participants, although there is no evidence or reason to believe that they would be different.

Survey Instrument and Questionnaire Design

The questionnaire (summarised in Appendix 1) collected information on three sets of variables deemed to influence the decision to blow the whistle, namely (i) audit firm organisational structures - whether the firm had adequate formal structures, training and a whistleblowing policy and (ii) demographic information (Gender, Age, Experience and Seniority) and firm size. The term whistleblowing is used in the questionnaire but is not defined. The questionnaire also uses the term wrongdoing, but does not make clear the nature of the wrongdoing involved.

Scenarios have been used in prior research on ethical behaviour in business (Pater and van Gils 2003) and specifically relating to auditors and accountants (e.g. Tsui, 1996; O'Leary and Radich, 2001). A similar style of scenario to those used by Tsui (1996) and O'Leary and Radich (2001) was developed. Four scenarios, each presenting a different suspected wrongdoing, ranging from minor, to material, to non-financial, are included: Morris Ltd. (uncovering a minor fraud), Collins Ltd. (disagreement over the proper accounting treatment), First Province Bank (obligation to investigate suspected fraud or error imposed by Statement of Auditing Standard (SAS) 110 *Fraud and Error*) and Public Hospital Ltd. (serious public interest misdemeanour).

Great care was taken to develop challenging yet realistic scenarios. Real-life cases as reported in the national newspapers formed the basis for the first draft scenarios. The four scenarios were piloted with the assistance of (i) an audit manager of a big-four practice and (ii) a university auditing lecturer independent of the research. Scenarios were re-drafted where they were considered to be unrealistic. As a consequence of this process, the minor fraud case (Morris Ltd) was provided from a real-life case of the audit manager. However, it is acknowledged that using brief hypothetical scenarios cannot adequately capture the richness of the real life audit environment, the formal and informal

structures and networks within auditing firms, personal ambitions, integrity and much else besides.

Respondents were asked to answer four questions in each scenario. For each scenario, respondents were asked to assess the seriousness of the client wrongdoing, and to assess the audit partner's response to the wrongdoing, using a five-point scale. The third question asked respondents to select from a choice of five to six alternatives a further course of action. Finally, respondents were asked whether the introduction of specific legislation to protect whistleblowers would alter their chosen course of action. In each scenario the emphasis was not on the decision to report the issue, but rather on what further action should be taken in light of the audit partner's response to the initial concerns raised by the audit senior. Therefore, included in each scenario is the antecedent action taken by the audit senior to report his concerns to the audit partner. A copy of the instrument is available on request from the authors and is summarised in Appendix 1.

These scenarios focus on a particular form of wrongdoing, i.e., when an audit partner is perceived by the trainee to behave unethically and the trainee is faced with the dilemma of whether or not to blow the whistle. This is a very specific form of whistleblowing that is likely to carry negative consequences for a trainee to a much greater extent than many other forms of whistleblowing. Auditors have extensive whistleblowing responsibilities under legislation as outlined in end note 1. A limitation of the research is that these findings cannot be generalised across all forms of whistleblowing.

The level of confidence of respondents in the internal and external reporting structures was measured by reference to how respondents felt reporting concerns (internally or externally) would affect their career prospects. This is an important measure because the sample consists entirely of trainee auditors who are starting out on their careers.

Level of Confidence in this research is measured narrowly by reference to effect on an auditor's career prospects. Other measures of confidence in the reporting system could include a belief that reporting wrongdoing would result in positive outcomes, ensuring an

appropriate audit report and positive outcomes for the individual who is seen to show a high degree of professionalism. These alternative perspectives on confidence levels were not included in the questionnaire.

Finally, auditors' awareness of legislative environment was ascertained.

Measurement of variables

Data on demographic factors including Gender, Age, Experience and Seniority were collected. Demographic factors were recorded as categorical variables. Firm size was measured by reference to numbers of employees, categorised into three size groupings.

Independent Variables – Descriptive statistics

The characteristics of the sample are detailed in Table 1. The ratio of females to males was approximately 3:2. Mean age was 24 years 5 months (standard deviation 11 months) and 52% of respondents were under 25 years of age. Furthermore, 44% of respondents had less than two years experience while the remainder had between two and four years experience. Only one person had greater than four years experience. As regards seniority, 80% of respondents described their jobs as audit senior. Thus, broadly-speaking, in relation to Experience and Seniority, respondents fell into two groups: Less than/more than two year's experience; and junior/senior auditors. Although all respondents were sitting their final examinations, those entering the profession with a masters degree would have less on-the-ground training completed by the time they sit their finals. There are 14% of respondents over the age of 27 years. This is possibly explained by an increasing number of trainees from industry, together with a number of repeat students.

The majority of respondents work for large firms, that is, those with greater than 500 employees. These firms comprise what is collectively referred to as the "Big Four" auditing practices, namely, PricewaterhouseCoopers, KPMG, Deloitte and Ernst & Young. Interestingly the next most common employer size is small practices, that is, firms with less than 100 employees.

Table 1: Demographic profile of respondents; Firm size		
	<i>No.</i>	<i>(%)</i>
Gender		
Male	41	(41%)
Female	59	(59%)
Total	100	(100%)
Age (Years)		
21-22	4	(4%)
23-24	48	(48%)
25-26	34	(34%)
27-28	7	(7%)
29+	7	(7%)
Total	100	(100%)
Years' Experience		
Less than two years	43	(44%)
Between two and four years	54	(55%)
Greater than four years	1	(1%)
No answer given	2	-
Total	100	(100%)
Seniority		
Junior	20	(20%)
Senior	80	(80%)
Manager or above	0	(0%)
Total	100	(100%)
Firm Size (no. employees)		
Greater than 500	56	(56%)
Between 200 and 500	7	(7%)
Between 100 and 200	4	(4%)
Less than 100	33	(33%)
Total	100	(100%)

Statistical Analysis

The analysis of the results consisted primarily of bivariate cross tabulation of variables. The strength and direction of the relationship between variables were tested using Spearman's rho correlation. This statistical technique is suitable for categorical or interval variables. It does not require the assumption that the variables behave normally.

