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A COMPARATIVE ANALYSIS OF THE COGNITIVE MORAL DEVELOPMENT OF INDEPENDENT PUBLIC AUDITORS AND BANK EXAMINERS¹

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ABSTRACT

This research investigates the degree to which differences exist in the moral reasoning ability of bank examiners and certified public accountants based on institutional context. The research uses Lawrence Kohlberg's cognitive moral development theory as its academic underpinning, and James R. Rest Defining Instrument Tests 2 as its measuring instrument. The DIT-2 survey collects demographic data and assesses the subjects' moral reasoning abilities. The CPAs were from small to midsize public accounting firms and the bank examiners were from one of the biggest federal banking regulatory agencies. Bank examiners and CPAs were randomly selected within their respective organizations. Lemon (1996) believes that professional accountants must be ethical, and deal with difficult ethical issues on a on a regular basis.

Keywords: *Accounting, Ethics, Bank Examiners, CPAs.*

INTRODUCTION

The purpose of this research is to determine if there is a difference between the cognitive moral development of independent public auditors in certain mid-size public accounting firms and bank examiners in selected federal banking regulatory agencies based on institutional context. According to Thorne, Massey, and Magnan (2003), intuitional context transcends cultures and nationality, and includes dynamics such as legal and religious environments. These environments influence the moral reasoning of auditors. For example, Thorne, et al found that auditors in a more litigious U.S. environment are more likely to exercise greater deliberative reasoning that prescriptive reasoning as compared to their counterparts in a less litigious Canadian legal environment. This research sheds light on whether the highly regulatory environment in which bank examiners work has any bearing on moral reasoning versus the less regulatory environment in which independent public auditors work.

The U.S. economy continues to reel from one financial scandal to another. Just when it appears that the accounting profession's self-inflicted wounds were in the last stage of mending, U.S. financial markets suffer more devastating blows to its image and renew lingering questions about the moral and

¹ **Ethical Standard Statement**

This study complies with ethical standard set forth in the 1964 Declaration of Helsinki guidelines, and was approved by the Internal Review Board. Subjects participating in this study did so voluntarily without any form of compensation, and did not reveal their identities. In addition, this study does not have any paid sponsors.

ethical integrity of the industry. After a slew of high profile accounting scandals gave birth to the Sarbanes Oxley Act of 2002, the accounting profession and financial industries began the painstaking process of rebuilding their images. The continuing convergence of banking examiners and certified public accountants give relevance to this study. The cloud over the financial industry, banks in particular, has not been denser since the savings and loan scandals of the 1980s. These latest episodes of financial improprieties intensify the scrutiny under which accountants and bank examiners find themselves. These events will ultimately speed the regulatory convergence of these professions, as the federal government has stepped in to bail out many banks and other financial services firms.

Unlike certified public accountants, bank examiners are not subject to oversight by accounting standard-setting bodies, such as the American Institute of Certified Public Accountants and the Financial Accounting Standards Board. Standard-setting bodies, which are private independent organizations, do not have legal authority to enforce compliance. In contrast, the United States Congress, through the Security and Exchange Commission and bank regulatory agencies, such as the Federal Deposit Insurance Corporation and the Federal Reserve, possesses enforcement authority. Both bank examiners and certified public accountants are subject to Congressional mandates regulating the banking and accounting professions.

Generally, there is little emphasis on ethics education in accounting programs, and there is even less in the practicing accounting arena (Lim, 2002). Accounting managers barely have sufficient staff and time to dedicate to achieving the objectives of the organization, let alone time to incorporate ethics education intervention (Kahn, 2002). Private regulatory bodies and public legislators question whether ethics education interventions are prominent in the curricula of business schools and accounting programs (Earley & Kelly, 2004). There are no stringent rules governing ethical behavior. Ethical behavior adapts and changes in response to social norms (Duska & Duska, 2005). Many argue that ethics education intervention has little to no bearing on individuals; they believe that an individual derives ethical virtue from his upbringing. The majority of businesses rely on universities and colleges to teach ethics; hence, they do not offer ethics education intervention.

THEORETICAL BACKGROUND

Piaget (1965), whose work remains relevant today, was one of the early pioneers in doing extensive research in moral development. Piaget studied the moral development of children by observing them as they played games among themselves. Piaget also studied children's attitudes regarding stealing and lying. He found that younger children were unable to explain why it is wrong to lie and steal. Conversely, older children were able to provide reasons why these deeds are wrong. Piaget concludes that children are not able to separate their thoughts and desires from those of others. He identifies the following stages of moral development:

1. Sensory-motor stage is the stage at which the child develops his primary circular reactions, secondary circular reactions, and tertiary circular reactions. The duration of this stage is from birth to 24 months.
2. Preoperational stage is the stage where the child is able to symbolically substitute one object for another. This skill becomes useful when playing games, as he or she creates imaginary toys and objects. This stage lasts from 2 to 7 years.
3. Concrete operation stage is where the child is able to use and manipulate symbols logically, but is unable to deal with them in the abstract. This stage lasts from age 7 to about age 11.

4. Formal operations stage is where individuals develop complex thinking and decision-making. From the age of 12 forward, one exists in the formal operations stage.

Bank examiners are similar to CPAs (independent public auditors) in that they audit and analyze financial/accounting data. One of the central differences between a bank examiner and an independent public auditor is that one group (independent public auditors) works for private or public organizations, while the other group (bank examiners) works for quasi-federal government agencies. The primary objective of bank examiners is to audit the financial affairs of banks to safeguard depositors' funds. In contrast, the primary purpose of independent public auditors is to determine and certify the fair representation of business' financial statements.