5. Results

Whistleblowing – Formal Structures for Reporting Wrongdoing

Accounting firms have formal management hierarchies, or as one respondent stated “a hierarchy of authority” which is part of the formal reporting structures within auditing practices. As shown by Table 2, the majority (66%) of respondents stated that their firm

had adequate formal reporting structures in place for the reporting of suspected or actual wrongdoing. However, only 52% of respondents stated that their firm had a whistleblowing policy. Interestingly, a significant proportion of respondents did not know whether their firm had adequate formal structures in place (20%), nor could they say whether or not their firm had a whistleblowing policy (35%).

Somewhat undermining the responses, when asked to briefly describe such formal structures, the majority of respondents declined. Where responses were provided, they were somewhat off the point. Many of those that responded indicated that audits were subject to peer review. In addition, many stated that there was a compliance department with responsibility to ensure that audits were performed to a certain standard. In some cases, respondents indicated that there was a specific partner with responsibility for issues relating to fraud and money laundering offences. This raises questions as to whether the formal structures reported to be in place are adequate to encourage trainee auditors to report instances of actual or suspected wrongdoing.

Whistleblowing – Internal Reporting Structures

In order to test for confidence in the internal reporting structures, respondents were asked whether their career prospects might suffer by reporting a matter of concern internally. As shown in Table 2, the majority (55%) of respondents felt that their career prospects would not suffer in such circumstances. However, a high proportion (26%) felt their career prospects would suffer. It is possible that this finding understates the fear of reporting wrongdoing as in practice respondents are likely to feel pressures that cannot be captured in a questionnaire conducted in isolation from the workplace.

Whistleblowing – External Reporting Structures

In contrast to reporting a matter internally, it is evident from Table 2 that the majority (56%) of respondents felt that by reporting a matter externally their career prospects would suffer. This compares with a corresponding figure for reporting internally of only 26%.

Table 2: Influence of firm size on (i) Adequate Formal Structures (RQ_{1a}, RQ_{4a}), (ii) Whistleblowing policy (RQ_{1b}, RQ_{4a}), (iii) Confidence in internal reporting structures (RQ₂, RQ_{4b}), (iv) Confidence in external reporting structures (RQ₃, RQ_{4c})

	Firm Size (Questionnaire Part 1 – Q5)							
	Greater than 500		100-500		Less than 100		Total	
	No.	%	No.	%	No.	%	No.	%
Adequate Formal Structures (Questionnaire Part 1 – Q6)								
Yes	46	(82%)	7	(64%)	13	(40%)	66	(66%)
No	1	(2%)	1	(9%)	12	(36%)	14	(14%)
Don't know	9	(16%)	3	(27%)	8	(24%)	20	(20%)
	56	(100%)	11	(100%)	33	(100%)	100	(100%)
Correlation coefficient, 0.356** (P=0.0001); ** Significant at 0.01level (2-tailed)								
Whistleblowing Policy (Questionnaire Part 1 – Q8)								
Yes	36	(64%)	6	(55%)	10	(30%)	52	(52%)
No	1	(2%)	1	(9%)	11	(34%)	13	(13%)
Don't know	19	(34%)	4	(36%)	12	(36%)	35	(35%)
	56	(100%)	11	(100%)	33	(100%)	100	(100%)
Correlation coefficient, 0.204* (P=0.042); * Significant at the 0.05 level (2-tailed)								
Internal Reporting Structures (Questionnaire Part 3 – Q4)								
Career prospects would not suffer	35	(62%)	6	(55%)	14	(42%)	55	(55%)
Indifferent	10	(18%)	5	(45%)	4	(12%)	19	(19%)
Career prospects would suffer	11	(20%)	0	(0%)	15	(46%)	26	(26%)
	56	(100%)	11	(100%)	33	(100%)	100	(100%)
Correlation coefficient, 0.181 (P=0.071)								
External Reporting Structures (Questionnaire Part 3 – Q3)								
Career prospects would not suffer	12	(22%)	4	(36%)	10	(30%)	26	(26%)
Indifferent	14	(25%)	1	(9%)	3	(9%)	18	(18%)
Career prospects would suffer	30	(53%)	6	(55%)	20	(61%)	56	(56%)
	56	(100%)	11	(100%)	33	(100%)	100	(100%)
Correlation coefficient, -0.046 (P=0.647)								

Influence of Firm Size on Whistleblowing

Large firms are significantly more likely to have formal reporting structures to support whistleblowing, and to have whistleblowing policies. This result is not surprising, as such firms are influenced by global firm requirements. Barrett *et al.* (2005) describe the influence of global systems in large international audit practices, and their appropriation into local practices.

There were significant differences (only at the 7% level) by reference to firm size, with audit trainees' confidence in internal reporting structures being greater in larger firms. These findings would indicate that trainee auditors in large firms have greater confidence in the internal reporting structures within their firm than their counterparts in small and medium size firms. The reluctance to report externally was evident across all firm sizes, with no significant differences between the three categories of firm.

Influence of Training on Whistleblowing

The influence of training on the confidence of respondents in reporting wrongdoing was examined. As can be seen in Table 3, there is a significant positive relationship between training and the confidence in internal reporting structures. However, Table 3 shows that training does not have a significant effect on respondents' confidence around external reporting.

Table 3: Influence of training on confidence in internal reporting structures (RQ_{5a}) and in external reporting structures (RQ_{5b})						
	Training in Statutory Duties to Whistleblow (Questionnaire Part 1 – Q7)					
	Yes		No		Total	
Internal Reporting Structures (Questionnaire Part 3 – Q4)	No.	%	No.	%	No.	%
Career prospects would not suffer	36	(69%)	19	(40%)	55	(55%)
Indifferent	6	(12%)	13	(27%)	19	(19%)
Career prospects would suffer	10	(19%)	16	(33%)	46	(46%)
	52	(100%)	48	(100%)	100	(100%)
Correlation coefficient, 0.274** (P=.006); **Significant at the .01 level (2-tailed).						
External Reporting Structures (Questionnaire Part 3 – Q3)	No.	%	No.	%	No.	%
Career prospects would not suffer	17	(33%)	9	(19%)	26	(26%)
Indifferent	10	(19%)	8	(17%)	18	(18%)
Career prospects would suffer	25	(48%)	31	(64%)	56	(56%)
	52	(100%)	48	(100%)	100	(100%)
Correlation coefficient, 0.129 (P=0.202)						

Influence of Demographic Factors on Whistleblowing

Audit trainee confidence in internal and external reporting structures is analysed in Table 4 by reference to demographic factors, including Gender, Age, Experience and Seniority.

In relation to reporting internally, there were no significant differences in responses other than for Age. Older (over 25) respondents were more concerned about the effect of reporting concerns on career prospects. While this may point to a greater sensitivity to job promotion as trainees become more senior, it is accepted that the sample is fairly homogenous with a narrow spread of ages. It is unlikely to be due to a selection process (say more ethically-sensitive auditors changing jobs) as trainees pre-qualification are unlikely to change jobs at that critical juncture. These findings are consistent with those of Ponemon (1990) who found that moral reasoning scores tended to be lower for individuals in higher levels in accounting firms than for individuals with three to four years of experience.

Looking at the influence of demographic factors on the decision to report externally, Table 4 shows that the most influential factor is Seniority. More senior staff have significantly more confidence that their career would not suffer by reporting a matter externally. This finding seems to contradict the finding that older respondents appeared more concerned about the effect of reporting concerns internally on career prospects. These conflicting findings may be explained by older respondents being further on in their careers, more sensitive to internal “politics” and less willing to put hard-earned promotion on the line by disagreeing with a more senior member of staff. It is also possible that reporting a concern internally is more likely to happen in practice than having to resort to external reporting. Thus, sensitivities in relation to internal reporting might be different than those concerning external reporting. The variations in factors influencing internal compared with external reporting is flagged as an area for further research in the conclusions to the paper.

Table 4: Influence of demographic factors on (i) Confidence in internal reporting structures (RQ_{6a}) (ii) Confidence in external reporting structures (RQ_{6b})

		Gender (Questionnaire Part 1 – Q1)							
		Male		Female		Total			
		No.	%	No.	%	No.	%		
Internal Reporting Structures									
(Questionnaire Part 3 – Q4)									
Career prospects would not suffer		26	(64%)	29	(49%)	55	(55%)		
Indifferent		5	(12%)	14	(24%)	19	(19%)		
Career prospects would suffer		10	(24%)	16	(27%)	26	(26%)		
		41	(100%)	59	(100%)	100	(100%)		
Correlation coefficient, 0.165 (P=0.101)									
External Reporting Structures									
(Questionnaire Part 3 – Q3)									
Career prospects would not suffer		13	(32%)	13	(22%)	26	(26%)		
Indifferent		4	(10%)	14	(24%)	18	(18%)		
Career prospects would suffer		24	(58%)	32	(54%)	56	(56%)		
		41	(100%)	59	(100%)	100	(100%)		
Correlation coefficient, -0.013 (P=0.897)									
		Age (Questionnaire Part 1 – Q2)				Total			
		Less than 25		25 and older					
		No.	%	No.	%	No.	%		
Internal Reporting Structures									
(Questionnaire Part 3 – Q4)									
Career prospects would not suffer		35	(67%)	20	(42%)	55	(55%)		
Indifferent		7	(14%)	12	(25%)	19	(19%)		
Career prospects would suffer		10	(19%)	16	(33%)	26	(26%)		
		52	(100%)	48	(100%)	100	(100%)		
Correlation coefficient, 0.243* (P=0.015); * Significant at the .05 level (2-tailed).									
External Reporting Structures									
(Questionnaire Part 3 – Q3)									
Career prospects would not suffer		14	(27%)	12	(25%)	26	(26%)		
Indifferent		11	(21%)	7	(15%)	18	(18%)		
Career prospects would suffer		27	(52%)	29	(60%)	56	(56%)		
		52	(100%)	48	(100%)	100	(100%)		
Correlation coefficient, 0.1 (P=0.323)									
		Experience (Questionnaire Part 1 – Q3)							
		< 2 years		> 2 years		Missing values		Total	
		No.	%	No.	%	No.	%	No.	%
Internal Reporting Structures									
(Questionnaire Part 3 – Q4)									
Career prospects would not suffer		26	(61%)	28	(51%)			54	(55%)
Indifferent		7	(16%)	12	(22%)			19	(19%)
Career prospects would suffer		10	(23%)	15	(27%)			25	(26%)
		43	(100%)	55	(100%)	2		100	(100%)
Correlation coefficient, 0.072 (P=0.481)									
External Reporting Structures									
(Questionnaire Part 3 – Q3)									
Career prospects would not suffer		9	(21%)	17	(31%)			26	(27%)
Indifferent		9	(21%)	8	(15%)			17	(17%)
Career prospects would suffer		25	(58%)	30	(54%)			55	(56%)
		43	(100%)	55	(100%)	2		100	(100%)
Correlation coefficient, -0.065 (P=0.527)									
		Seniority (Questionnaire Part 1 – Q4)				Total			
		Junior		Senior					
		No.	%	No.	%	No.	%		
Internal Reporting Structures									
(Questionnaire Part 3 – Q4)									
Career prospects would not suffer		9	(45%)	46	(58%)	55	(55%)		
Indifferent		1	(5%)	18	(22%)	19	(19%)		
Career prospects would suffer		10	(50%)	16	(20%)	26	(26%)		
		20	(100%)	80	(100%)	100	(100%)		
Correlation coefficient, -0.165 (P=0.102)									
External Reporting Structures									
(Questionnaire Part 3 – Q3)									
Career prospects would not suffer		2	(10%)	24	(30%)	26	(26%)		
Indifferent		2	(10%)	16	(20%)	18	(18%)		
Career prospects would suffer		16	(80%)	40	(50%)	56	(56%)		
		20	(100%)	80	(100%)	100	(100%)		
Correlation coefficient, -0.318** (P=0.01); ** Significant at the .01 level (2-tailed)									

Effect of Protecting Legislation on Whistleblowing

Respondents were asked about their level of awareness of the statutory duties on auditors to report matters of concern under legislation. As shown in Table 5, the majority of respondents (76%) stated that they were aware of their statutory duties to whistleblow. When asked to briefly describe such duties most respondents declined to do so. This inability or unwillingness to elaborate on their answers raises questions on the quality of their knowledge and their training in this area.