The "lifeblood" of any business is only as good as the ethical precepts on which it conducts business. The accounting profession is the financial custodian of businesses. The business community expects the accounting profession to adhere to strict moral and ethical principles in the course of business. However, the moral and ethical reputation of the profession suffers due to major accounting scandals involving major multinational corporations.

According to Thorne (2000), "ethical dilemmas are decisions for which there is no single, ethically correct answer" (p. 140). However, researchers are still collecting data about the ethical component of accountants' professional judgment. Thorne examines the deliberative moral reasoning and the prescriptive moral reasoning of accountants, using the Accounting-Specific Instrument and the Defining Issues Test, in an attempt to glean information on how accountants arrive at moral decisions. Thorne finds that accountants apply both prescriptive reasoning and deliberative reasoning in resolving ethical dilemmas. Perspective reasoning reflects the process by which accountants arrive at professional judgment. Conversely, deliberative reasoning reflects the accountant's intention to reach an ideal professional judgment. Lemon (1996) believes that professional accountants are expected to be ethical, and are required to deal with difficult ethical issues.

Kohlberg's (1969) justice-based stage model of moral development, the Cognitive Moral Theory (CMT), identifies three levels of moral judgments. Each level contains two stages. The pre-conventional level focuses on self, the conventional level focuses on group, and the post-conventional level focuses on inner self. Kohlberg developed a personal interview procedure to measure the stage of cognitive moral development. Consistent with Piaget, Kohlberg believes that there are three levels of moral development, and that there are two stages pertaining to each level. Kohlberg's model of cognitive moral development is as follows:

- A. Level 1 – Pre-conventional morality: The pre-conventional level is similar to Piaget's motor sensory level in that children view people in authority as powerful, and that these authorities formulate rules that they must follow. Level 1 is comprised of two stages:
 1. Obedience and Punishment – during this stage, children associate morality with punishment and obedience. This stage of cognitive moral development is associated with rewards and punishment. At stage one, people are guided by obedience, and avoiding punishment is the key consideration (Trevino, 1992).
 2. Individualism – stage 2 involves the awareness that there are various perspectives on what is right and wrong; however, ethics are viewed purely as a matter of maximizing one's self-interest (Snell & Tseng, 2001).

- B. Level 2 – Conventional: At the conventional level, people begin to acknowledge that they should live up to the expectations of family and community by conducting themselves in “good,” upright terms. The conventional level requires individuals to internalize the shared moral norms of their social circles. Good behaviors are deeds that are morally acceptable to those with whom we interact (Snell & Tseng, 2001). Level 2 embodies stages three and four of conventional morality as describe below:
3. Mutual Interpersonal Expectation: people recognize, at this stage, that they should be concerned with the way they treat and interact with others.
 4. Social System and Conscience: At stage 4, one’s focus widens to include institutions or systems. “At this stage, moral judgments consider the rules and laws of social, legal, or religious systems that are designed to promote the common good” (Trevino, 1992, p. 446).
- C. Level 3 – Post-conventional: Morality is defined by the logical application of universal, abstract, and ethical principles. Individuals possess “God-given” rights, which must be respected and protected by the broader society. Stages 5 and 6 of Post-conventional morality are as follows:
5. Social Contract and Individual Rights: At stage 5, people construe morality as a matter of social agreement and cooperation.
 6. Universal Principles: At this stage, morality is construed in a universal context, and moral principles are universal, impartial, and logically compelling. These principles transcend moral and social agreements (Snell & Tseng, 2001).

Crain (1985) offers the following:

Kohlberg’s conception of justice follows that of the philosophers Kant and Rawls, as well as great moral leaders such as Gandhi and Martin Luther King. According to these people, the principles of justice require us to treat the claims of all parties in an impartial manner, respecting the basic dignity, of all people as individuals. The principles of justice are therefore universal; they apply to all. Thus, for example, we would not vote for a law that aids some people but hurts others. The principles of justice guide us toward decisions based on an equal respect for all. (Stage 6: Universal Principles section, ¶ 2)

Forte (2004b) notes that “the value of ethical reasoning is that it is a premise upon which our country and our business enterprises are founded. High moral reasoning and the continued development of ethical standards are goals to which our government, businesses, and educational system must ascribe” (p. 172). Clearly, these principles are crucial to the accounting profession and banking regulatory agencies. The public must have confidence in the ethical integrity of these prominent players in the financial arena. “Such a view supports the emphasis placed on honesty as an essential personality of accountants” (Fatt, 1995, p. 999). According to Fatt, “despite what has been said about what accounting educators can do, accounting practitioners still need to shoulder the responsibility of ensuring that the accounting profession rests on ethical principles. The public remains the judge” (p. 1003).

The standard-setting bodies of the accounting profession have ethical codes of conduct governing the accounting profession. The American Institute of Certified Public Accountants (AICPA) defines integrity as “an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions” (“ET Section 54,” 2006, ¶ 1). In addition, lawmakers legislate laws, such as the Sarbanes-Oxley Act of 2002, which in part addresses ethical codes of conduct within the profession of accountancy. Title XI, section

1102 of the Sarbanes Oxley Act of 2002, which was a direct response to accounting and corporate scandals, “makes it a crime for any person to corruptly alter, destroy, mutilate, or conceal any document with the intent to impair the object's integrity or availability for use in an official proceeding or to otherwise obstruct, influence or impede any official proceeding is liable for up to twenty years in prison” (“Summary of the Provisions,” 2006).

BANKING AND ETHICS

Green (1989) states, “banking is about rewards reflecting real risks and ethical considerations and it forms an important part of our risk-taking activities” (p. 631). The relationship between bankers and those they serve is built on a foundation of trust since the inception of the banking industry in the United States. That deep-seated trust allows Americans to freely entrust their finances to bankers in the hopes of being rewarded with prudent financial advice and an opportunity to accrue wealth over time. “Despite the increased interest in ethics at all levels, very little empirical research has been conducted on ethics in banking” (Vitell, Festervand, & Strutton, 1988, p. 21). That assertion remains as valid today as it did back in 1988. Certainly, businesses that continually defile the moral code of ethics lose the dedication of customers and suffer financial failures. The history of banking is replete with banks, such as Lincoln Savings and Loan and others, that have succumbed to financial failure because of unethical business practices. More recently, banks such as Citibank, Bank of America, and other big name banks and financial services firms join the ranks of the unethical.

ACCOUNTING AND ETHICS

“Accountants have a number of ethical responsibilities, to themselves, their families, and their profession as well as to the clients and company for which they work” (Duska & Duska, 2005, p. 30). Dolfmsa (2006) believes that “The ethical understandings that people have tend to be rather implicit and are subject to development. When teaching accounting, therefore, particularly to students majoring in other disciplines, one is faced with the challenge of trying to present a perspective of the world that at first sight would seem alien to many people” (p. 209). Ritter (2006) finds that when a university incorporates an ethics training program into the business curriculum, it only positively affects women students. Ritter’s findings supports both Ruegger and King (1992) and Smith and Oakley (1997).

Luoma (1989) declares, “It seems that no matter where we turn today, we are assailed by articles on ethics” (p. 14). Clearly, the state of affairs on the ethical landscape remains relatively unchanged nearly 20 years later. This certainly speaks volumes to one’s varying perspective on what constitutes ethical and moral values.

Values are important elements in our lives. Values help us to create a self-image, they influence our personal and professional goals and objectives, and they assist us as we attempt to become, or continue to be, productive and contributing members of society. (Luoma, 1989, p. 14)

A person’s values begin to take shape as infants. They are consciously and subconsciously ingrained into existence by one’s parents and caretakers, teachers, religious affiliations, as well as other societal influences. Luoma points out that people gather values, such as truth, dignity, and the sanctity of life from these influences. Further, Luoma argues that values are not transcendent across environments. For example, the profession of accountancy may require full disclosure of financial impropriety discovered by auditors, whereby an attorney representing his or her client would be in violation of “attorney client privilege” if he or she makes such a disclosure.

This theoretical framework and background provide the following hypotheses for this study:

Null Hypothesis 1 (H_{01}): There is no difference in the levels of moral reasoning abilities of bank examiners in selected federal banking regulatory agencies as compared to the levels of moral reasoning abilities of independent auditors in selected public accounting firms.

Alternate Hypothesis 1 (H_{11}): There is a difference in the levels of moral reasoning abilities of bank examiners in selected federal banking regulatory agencies as compared to the levels of moral reasoning abilities of independent auditors in selected public accounting firms.

Null Hypothesis 2 (H_{02}): There is no difference in the levels of moral reasoning abilities of female independent auditors in selected public accounting firms as compared to the levels of moral reasoning abilities of female bank examiners in selected federal banking regulatory agencies.

Alternate Hypothesis 2 (H_{12}): There is a difference in the levels of moral reasoning abilities of female independent auditors in selected public accounting firms as compared to the levels of moral reasoning abilities of female bank examiners in selected federal banking regulatory agencies.

Null Hypothesis 3 (H_{03}): There is no difference in the levels of moral reasoning abilities of male independent auditors in selected public accounting firms as compared to the levels of moral reasoning abilities of male bank examiners in selected federal banking regulatory agencies.

Alternate Hypothesis 3 (H_{13}): There is a difference in the levels of moral reasoning abilities of male independent auditors in selected public accounting firms as compared to the levels of moral reasoning abilities of male bank examiners in selected federal banking regulatory agencies.

Null Hypothesis 4 (H_{04}): There is no difference in the levels of moral reasoning abilities based on the age of independent public auditors in selected public accounting firms as compared to the levels of moral reasoning abilities based on the age of bank examiners in selected banking regulatory agencies.

Alternate Hypothesis 4 (H_{14}): There is a difference in the levels of moral reasoning abilities based on the age of independent public auditors in selected public accounting firms as compared to the levels of moral reasoning abilities based on the age of bank examiners in selected banking regulatory agencies.

SCOPE AND LIMITATIONS OF THE STUDY

The scope of the study is to examine the cognitive moral development of bank examiners in selected banking regulatory agencies and independent public auditors in selected public accounting firms. These limitations could render the sample unrepresentative of a larger "universe" of the targeted subjects. Some of the bank examiners are accountants by training, but may not have experience working as accountants in the private sector. Independent public auditors are not bank examiners and generally may not have experience working in banking regulatory agencies.

SIGNIFICANCE OF THE STUDY

The significance of this research is to obtain a rare glimpse into the cognitive moral development of bank examiners. Bank examiners are as germane to the soundness and safety of the nation's financial

system as any other financial oversight body or professionals. Yet, no one has examined the cognitive moral development of bank examiners. The cognitive moral development of examiners and auditors impact their official work to a great degree. Some argue that one's moral development impacts one's moral choices and decisions.