Respondents were also asked to indicate whether they were aware of any legislation to protect them in the event they were forced to fulfill their whistleblowing duties. Respondents were divided fairly equally when asked whether there was legislation to protect whistleblowers. As shown in Table 5, the majority (52%) of respondents indicated that they were not aware of any such protection, with 48% aware of legislative protection. Only a minority (38%) indicated that they were confident such legislation would protect them. Furthermore, a significant proportion (33%) indicated that they did not believe such protection was adequate.

Again, when asked to briefly describe such protection, the majority of respondents indicated that protection was provided in the Companies Acts. This is not the case. The tendency of respondents not to elaborate on their responses with comments raises questions about the respondents' actual knowledge of legislation, compared with their claimed knowledge levels.

Table 5 shows that 50% of respondents indicated that they would not pursue an instance of serious wrongdoing, in the absence of legislative protection. In fact, just over a quarter of respondents (27%) indicated that if they observed serious wrongdoing they would pursue the matter until it was fully corrected, regardless of whether legislative protection existed. While acknowledging respondents' lack of awareness of protecting legislation, nonetheless, this finding suggests that respondents do not have much confidence in existing legislative protection.

Table 5: Awareness of legislative environment (RQ_{7a})		
Aware of statutory duties to whistle-blow (Questionnaire, Part 1 – Q9)		
	No.	%
Yes	75	(76%)
No	24	(24%)
Total	99	(100%)
Missing	1	
Total	100	
Aware of Legislation to Protect Whistleblowing Auditors (Questionnaire, Part 1 – Q10)		
	No.	%
Yes	48	(48%)
No	51	(52%)
Total	99	(100%)
Missing	1	
Total	100	
If I were forced to "blow the whistle", I am confident that current employment legislation would protect me (Questionnaire, Part 3 – Q2)		
	No.	%
Agree or Strongly Agree	38	(38%)
Disagree or Strongly Disagree	33	(33%)
Indifferent	29	(29%)
Total	100	(100%)
If I discovered serious wrongdoing I would pursue the matter until it was fully corrected <i>regardless</i> of whether specific legislative protection existed or not (Questionnaire, Part 3 – Q5)		
	No.	%
Agree or Strongly Agree	27	(27%)
Disagree or Strongly Disagree	50	(50%)
Indifferent	23	(23%)
Total	100	(100%)

Table 6 correlates career concerns with awareness of protective legislation. The results tentatively indicate that awareness of legislative protection is unrelated to perceptions of effects on career prospects of making a report either internally or externally.

Table 6: Effect on career of reporting given awareness of legislative protection (RQ_{7a}, RQ_{7b}, RQ_{7c})

	Aware of protecting legislation (Questionnaire Part 1 – Q10)					
	Yes		No		Total	
Internal Reporting Structures (Questionnaire Part 3 – Q4)	No.	%	No.	%	No.	%
Career prospects would not suffer	29	(59%)	27	(53%)	56	(56%)
Indifferent	14	(29%)	11	(22%)	25	(25%)
Career prospects would suffer	6	(12%)	13	(25%)	19	(19%)
	49	(100%)	51	(100%)	100	(100%)
Correlation coefficient, 0.012 (P=0.909)						
External Reporting Structures (Questionnaire Part 3 – Q3)	No.	%	No.	%	No.	%
Career prospects would not suffer	15	(31%)	11	(21%)	26	(26%)
Indifferent	23	(48%)	32	(62%)	55	(55%)
Career prospects would suffer	10	(21%)	9	(17%)	19	(19%)
	48	(100%)	52	(100%)	100	(100%)
Correlation Coefficient, -0.150 (P=0.139)						

The remaining tables (Tables 7 to 10) report the results for issues raised in the four scenarios in Part 2 of the questionnaire.

In relation to their chosen course of action in each scenario, respondents were asked whether protective legislation would change their chosen course of action. Respondents were also asked about the effect on their careers if they report wrongdoing. These two sets of responses are correlated to see whether respondents aware of legal protection are more confident of reporting wrongdoing. The results in Table 7 show no significant differences between the two groups – those aware and not aware of protecting legislation.

Table 7: Impact of legislation protecting whistleblowers on willingness to challenge audit partner's response (RQ7d)

Affect of legislation protecting whistleblowers on original chosen course of action (Questionnaire, Part 2 – Q4)	Morris Ltd (Minor fraud)		Collins Ltd (Disagreement over accounting treatment)		First Province Bank (Obligation to investigate suspected fraud)		Public Hospital Ltd (Serious public interest issue)	
	No.	(%)	No.	(%)	No.	(%)	No.	(%)
Alter chosen action	8	(8%)	16	(16%)	15	(15%)	13	(13%)
No effect	91	(91%)	84	(84%)	85	(85%)	87	(87%)
Total	100	(100%)	100	(100%)	100	(100%)	100	(100%)

Seriousness of the Wrongdoing and Willingness of Trainee Auditors to Challenge Audit Partner

In each of the four scenarios, respondents were asked the following three questions: firstly to rate the seriousness of the situation described in the scenario; secondly, to rate their satisfaction with the audit partner's response to the concerns raised; and finally to select a further course of action.

The results in Table 8 indicate that in every case, with the exception of Public Hospital Ltd, the overwhelming majority of respondents (92%, 80% and 91% respectively) viewed the situation as described in the scenario as either serious or very serious. Surprisingly, respondents did not distinguish between the minor theft of €12,000 in Scenario 1 and the application of incorrect interest rates by a financial institution in Scenario 3 which could result in mortgage holders being out of pocket. Fewer respondents viewed the material financial statement fraud in capitalising research expenditure in Scenario 2 as serious. Thus, Scenarios 1, 2 and 3 were less discriminatory than was expected. This inability to distinguish material and immaterial events may partly be due to the youth and inexperience of the trainees. An audit partner is likely to take the fraud of €12,000 in Scenario 1 less seriously than a trainee, for whom such an amount of money is likely to appear large.

The majority (63%) of respondents viewed the situation in Public Hospital Ltd. as serious. This reduction in the perceived seriousness (compared with the other three cases) may be due to a variety of reasons. Firstly, this was the only non-financial scenario.

Secondly, the company being audited was not directly at fault. Thirdly, no documentary evidence of wrongdoing exists. Finally, such a scenario is not covered explicitly by accounting/auditing regulations nor is it covered directly by company law (but it may be an offence under other legislation such as environmental legislation).