DEFINING ISSUES TEST-2 INSTRUMENT

Significant amounts of research on the ethics of accountants and auditors rely upon the Defining Issues Test (DIT) as a measure of cognitive moral development (Bailey, Phillips, & Scofield, 2005). This research uses James Rest's (1979) DIT-2 survey questionnaire instrument. James Rest developed the DIT. The DIT was later revised to the DIT-1. A second revision was done, which led to the DIT-2. The DIT-2 is a survey instrument designed to measure the moral reasoning development of people. The DIT-2 has been used to test Kohlberg's moral development theory in numerous academic studies, and has been used in numerous studies around the world (Rest & Narvaez, 1994). As Elm and Weber (1994) point out:

This test contains six hypothetical dilemmas, three of them Kohlbergian dilemmas that can be used to determine an individual's moral reasoning skills. As noted, the dilemmas comprise a variety of social moral issues, ranging from stealing a drug to saving a life to discontinuing a school newspaper for its disturbing influence. None of the dilemmas in the DIT are directly related to a business context. Subjects respond to the dilemmas by rating and ranking the importance of a series of statements prototypical of the different stages of moral reasoning. Requiring both the rating and ranking tasks allows for a consistency check for individuals who might check at random through the instrument (p. 348).

A demographic survey accompanied the DIT-2 instrument. The demographic survey collected data such as profession, age, gender, and length of time working within the subjects' respective profession. The age and gender data were also collected by the DIT-2 survey, and was used to corroborate the respondents answers provided on the DIT-2 survey. The age variable divides the respondents into two age groups: a.) 35 and older, and b.) 34 and younger.

In addition, the demographic survey collected data relative to the type of ethics training (workshop, conference, and course) respondents participated in, and how long it has been since they participated in ethics training. This variable was used to determine if there were in differences in the cognitive moral development of respondents as measured by the P- and N2-scores. Appendix A features the demographic survey.

TEST INSTRUMENT VALIDITY AND RELIABILITY

Several relevant scores emerge from the responses provided on the DIT-2 (Rest, 1979, 1986). The P-score from the DIT-2 instrument is the most popular used index (Rest, 1979) to measure moral development. The P-score represents principled reasoning, and it is measured based on the significance a respondent gives to those statements which represent stages 5 and 6 in Kohlberg's model (Pennino, 2002). Many studies using the instrument find the reliability index to be in the .70 to .80 range (Elm & Weber, 1994). Table 1 shows results of some studies using DIT instruments.

Table 1: *DIT P-score of Comparison of Prior Research*

P-score	Group
42.99	Liberals
36.35	Moderates
36.54	Conservatives (Fishers & Sweeney, 1998)
37.1	Females
31.8	Males
31.4	Freshmen/Sophomores
35.1	Juniors
35.0	Seniors (Bay & Greenberg, 2001)
37.79	Seniors
40.67	Managers
36.25	Partners (Lawrence & Shaub, 1997)
30.77	U.S. students < 23
31.95	Taiwan Students equal to o > 23 (Venezia, 2004)
32.5586	CPAs under 40
33.8186	CPAs 40 and over (Ariail, 2005)

Bay and Greenberg provide “evidence that the relationship between unethical behavior and ethical development may not be monotonically increasing” (p. 375).

Ariail (2005) studied nine age groups of CPAs. He found that CPAs 40 years of age and older possessed higher mean p-scores than CPAs under the age of 40. Venezia (2004) found significant differences between the cognitive moral development of Taiwanese accounting students and U.S. accounting students. However, he also found that there is a significant difference in the cognitive moral reasoning of accounting students who are under the age of 23 and accounting students who are 23 years of age or older. Chavez (2003) found that there is no difference in the moral reasoning abilities between the age groups of banking employees. Contrary to Chavez’s findings, Ruegger and King’s (1992) findings suggest that age affects moral reasoning. “The statistics suggest that those students falling in the 40 plus years age group were the most ethical, followed in order by the 31–40 group, the 22–30 group and those of 21 years of age and under” (Ruegger & King, 1992, p. 179).

SAMPLE

The sample comprised of certified public accountants and bank examiners. The CPAs who participated in this study are from three small public accounting firms situated in the Washington, District of Columbia, metropolitan area. The CPA firms in this study have a working relationship with a local public university from which they often recruit graduating accounting students. An accounting professor at the university agreed to secure the participation of the firms. The DIT-2 and demographic surveys were given to the managing partners who distributed the surveys to those CPAs who agreed to participate in the study. The participants were given two weeks to complete the surveys. After the surveys were completed, they were mailed to the university professor who hand-delivered them to the researcher. Sixty surveys were sent to the three firms, and a total of 39 were returned, yielding a response rate of

65%. The high response rate may be attributed to the firm's affiliation with the university and that they were hand-delivered by the managing partners.

One hundred and fifty-eight surveys were sent out to bank examiners: 30 were hand delivered and 128 were mailed. The bank examiners all worked in federal regulatory agencies. Twenty-two of the 30 hand-delivered surveys were returned, which accounted for 73.3%. Twenty-nine of the 128 surveys that were mailed were completed and returned, which accounted for 22.66%. Overall, the response rate was 32.28%. The completed DIT-2 surveys were mailed to the Center for the Study of Ethical Development at the University of Minnesota for scoring.

THE STUDY OF VARIABLES

This study involves one dependent variable: moral maturity. There are five independent variables: ethics training, gender, age, banking regulatory agencies, and public accounting firms. In this study, the researcher expects the DIT scores of bank examiners to be higher than those of independent public auditors because of the context-specific (Earley & Kelly, 2004) environment in which bank examiners work. A context-specific environment is any environment which is highly subject to political, legal, or religious dynamics that can greatly influence the way people within those environments perform their jobs (Thorne et al., 2003). Bank regulatory agencies are highly regulated by federal mandates. This context-specific environment leads to intense scrutiny from public officials and the banking industry. Thorne et al. found that institutional context, such as legal and political environments, had greater positive influence on the moral reasoning ability of American auditors than Canadian auditors.

Bank examiners receive more regulatory scrutiny than independent public auditors. Another major difference between the two groups is that bank examiners work for regulatory agencies that are not profit centers, while independent public auditors work in a highly competitive profit-driven environment. Both bank examiners and independent public auditors participate in ethics training.

Regarding the issue of gender, prior studies yield mixed results of any association between gender and moral reasoning abilities in auditors. Female auditors have a higher moral development than their male counterparts (Ponemon & Gabhart, 1993). Thoma (1986) concluded that there is no significant correlation between gender and moral development. When differences exist, women score higher than men (Kracher, Chatterjee, & Lundquist, 2002). Yet, other studies have produced contrary results. Clearly, the issue remains open. Some DIT studies reveal significant positive relationship between moral development and education (Kracher et al., 2002).

STATISTICAL ANALYSIS

The overall objective of the DIT-2 instrument is to measure levels of cognitive moral development in individuals, which is the dependent variable in this study. The independent variables are age and gender. The scores of bank examiner respondents were contrasted to the scores of independent public auditor (CPAs) respondents. These variables also were captured on the demographic surveys that the respondents completed. The variables on both surveys were cross-referenced for accuracy and validity. This is the first study to test the levels of cognitive moral reasoning abilities in the subject groups. This research uses ANOVA statistics and the T-tests to evaluate the findings, which were used to determine any differences in the mean P-score and N2-score. The participants in this study were generally highly educated individuals. According to Rest (1979) and Kohlberg (1986), the levels of moral reasoning

increase with education. The subjects participating in this study completed the DIT-2 survey instrument, which featured the 5 stories mentioned previously.

RESEARCH METHODOLOGY

The DIT-2 instrument, along with the demographic survey, was sent by mail to selected bank examiners in selected federal banking regulatory agencies, as well as to selected independent auditors in selected certified public accounting firms. The survey took approximately 30–40 minutes to complete. The survey is comprised of six segments, and each segment has 12 questions. The participants were required to read six 1-paragraph stories. After reading the stories, the participants were required to answer the questions relative to the story, and then rank the 4 most important questions of the 12 on a scale of 1 to 4, according to their importance to the story.

The results of the survey were statistically analyzed using the P-score of the DIT-2 instrument. Thorne et al. (2003) used the P-score to analyze the cognitive moral development of accountants. The ANOVA test also was used to analyze the data. Forte (2004) used the ANOVA analysis to determine the moral reasoning of managers. The ANOVA test was used to validate the statistical results of the T-test. These statistical tests are consistent with those used in prior studies. The P-scores measure the significance a person gives to principal moral consideration in making moral decisions (Rest, 1976).

SAMPLE SIZE

The DIT-2 surveys were sent to 200 bank examiners and 200 independent public auditors. Some of the surveys to bank examiners who work for the Federal Deposit Insurance Corporation were sent by mail, and others were hand-delivered. The surveys to bank examiners who work in other federal banking agencies were sent by U.S. mail. Bank examiners are situated in various geographical areas within the United States. The surveys to the independent public auditors were hand-delivered. All surveys contained a self-addressed, stamped envelope to facilitate the collection of the completed product. The surveys that were hand-delivered were picked up and returned by the deliverer.

DATA ANALYSIS AND RESULTS

The Center for the Study of Ethical Development at the University of Minnesota provided a report of the N2- and P-scores of each of the subjects within each group of respondents. These scores indicate a person's level of cognitive moral development or moral reasoning abilities. "Historically, philosophy has described moral judgment as a conscious and deliberative decision-making. Consequently, studies of moral judgment usually focus on testing conscious, thoughtful reasoning about moral dilemmas" (Narvaez & Bock, 2002, p. 297).

Overall, there were 90 subjects who completed DIT-2 surveys. There were 33 (36.67%) male bank examiners; 18 (20%) of which were in the 35 and older age group, and 15 (16.67%) of which were in the 34 and younger age group. They all had some form of ethics training, and all were college educated. There were 18 (20%) female bank examiners, 14 (15.56%) of which were 35 and older, while four (4%) were 34 and younger. Like their male counterparts, the female bank examiners were all college educated and had participated in some form of ethics training. The bank examiners comprised 56.67% of all respondents.

Public auditors comprised 39 (43.33%) of the all respondents. There were 18 (20%) male public auditors, five (5.56%) of which were 35 and older, and 14 (15.56%) that were 34 and younger. There were 21 (23.33%) female public auditors, 11 (12.22%) of which were 35 and older, while the other 10 (11.11%) were in the 34 and younger age group.

The descriptive statistics pertaining to the respondents are illustrated in Table 2.

Table 2: Descriptive Statistics for all Respondents

	N	Range	Minimum	Maximum	Mean	Std. Deviation
Personal Interest (Stage 2/3)	90	54.00	6.00	60.00	31.2222	11.98540
Maintain Norms (Stage 4)	90	70.50	12.00	82.50	39.3384	13.62553
Post Conventional (P score)	90	60.00	.00	60.00	21.5747	12.63499
N2SCORE	90	61.04	2.22	63.26	22.6788	10.65014
Utilizer score	86	.62	-.20	.42	.1188	.13230
Humanitarian Liberalism	90	5.00	.00	5.00	1.8889	1.17506
Number of cannot decide choices	90	5.00	.00	5.00	1.2111	1.47255
Religious Orthodoxy (proxy measure)	90	8.00	1.00	9.00	5.9889	2.36308
AGE	90	37.0	21.0	58.0	35.889	8.5911
SEX	90	1	1	2	1.43	.498
Educational Level	87	8.0	3.0	11.0	9.172	1.7132
Political Liberalism (high scores = Con)	90	4	1	5	2.82	.943
U.S. Citizen?	90	1	1	2	1.08	.269
English as primary language?	90	1	1	2	1.12	.329
Valid N (listwise)	84					

The Post Conventional Score (P-score) for the respondent has a mean of 21.57 with a standard deviation of 12.63, while the N2-score has a mean of 22.68 with a standard deviation of 10.65. Four respondents did not answer the question relative to utilizer score, and three respondents failed to provide answers to the question pertaining to educational level.