The overwhelming majority of respondents were dissatisfied with the audit partners' response, viz. a failure to take any further action, especially in the cases of Morris Ltd, Collins Ltd. and First Province Bank. There was greater ambivalence around Public Hospital Ltd.

In the case of Collins Ltd. (which dealt with a disagreement of accounting treatment), Table 8 shows that a large number of respondents (29 – 29%) were willing to accept the Partner's advice and take no further action. There are two possible explanations for this finding. Firstly, given that the treatment of R&D allows scope for discretion, respondents may not be quite as willing to challenge an audit partner's judgement given such scope for discretion and given the audit partner's greater experience and expertise. Nonetheless, the framing of the Collins Ltd. scenario clearly indicates that the accounting treatment contravened accounting standards. A second possible explanation is that the scenario contains a warning to the audit senior to "let sleeping dogs lie" suggesting that by reporting the matter the audit senior might adversely affect their career prospects. This implied threat was commented on by a number of respondents. One in particular stated: "it's not worth the hassle with one year left". This points to the possibility that subtle threats could alter the chosen course of action. Such subtle threats merit further research.

Turning our attention to the case of First Province Bank, we observe that this issue was deemed to be serious or very serious by 91% of respondents in Table 8. This level of seriousness is comparable with that expressed by respondents in the Morris Ltd. case. Two interesting observations can be made. Firstly, almost two-thirds (64%) of respondents indicated that they would report the matter (i.e. the unwillingness of the audit partner to investigate the circumstances at the Bank) internally. Secondly, a substantial number (13%) of respondents indicated that they would report the matter to the external authorities immediately, without first reporting the matter internally. This is an

interesting finding that may have implications for the reporting structures in auditing practices.

Finally, examining the only non-financial scenario Public Hospital Ltd., complements our findings discussed above. Firstly, this scenario was perceived by respondents to be the least serious of the four with only 63% of respondents indicating that the issue was serious or very serious. The remainder (37%) of the sample indicated that they were indifferent or that the issue was minor. What is interesting about this scenario is that the sample was almost equally divided between three broad alternative courses of action, namely to report the matter internally (33%), report the matter externally (32%) that is, to the authorities or the media, and to do nothing (30%). Furthermore, of those who indicated they would report the matter, the sample is split in half between reporting internally and reporting externally. This finding indicates a hesitation on the part of trainee auditors to report a matter of concern regarding non-financial wrongdoing internally. This scenario highlights two important issues. Firstly, wrongdoing of a non-financial nature is not deemed by trainee auditors to be as serious as wrongdoing of a financial nature. Secondly, where wrongdoing of a non-financial nature is observed, trainee auditors are reluctant to report the matter internally.

Table 8: Perceived seriousness of issue/Perceived satisfaction with audit partner’s response/Further action to be taken

	Morris Ltd (Minor fraud)		Collins Ltd (Disagreement over accounting treatment)		First Province Bank (Obligation to investigate suspected fraud)		Public Hospital Ltd (Serious public interest issue)	
	No.	%	No.	%	No.	%	No.	%
Perceived seriousness of the issue (Questionnaire Part 2 – Q1)								
Serious or very serious	92	(92%)	80	(80%)	91	(91%)	63	(63%)
Indifferent	2	(2%)	13	(13%)	6	(6%)	22	(22%)
Minor or trivial	6	(6%)	7	(7%)	3	(3%)	21	(15%)
	100	(100%)	100	(100%)	100	(100%)	100	(100%)
Satisfaction with audit partner’s response (Questionnaire Part 2 – Q2)								
Dissatisfied or very dissatisfied	86	(86%)	80	(80%)	85	(85%)	57	(57%)
Indifferent	7	(7%)	5	(5%)	6	(6%)	21	(21%)
Satisfied or very satisfied	7	(7%)	15	(15%)	9	(9%)	22	(22%)
	100	(100%)	100	(100%)	100	(100%)	100	(100%)
Further action to be taken (Questionnaire Part 2 – Q3)								
Report the matter internally	45	(45%)	60	(60%)	64	(64%)	33	(33%)
Report the matter to external authority	3	(3%)	9	(9%)	13	(13%)	24	(24%)
Report the matter to the media	4	(4%)	0	(0%)	3	(3%)	8	(8%)
<i>Total</i>	52	(52%)	69	(69%)	80	(80%)	65	(65%)
Do nothing	4	(4%)	29	(29%)	15	(15%)	30	(30%)
Remind audit partner	42	(42%)	N/a	N/a	N/a	N/a	N/a	N/a
Other	2	(2%)	2	(2%)	5	(5%)	5	(5%)

Correlations between the perceived seriousness of the issue and the willingness to challenge the audit partner’s inaction are reported in Table 9. With the exception of Morris Ltd, the results show that the perceived seriousness of the case is significantly related to willingness to challenge the audit partner’s response. Morris Ltd. deals with a minor fraud, perpetrated within the client’s business and reported to the audit partner. This scenario differs from the other three scenarios in that respondents had the option to remind the audit partner, and take no further action. This course of action was selected by 42% of respondents. This course of action is distinct from using formal reporting structures to report the Partner’s inertia and should be viewed as an unsatisfactory response given the violation of statutory duty⁵ on auditors to report fraud. Nevertheless, given that the majority (52%) of respondents would report the matter formally straight

away, one can conclude that in this scenario trainee auditors are willing to challenge the audit partner.

Correlations were also run between the perceived satisfaction with the audit partners' response and the willingness to challenge the audit partner's inaction. Table 9 shows that responses were significantly positively correlated in all four scenarios, indicating that the greater the concern with the audit partner's responses the more likely audit trainees are to challenge that response.

Table 9: Correlations between perceived seriousness of cases/ Perceived satisfaction with audit partner's response and Willingness to challenge audit partner's response (RQ8a, RQ8b, RQ8c)

	Morris Ltd (Minor fraud)	Collins Ltd (Disagreement over accounting treatment)	First Province Bank (Obligation to investigate suspected fraud)	Public Hospital Ltd (Serious public interest issue)
Perceived seriousness of cases & Willingness to challenge audit partner's response				
Correlation coefficient	.064	.360**	.327**	.279**
Probability	(.528)	(.000)	(.001)	(.005)
Perceived satisfaction with audit partner's response and Willingness to challenge audit partner's response				
Correlation coefficient	.283**	.411**	.305**	.211*
Probability	(.004)	(.000)	(.002)	(.035)

* Significant at the .05 level (2-tailed); ** Significant at the .01 level (2-tailed)

Key:

- (i) Perceived seriousness of each case was coded 1-5 in the questionnaire from least serious to very serious.
- (ii) Willingness to challenge audit partner's response was coded as a dummy variable – 0 for the response no action taken, and 1 for every other response to the question "What further action would you take?"
- (iii) Perceived satisfaction with audit partner's response was coded 1-5 in the questionnaire from dissatisfied to very satisfied.

(Note: The correlations above indicate the relationship between; (1) perceived seriousness of the issue and further action selected and, (2) satisfaction with audit partner's response and further action selected.)

6. Summary and Conclusions

This research examined nine aspects in relation to the role of auditors in reporting wrongdoing against three categories of factors: audit firm organisational structures, personal characteristics of whistleblowers and situational variables.

Organisational Structure

A disparity of practice between large and small audit firms was found. A majority of large audit firms had formal reporting policies in place, but only a minority of small audit firms had such policies. Supporting prior research findings, we found that trainee auditors in firms that have adequate formal structures for the reporting of wrongdoing have greater confidence that by making a report internally their careers would not be adversely affected. There was a clear difference in responses concerning internal reporting compared with external reporting. Trainee auditors showed a reluctance to report wrongdoing externally. When training is provided its effect is to increase confidence among trainee auditors in the reporting structures. These findings are especially strong in the case of reporting internally.

The findings suggest that auditing practices should examine their structures for reporting suspected or actual wrongdoing and, where necessary, improve such structures by encouraging staff to voice their concerns internally. Barnett *et al.* (1993) and King (1999) suggest that structures specifically tailored to encourage internal reporting of suspected or actual wrongdoing may increase the number of issues reported internally.

As regards the smaller auditing practices, organisational structure may not be a major impediment to reporting internally. However, the lack of clear and proper channels may act to impede the reporting of wrongdoing. This situation is easily remedied by the introduction of a written policy on whistleblowing, noting however that it takes more than words on a page to encourage internal disclosures of wrongdoing.

The greater tendency towards reporting wrongdoing in larger firms may reflect greater sensitivity to wrongdoing in those firms following the recent accounting scandals related

to those firms. Alternatively, it may reflect greater levels of unethical activity in such firms. Are there different levels of wrongdoing in larger or smaller firms? These are issues for further research.

Lack of knowledge on the existence of formal structures for dealing with suspected or actual wrongdoing a whistleblowing policy suggest that auditing practices need to reassess the training given to their employees, focusing on methods of reporting concerns internally and if required providing guidance on further escalation of issues to external authorities and regulatory bodies.

Demographic factors

Weak and conflicting results on the influence of demographic factors such as Gender, Age, Experience, and Seniority were found. This is consistent with the findings of Arnold and Ponemon (1991). However, our results suggest that as trainee auditors progress in their careers that they become less reluctant to report a matter of concern externally.

Situational factors

Legislative protection does not appear to be a major determinant in the decision to blow the whistle on wrongdoing. Trainee auditors expressed little confidence in the protection offered by legislation for whistleblowers. Nonetheless, the absence of legislative protection influences whether they would pursue wrongdoing. Respondents' awareness of legislative protection had little effect on their courses of action in relation to their consideration of the four scenarios. However, evidence from the UK suggests that the introduction of the Public Interest Disclosure Act (1999) there has led to a doubling of the reported incidences of fraud (Public Concern at Work, 1999). It is probable that the introduction of legislation in the Republic of Ireland would have a similar effect.

In general trainee auditors are willing to challenge a response from the audit partner they believe to be unsatisfactory. Given that in each scenario the majority of respondents indicated that the issue was serious and that they were unsatisfied with the audit partner's response, it is surprising that respondents were not more inclined to report the matter

internally. Indeed, the results from the Public Hospital Ltd. scenario further indicate that firms could do more to encourage the reporting of matters of concern internally.

Limitations of the Research

Business ethics is commonly researched using survey-based approaches such as that used in this paper. The use of survey instruments requires researchers to define terms, concepts, choices and scenarios in advance, and assumes that all respondents will interpret the words and meanings in a consistent manner. Some audit firms may use a term other than whistleblowing. As a result, respondents may not have connected the firm's term with whistleblowing in the questionnaire. It is also possible that respondents may have had different interpretations of the term. It would have been methodologically safer to have asked respondents how they would report certain issues without using the term whistleblowing.

Measures of whistleblowing are perceptual, and the reliability of such measures must be questioned. Responses to the scale items are the subjective perceptions of audit trainees and may be subject to bias. Students may not actually act as they say they would in the comfort of an anonymous questionnaire setting out hypothetical dilemmas. Audit trainees may have an inadequate understanding of their organisations' policies. In addition, the direction of causality between the variables cannot be assumed. Results must be interpreted with these limitations in mind.

Non-response bias has already been referred to earlier as being a problem with this research. Responses to the questionnaire may suffer from self-presentation bias, although the manner of administering the questionnaire makes this less likely than for other methodological approaches. The respondent trainee auditors are not a random sample, and their views may not extrapolate to the population of trainee auditors as a whole. In addition, the views of trainee auditors are not necessarily representative of the auditing professional as a whole, comprising staff at partner, director and manager levels as well as juniors and seniors.

The research focuses on formal systems. Dirsmith and Covalleski (1985) have pointed to the importance of informal systems of communication as a control mechanism in large accounting firms. Such informal systems of communication are likely to be relevant to whistleblowing decisions. In addition, more naturalistic qualitative methodology such as that used by Dirsmith and Covalleski (1985) would provide richer insights into whistleblowing as a complex and individualistic process.

Some of the results of this paper are based on responses to four brief hypothetical scenarios. These scenarios are inadequate in capturing the richness of the real life audit environment, the formal and informal structures and networks within auditing firms, personal ambitions, integrity and much else besides. The amount of information available in each scenario is considerably less than would be available in a real life case. The scenarios cannot capture the real life pressures that whistleblowers might face, such as fear of retaliation. Accordingly, the validity of the responses to these scenarios has to be questioned.