It is imperative to note that the research questions did not call for testing related to age and gender for the respondents by profession. However, statistical data that provided the P and N2-scores for bank examiners and independent public auditors by age group and gender were produced. The data shows that the overall P-score for male respondents was 21.71 and the N2-score was 23.21. There were 33 male bank examiners and 18 male independent public auditors. The P-scores for male bank examiners 35 and older were 21.5 and the N2-scores were 21.33. Those bank examiners who were in the 34 and younger age group had a P-score of 22.19 and an N2-score of 24.11. The ANOVA statistics for the male respondents yielded a P-score of .559 and an N2-score of .130.

In contrast, there were 21 female public auditors and 18 female bank examiners, for a combined total of 39 female respondents. The overall P-score for females was 21.40 and the N2-score was 21.98. There were 10 female auditors in the 35 and older group, and 11 female auditors that were 34 and younger.

The P-score for the 35 and older group was 20.48 and the P-score for the 34 and younger group was 18.36. The N2-score for the 35 and older group was 25.21, and the N2-score for the 34 and younger group was 20.09. The P-score for the 35 and older female examiners was 24.57, and the P-score for the 34 and younger group was 21.00. The N2-score for those 35 and older was 23.03, and the N2-score for the 34 and younger group was 15.46. The ANOVA statistics for the female respondents yielded a P-score of .630 and an N2-score of .249.

The ANOVA statistics for both the male and female groups by age conveyed no significant difference between the age groups. This is consistent with Forte's (2004a) study, which found no statistically significant difference between younger and older managers. However, Ruegger and King (1992) found that age was a determinant of the moral reasoning abilities of accounting students.

The finding of this research does not reject the Null Hypothesis 1 (H_01). The mean P-score for bank examiners is 22.55 with a standard deviation of 12.91 and standard deviation error mean of 1.81. The bank examiners N2-score is 22.90 with a standard deviation of 10.22 and a standard deviation error of 1.43. Conversely, the mean P-score for independent public auditors is 20.30 with a standard deviation of 12.31 and a standard deviation error of 1.97. The mean N2-score for independent public auditors is 22.38 with a standard deviation of 11.32 and a standard deviation error of 1.81.

The Levene's Independent Samples Test assuming equal variance at a .95% confidence level yielded a P-score significance of .51 and an N2-score significance of .72. Neither of these scores is significant as they are both greater than the statistically significant level of .05. Hence, the null hypothesis stating that there is no difference in the levels of moral reasoning abilities of bank examiners in selected federal banking regulatory agencies as compared to the levels of moral reasoning abilities of independent auditors in selected public accounting firms is accepted. Conversely, the alternate hypothesis (H_11), which states that there is a difference in the levels of moral reasoning abilities of bank examiners in selected federal banking regulatory agencies as compared to the levels of moral reasoning abilities of independent auditors in selected public accounting firms, is rejected.

COMPARISON BETWEEN THIS STUDY AND PRIOR RESEARCH

The primary focus of this research was to examine the levels of moral reasoning abilities of bank examiners in selected federal regulatory agencies and independent public auditors in selected public accounting firms. The empirical evidence of this research found support for the hypothesis, which asserts that there is no difference in the levels of moral reasoning abilities of bank examiners in selected regulatory agencies as compared to the levels of moral reasoning abilities of independent public auditors in selected certified public accounting firms.

IMPLICATION OF THE FINDINGS

Given that this research did not uncover any major differences in the cognitive moral development between bank examiners and independent public auditors, it could be interpreted that these financial professionals approach their jobs with the same levels of moral reasoning when confronted with moral dilemmas. Kohlberg (1976) noted that there is more commonality among people in their approach in dealing with ethical problems than there are differences. The results of this research corroborate that assertion. Although the work of bank examiners is much more obscure than that of independent public auditors (CPAs), they are crucially important in building and maintaining the public trust and confidence

in financial institutions. Therefore, they must be cognizant that any unethical performance in executing their fiduciary responsibilities could have devastating consequences far beyond their imagination.

All of the respondents in this research had received some form of ethics training. This positive finding could be directly related to the recent accounting scandals that have plagued the financial arena. It appears that senior management and executives are placing an emphasis on ethics education. This development will, undoubtedly, have a positive impact on American businesses if it is not treated as a passing phenomenon.

LIMITATIONS OF THIS RESEARCH

There are several limitations of this research that merit noting. The study only looked at CPAs in the Washington, D.C., metropolitan area. The size of the CPA firms was relatively small. There were 51 respondents from the surveys that were sent to bank examiners. Twenty-two of the respondents were from one banking regulatory agency, which represented approximately 43% of the total respondents for bank examiners and approximately 24% of the overall pool of respondents. Consequently, variables such as corporate culture and demographic location could have impacted the final results of the data.

The researcher did not track which of the other regulatory agencies the remaining 57% of respondents were from. Because the overwhelming percentage came from one particular federal banking agency, the results may reflect biases inherent in context-specific environment, (that is, corporate culture). Most of the DIT-2 surveys to bank examiners were sent to those located in the northeastern regional offices. While the DIT-2 instruments and demographic surveys were hand-delivered to CPAs, most bank examiners received theirs by mail. Therefore, there is no assurance that the DIT instruments mailed were completed by bank examiners. Conversely, there is greater assurance that the DIT-2 instruments that were hand-delivered to bank examiners were completed by bank examiners.

In addition, given that the majority of the data were collected from bank examiners in the northeast, there could be built-in cultural biases. According to Gray (1988), cultural influences and biases help shape peoples' views and perceptions about what is right or wrong. Thorne et al. (2003) also concluded that institutional environments such as politics, religion, corporate culture, and legal environments are determinants to how individuals respond to ethical dilemmas. Some of the age groups had little to no participation from respondents. Future research should make an attempt to ensure data is gathered for all variables the demographic survey is attempting to capture. These steps will help ensure more robust testing.

RECOMMENDATION FOR FUTURE RESEARCH

Bank examiners are constantly being trained to provide better services to the banking industry. The banking industry, particularly at the state and federal levels, should seize the opportunity to conduct additional ethics research on its audit, examination, and compliance personnel who are at the frontline of the banking regulatory mission. Because it appears that bank examiners receive ethics education training, future research should compare the ethics of those who are on the front line of the examination process to those who are in the backroom operations. Also, future research should explore cognitive moral development across gender.

Another opportunity for future research is to contrast the cognitive moral development of banking professionals of the various federal regulatory agencies. Due to the difficult nature of getting

participation of a good cross section of the regulatory agencies, future researchers may want to secure the participation of the proper officials within these agencies to achieve higher and broader representation of subjects. In addition, future research should narrow the time bands since subjects have had ethics training. In retrospect, the time bands for measuring any potential differences in levels of moral reasoning should have gone from less than 1 year, to 1 to 3 years, and more than 3 years.

CONCLUSIONS

Future studies may broaden the research to include CPAs from a wider cross-section of the country as well as to include a control group. This will help the researcher to get a better handle in interpreting the meaningfulness of the results.

This study will assist federal banking regulatory agencies to gather more insights on the cognitive moral development of bank examiners. Because the cognitive moral development of bank examiners has received little to no attention in the past, this research can be used as a springboard to conduct additional studies in this area. It is critically imperative that bank examiners possess a high level of cognitive moral development, as they represent a group of the major front-line players who ensure the safety and soundness of the U.S. financial system.

Bank examiners are as important as certified public accountants to the nation's financial system. In fact, many would argue that bank examiners are more important to the nation's financial system than certified public accountants, since more people have a personal relationship with banks than they do with other forms of businesses that greatly impact the nation's financial pulse. Banking regulators should seize the opportunity to vigorously develop the levels of moral reasoning abilities of bank examiners by administering ethics education training and testing on a regular basis. This practice could measurably increase the public's confidence in these financial professionals who are charged with supervising and protecting the health of the most visible members (banks) of America's financial industry.

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APPENDIX A

Demographic Questionnaire

Please answer the following questions. **Do not provide your name** on the questionnaire.

1. I am a:
 - a. Bank examiner
 - b. Public auditor
 - c. Other
2. If you are a bank examiner, indicate the period:
 - a. Less than 3 years
 - b. 3 to five years
 - c. More than five years
3. If you are an accountant who is not a bank examiner, indicate how long?
 - a. Less than 3 years
 - b. 3 to five years
 - c. More than five years
4. Highest level of education completed?
 - a. Undergraduate
 - b. Graduate
 - c. Post Graduate
 - d. other
5. Age
 - a. under 25
 - b. 25 – 34
 - c. 35 – 44
 - d. Over 44
6. Gender
 - a. Male
 - b. Female
7. Are you a certified public accountant?
 - a. Yes
 - b. No
8. Have you ever taken a course, workshop, or conference in ethics training?
 - a. Yes
 - b. No
9. If yes, please indicate the type of training:
 - a. Course
 - b. Workshop
 - c. Conference
 - d. Other
10. How long ago did you have ethics training?
 - a. less than 1 year
 - 1- 5 years
 - b. More than 5 years.

APPENDIX B

DIT Instrument

DIT-2

Defining Issues Test Version 3.0

University of Minnesota
Center for the Study of Ethical Development

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Instructions

This questionnaire is concerned with how you define the issues in a social problem. Several stories about social problems will be described. After each story, there will be a list of questions. The questions that follow each story represent different issues that might be raised by the problem. In other words, the questions / issues raise different ways of judging what is important in making a decision about the social problem. You will be asked to rate and rank the questions in terms of how important each one seems to you.

This questionnaire is in two parts: one part contains the INSTRUCTIONS (this part) and the stories presenting the social problems; the other part contains the questions (issues) and the ANSWER SHEET on which to write your responses.

Here is an example of the task:

Presidential Election

Imagine that you are about to vote for a candidate for the Presidency of the United States. Imagine that before you vote, you are given several questions, and asked which issue is the most important to you in making up your mind about which candidate to vote for. In this example, 5 items are given. On a rating scale of 1 to 5 (1=Great, 2=Much, 3=Some, 4=Little, 5=No) please rate the importance of the item (issue) by filling in with a pencil one of the bubbles on the answer sheet by each item.

Assume that you thought that item #1 (below) was of great importance, item #2 had some importance, item #3 had no importance, item #4 had much importance, and item #5 had much importance. Then you would fill in the bubbles on the answer sheet as shown below.