For auditors faced with deciding whether or not to report wrongdoing, materiality is an essential pre-requisite (Loeb and Cory, 1989). Thus, auditors may tend to judge wrongdoing in monetary terms, or in other words; they make a judgement on whether the wrongdoing is sufficiently costly to warrant investigation. The majority of respondents classified Scenarios 1, 2 and 3 as being serious/very serious, even though scenario 1 only concerned a fraud of €12,000. Thus, the scenarios were less discriminatory than was expected. This was probably due to the inability of the fairly inexperienced group of respondents distinguishing material and immaterial events.

In the case of Public Hospital Ltd., a clear divergence in reporting the matter from the other scenarios is observed. Interestingly, our findings indicate a hesitation on the part of trainee auditors to report their concerns regarding the situation in Public Hospital Ltd., internally. The stereotypical view that accountants measure wrongdoing in monetary terms might be one explanation for this finding. This suggests that auditing practices

must do more regarding the values they wish to see their employees adhere to, especially concerning the reporting of non-financial wrongdoing.

Suggestions for Further Research

This preliminary study used a survey instrument to investigate whistleblowing in the auditing profession. It is difficult for such instruments to capture the contextual complexities of real life. More qualitative, interpretative approaches such as case studies and in-depth interviews offer potentially richer sources of data (Crane, 1999) and allow for study of contextual factors. For example, Dworkin and Baucus (1998) took quite an unusual approach in examining 33 legal cases of employees fired for reporting wrongdoing.

This study is based on responses of a fairly homogenous group of trainee auditors. The research could be expanded to a broader group of respondents with wider experience from different hierarchical levels, varying from partner level down to trainee level. It is likely that personal responsibility and personal costs of whistleblowing would vary by level of seniority, leading to different findings for different groups of respondent. In addition, ethical judgements may vary by level of seniority. Differences amongst antecedent variables such as these may influence reporting intentions.

The processes around reporting wrongdoing internally and externally are likely to be quite different, with each meriting separate, more detailed study. Sweeney and Pierce (2004) report that audit firms have experienced high staff turnover and severe staff shortages in recent years which have undermined the effectiveness of their formal control systems. The effect of these challenges on whistleblowing, and the mitigating steps required by audit firms, require further study. The issue of management responsiveness to reporting of wrongdoing, and any retaliation to whistleblowing, was not investigated in this survey. Related to this, is the effectiveness of whistleblowing. The influence of different types of wrongdoing in an auditing context also requires further investigation, including variations in seriousness and in moral intensity which are a factor of the degree of harm of the wrongdoing.

The influence of regulation in auditing also merits additional consideration. Whistleblowing, and protection of whistleblowers, is regulated by law. Auditing is also regulated by professional standards. The influences of these two sources of regulation are likely to be different. Cross-cultural and cross-jurisdictional studies are also likely to yield new insights. The influence of different approaches (e.g. rules-based versus principles-based) to laws and regulations can be studied by comparing responses of respondents from different countries.

Additional situational variables, especially those relating to audit clients, might be factored into the research design. For example, the financial well-being of audit clients may influence likelihood of auditors reporting wrongdoing. Whether auditors are more or less likely to report wrongdoing where a client is financially distressed would add considerably to our insights on whistleblowing.

As explained in the Research Methodology section, confidence was measured narrowly in this paper as the effect on an individual's career prospects. Auditors' belief that reporting wrongdoing would result in positive outcomes (such as exposing the wrongdoing), and would lead to positive outcomes for the auditor, might be investigated in the future.

Further research could examine the components of adequate internal reporting channels, especially given the requirement upon public companies in the US to institutionalise such structures. The findings also indicate that trainee auditors have less confidence in the external reporting structures than in the internal reporting structures within their firm. Future research could investigate the variables that might affect this level of confidence. Furthermore, the research has identified that in a non-financial situation, auditors are less willing to report a matter of very serious concern. Future research could expand upon this preliminary finding and investigate whether or not it is reasonable to conclude that auditors pay greater attention to wrongdoing that is quantifiable in "dollar terms".

Concluding Comment

While overall trainee auditors have confidence in current internal reporting structures, our results indicate that firms could do more to encourage the reporting of concerns internally. This is especially true where concerns relate to non-financial issues. Furthermore, given that obligations upon auditors to report matters to external authorities are expanding, it is important that auditing practices develop policies to meet these requirements. This is critical in the light of our finding that trainee auditors believe their career will be adversely affected by reporting a matter externally. Our findings suggest that legislation in this area may encourage greater reporting of wrongdoing among trainee auditors. The conflict between legal requirements on auditors to report wrongdoing on the one hand, and limited legal protection on the other hand, is a matter that needs to be addressed by policy makers. The research results are suggestive and only provide preliminary evidence on this important topic.

End notes

¹ Auditors have a number of obligatory duties to report wrongdoing under legislation in Ireland. Under section 194 of the Companies Act 1990 auditors have a duty to report if in their opinion proper books of account are not being kept. Section 74 of the Company Law Enforcement Act 2001 introduced a requirement on auditors to report breaches of the Companies Act and suspicions of fraud. Section 59 of the Criminal Justice (Theft and Fraud Offences) Act 2001 imposes a duty to report theft and fraud offences on accountants (who are not employees of the firm) and on auditors. The Money Laundering Regulations 2003 impose on practicing accountants an obligation to report suspicions of money laundering and of terrorist activities. Section 1079 of the Taxes Consolidation Act, 1997 imposes an additional obligation on auditors if they become aware that the company has knowingly or wilfully delivered a false tax return or false information in connection with tax. The section requires the auditor or adviser, unless the situation is rectified, to cease work with the company and to advise the Revenue authorities of such cessation. Finally, Section 34 of the Stock Exchange Act, 1995 imposes whistleblowing obligations on auditors of approved stock exchanges and on authorised member firms in a variety of circumstances including the insolvency of the auditor's client, inaccuracies or omissions in returns made by the client to the Central Bank, material defects in the client's accounting or control systems and any intention of the auditor to qualify the audit opinion.

² *Kingston Cotton Mill Company (No. 2)* [1896] Ch 279, at 288–289.

³ The first step was to seek permission of the Institute of Chartered Accountants in Ireland to administer the questionnaire during one of the Institute's courses. The Institute requested sight of the questionnaire. As a result, one change to the questionnaire was required: the removal of any reference to big-four/non-big four audit practices. Consequently, the question "Are you employed by a big-four/non-big four audit practice?" was replaced by the question "How many staff does your Firm employ?"

The Institute sent an email to all students attending the course advising them that the questionnaire would be administered at one of their lectures. There was no requirement on students to complete the questionnaire. Non-completion of the questionnaire had no consequences for the students (for example, the researcher was not one of their lecturers, and was completely independent of the Institute).

⁴ The questionnaire was circulated to students from 8.30am onwards. At the start of the lecture at 9am, the lecture allowed 10-15 minutes of class time for completion of the questionnaires, which were then returned to the researcher. Further completed questionnaires were collected at the break at 11.00 am. Two factors

account for the low response rate. Firstly, it is quite common for final year students to collect their lecture notes and to leave immediately, favouring self-study over class attendance. Secondly, students may have had limited motivations to complete the questionnaire as the researcher administering the instrument was not their lecturer.

⁵ Section 10 of the Criminal Justice (Theft and Fraud Offences) Act 2001.

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Appendix 1: Summary of Questionnaire (full questionnaire is available from the authors on request)

Preliminary questions 1-9:

Preliminary questions on (i) gender, (ii) age, (iii) years experience, (iv) Job title, (v) size of employer, (vi) adequate formal structures for reporting incidences of suspected/actual wrongdoing, (vii) training on statutory whistleblowing duties, (viii) existence of firm whistleblowing policy, (ix) awareness of legislation protecting whistleblowers

Scenarios

Scenario 1: Morris Ltd.

You have been appointed Audit Senior of the audit team to perform the interim-audit at **Morris Ltd.**, a medium sized, family-run manufacturing company. The company has expanded rapidly over the last three years, growing its sales in Eastern Europe by in excess of 50% per annum. The draft financial statements for the current period show that Turnover was €5.8m and Profit after Tax was €0.57m. While auditing the stock purchases you discover that the Production Manager insists on paying one of the suppliers in cash only. When you ask the Production Manager about this situation he explains that he is able to negotiate discounts by paying for the goods in cash. However, upon further investigation you discover that the Production Manager is in fact overstating purchases from this supplier and taking the money for himself. The scheme has gone unnoticed because of weak internal controls and the close relationship between the Production Manager and Mr. Morris, the Managing Director. You estimate the amount of the cash misappropriated in the current period to be €12,000. You report the issue to the Audit Partner who assures you that the matter will be dealt with and thanks you for your diligent work. However during the final audit (6 months later) you discover that the scheme is still in operation.

Scenario 2: Collins Ltd.

You have been appointed the Audit Senior of the audit team to perform the audit at **Collins Ltd.** the Irish subsidiary of a FirstDrug Inc. a very large pharmaceutical company quoted on the New York Stock Exchange. Collins Ltd. employs over 600 people at its European Headquarters in Dublin, a further 300 at a production facility in Cork and 130 in its research centre in Galway. During the course of your audit work you become concerned about the company's treatment of R&D expenditure. In particular you believe that the company is classifying some research expenditure as development expenditure and capitalising it in the Balance Sheet. This accounting treatment has a material impact on the financial statements of Collins Ltd. You pass on your concerns to the Audit Partner who subsequently invites you into his office for a chat. While noting your concern he explains that the amounts involved are not material from the overall Group perspective. He further points out the scale and importance of their operations in Ireland and impresses upon you that this client is a very important client for your Firm globally. Noting that you still have a year to do under the terms of your training contract and concerned for your welfare and career prospects, he suggests that you "let sleeping dogs lie".

Appendix 1: Summary of Questionnaire (full questionnaire is available from the authors on request)

Scenario 3: First Province Bank

You have been appointed Audit Senior to carry out the interim audit on First Province Bank, a large bank that in recent years has specialised in providing mortgages in the Irish market. As part of your audit programme you place emphasis on the bank's mortgage book, as this is its most significant activity. After detailed investigation you become concerned about irregularities in relation to the variable interest rate charged on mortgages to first time buyers. In particular you have noticed that in a number of branches the variable rate charged to this class of customer fluctuates more often than the underlying base rate, with the consequential effect of overcharging mortgage holders in the month in which the fluctuation occurs. Further examination of these fluctuations did not reveal a definite pattern. You recognise immediately that substantial sums of money could be raised by even a small adjustment to the variable rate. You raise these concerns with the Audit Partner who assures you that there is nothing to worry about citing the reputation of the bank and its management, but curiously did not elaborate further.

Scenario 4: Public Hospital Ltd.

You have been appointed the Audit Senior of the audit team to perform the audit at **Public Hospital Ltd.** a state funded hospital in the Eastern Regional Health Authority. During the course of your audit work on the hospital's creditors you discover a file relating to Hospital Waste Ltd, a specialist Firm contracted by the hospital to safely dispose of its used surgical equipment. You discover a memo from the Manager of the hospital's Waste Disposal Unit to the Chief Executive of the Hospital, outlining her concerns regarding the repute of Hospital Waste Ltd. Specifically her concern relates to a conversation she overheard among Hospital Waste Ltd. employees indicating that all the waste is being buried. After reading through the file you uncover the response from the Chief Executive who notes that there is no documentary evidence for her allegations and that in his opinion no further investigation of the matter is warranted. This reply is dated 7 months ago. You bring your concerns to the Audit Partner who reminds you that the audit is being performed on Public Hospital Ltd. and not on Hospital Waste Ltd. and that there is nothing he can do.

Questions 1-4 on scenarios

(i) Rate the seriousness of the issue; (ii) Rate satisfaction with the Audit Partner's response; (iii) What further action would you take? (iv) Would legislation protecting whistleblowing employees change your chosen course of action in (iii) above?

General questions 1-5

General questions on (i) Ability to resolve difficult ethical dilemmas if they arose in practice; (ii) Confidence in current employment legislation protecting whistleblowing; (iii) Confidence that careers prospects would not suffer from blowing the whistle externally; (iv) Confidence that careers prospects would not suffer from blowing the whistle internally; (v) Pursuance of wrongdoing regardless of existence of legislation protecting whistleblowing.