				L
G				I
R	M	S		T
E	U	O		T
A	C	M	L	N
T	H	E	E	O

Rate the following 12 issues in terms of importance (1-5)

- | | | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|--|
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 1. Financially are you personally better off now than you were four years ago? |
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 2. Does one candidate have a superior moral character? |
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 3. Which candidate stands the tallest? |
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 4. Which candidate would make the best world leader? |
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 5. Which candidate has the best ideas for our country's internal problems, like crime and health care? |

Further, the questionnaire will ask you to rank the questions in terms of importance. In the space below, the numbers 1 through 12, represent the item number. From top to bottom, you are asked to fill in the bubble that represents the item in first importance (of those given you to choose from), then second most important, third most important, and fourth most important. Please indicate your top four choices. You might fill out this part, as follows:

Rank which issue is the most important (item number).

Most important item	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Third most important	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Second most important	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Fourth most important	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Note that some of the items may seem irrelevant to you (as in item #3) or not make sense to you—in that case, rate the item as "No" importance and do not rank the item. Note that in the stories that follow, there will be 12 items for each story, not five. Please make sure to consider all 12 items (questions) that are printed after each story.

In addition you will be asked to state your preference for what action to take in the story. After the story, you will be asked to indicate the action you favor on a three-point scale (1 = strongly favor some action, 2 = can't decide, 3 = strongly oppose that action).

In short, read the story from this booklet, then fill out your answers on the answer sheet. Please use a #2 pencil. If you change your mind about a response, erase the pencil mark cleanly and enter your new response.

[Notice the second part of this questionnaire, the Answer Sheet. The identification Number at the top of the answer sheet may already be filled in when you receive your materials. If not, you will receive instructions about how to fill in the number. If you have questions about the procedure, please ask now. Please turn now to the Answer Sheet.]

Famine - (Story #1)

The small village in northern India has experienced shortages of food before, but this year's famine is worse than ever. Some families are even trying to feed themselves by making soup from tree bark. Mustaq Singh's family is near starvation. He has heard that a rich man in his village has supplies of food stored away and is hoarding food while its price goes higher so that he can sell the food later at a huge profit. Mustaq is desperate and thinks about stealing some food from the rich man's warehouse. The small amount of food that he needs for his family probably wouldn't even be missed.

[If at any time you would like to reread a story or the instructions, feel free to do so. Now turn to the Answer Sheet, go to the 12 issues and rate and rank them in terms of how important each issue seems to you.]

Reporter - (Story #2)

Molly Dayton has been a news reporter for the *Gazette* newspaper for over a decade. Almost by accident, she learned that one of the candidates for Lieutenant Governor for her state, Grover Thompson, had been arrested for shop-lifting 20 years earlier. Reporter Dayton found out that early in his life, Candidate Thompson had undergone a confused period and done things he later regretted, actions which would be very out-of-character now. His shop-lifting had been a minor offense and charges had been dropped by the department store. Thompson has not only straightened himself out since then, but built a distinguished record in helping many people and in leading constructive community projects. Now, Reporter Dayton regards Thompson as the best candidate in the field and

likely to go on to important leadership positions in the state. Reporter Dayton wonders whether or not she should write the story about Thompson's earlier troubles because in the upcoming close and heated election, she fears that such a news story could wreck Thompson's chance to win.

{Now turn to the Answer Sheet, go to the 12 issues for this story, rate and rank them in terms of how important each issue seems to you.}

School Board - (Story #3)

Mr. Grant has been elected to the School Board District 190 and was chosen to be Chairman. The district is bitterly divided over the closing of one of the high schools. One of the high schools has to be closed for financial reasons, but there is no agreement over which school to close. During his election to the school board, Mr. Grant had proposed a series of "Open Meetings" in which members of the community could voice their opinions. He hoped that dialogue would make the community realize the necessity of closing one high school. Also he hoped that through open discussion, the difficulty of the decision would be appreciated, and that the community would ultimately support the school board decision. The first Open Meeting was a disaster. Passionate speeches dominated the microphones and threatened violence. The meeting barely closed without fist-fights. Later in the week, school board members received threatening phone calls. Mr. Grant wonders if he ought to call off the next Open Meeting.

{Now turn to the Answer Sheet, go to the 12 issues far this story, rate and rank them in terms of how important each issue seems to you.}

Cancer - (Story #4)

Mrs. Bennett is 62 years old, and in the last phases of colon cancer. She is in terrible pain and asks the doctor to give her more pain-killer medicine. The doctor has given her the maximum safe dose already and is reluctant to increase the dosage because it would probably hasten her death. In a clear and rational mental state, Mrs. Bennett says that she realizes this; but she wants to end her suffering even if it means ending her life. Should the doctor give her an increased dosage?

{Now turn to the Answer Sheet, go to the 12 issues for this story, rate and rank them in terms of how important each issue seems to you.}

Demonstration - (Story #5)

Political and economic instability in a South American country prompted the President of the United States to send troops to "police" the area. Students at many campuses in the U.S.A. have protested that the United States is using its military might for economic advantage. There is widespread suspicion that big oil multinational companies are pressuring the President to safeguard a cheap oil supply even if it means loss of life. Students at one campus took to the streets, in demonstrations, tying up traffic and stopping regular business in the town. The president of the university demanded that the students stop their illegal demonstrations. Students then took over the college's administration building, completely paralyzing the college. Are the students right to demonstrate in these ways?

{Now turn to the Answer Sheet, go to the 12 issues for this story, rate and rank them in terms of how important each issue seems to you.}

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