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Internal auditor independence and audit quality: the influence of mediation role of professional ethics investigation (on the example of Gorontalo city inspectorate in Indonesia)

Abstract. This study aims to examine the effect of auditor independence on audit quality at the Gorontalo City Inspectorate, with professional ethics acting as a mediator or moderator variable. The method used in this study is a quantitative method, with primary data collection. This study uses a saturated sample or census, where the entire population is sampled, totalling 54 respondents consisting of 35 auditors and 19 P2UPD (Supervisors of the Implementation of Regional Government Affairs) in 2023. The data used is primary data collected through a questionnaire. The statistical analysis used is a non-parametric method with Partial Least Squares - Structural Equation Model (PLS-SEM) using SmartPLS Version 4 software. The results of the study indicate a positive and significant influence between internal auditor independence on audit quality through the role of professional ethics. In addition, it was found that the independence of internal auditors also has a positive and significant influence on audit quality at the Gorontalo City Inspectorate, as well as a positive and significant influence on the role of professional audit ethics, which in turn has an impact on the audit quality of the Gorontalo City Inspectorate.

Keywords: Professional Ethics; Auditor Independence; Audit Quality; Internal Auditor; Gorontalo

JEL Classifications: E24; E41; E64; I18; J28; J31

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1. Introduction

Internal audit is a very important stage for every organization. The internal audit process can provide evaluations, assessments, and recommendations related to the various operations being examined. According to Adnovaldi and Wibowo (2019), effective internal audit is not only related to financial audits, but also includes broader audits such as consultation, assurance, and emphasizing added value and contribution to organizational goals. In general, the purpose of internal audit is to ensure that organizational policies and processes are followed, and that the management of organizational or company assets is carried out effectively, efficiently and cost-effectively. The importance of internal audit for policy makers in an organization is to manage risks and ensuring the existence of effective internal control for better accountability (Tumwebaze et al., 2018). However, internal audit is also faced with risks, challenges and threats that can affect audit quality and audit timeliness in an audit activity (Bajary et al., 2023).

The opinion of the Financial Audit Agency is the basis for assessing the suitability of the presentation of various items in the Financial Report in accordance with Government Accounting Standards. In order to determine whether or not it is appropriate to use the audit evidence obtained in previous audits about the effectiveness of the controls, and if it is appropriate to recognize it, in order to determine the time interval between the retest of a control with its previous test, the auditor must consider the following:

- A) The effectiveness of other components of internal controls, including the control environment, the business unit's supervision of controls, and the risk assessment process by the business unit.
- B) Risks caused by the desired control characteristics, including its manual or automatic nature.
- C) The effectiveness of general information technology controls.
- D) The effectiveness of the desired control and how it is applied by the business unit, including the nature and degree of deviation in the application of that control that has been determined in previous audits and whether there have been changes in the employees that have a major effect on the way that control is applied or not.

Based on the description above, it can be understood that professional ethics has the potential as an intervention variable for the indirect influence of internal auditor independence on audit quality. This means that when the auditor's professional ethics and independence can be maintained properly, this in turn can improve audit quality. Therefore, the author feels interested and sees the need to compile research on «Mediation of professional audit ethics on the influence of auditor independence on audit quality». Based on the principle of independence, it can be concluded that an auditor must maintain an attitude that is not easily influenced by external factors that can interfere with the analysis of the facts encountered during the audit process. Auditors must remain honest not only to management and company owners, but also to the wider community. This is important so that the public has full trust in the auditor's credibility and objectivity in presenting audit results. In this way, the public can assess the extent to which the auditor has worked with integrity and can trust the audit results submitted without doubting their honesty and objectivity.

2. Method

The role of professional ethics as a mediating variable has several ethical principles, namely: the principles of integrity, objectivity, competence and attitudes of professional accuracy and prudence, and the principle of confidentiality. These principles can improve the quality of internal audits through the independence of internal auditors without administrative intervention in the audit program and without interference in the audit process. The framework of thinking regarding the influence of auditor independence, professional ethics and audit quality can be seen in Figure 1.

Hypotheses:

According to the proposed framework, the hypotheses can be drawn as follows:

- H1: Independence of internal auditors influence on audit quality through the Role of Audit Professional Ethics as an intervening variable.
- H2: Internal auditor's independence shows a direct impact on audit quality.
- H3: Internal auditor's independence shows a direct impact on professional audit ethics.
- H4: Professional audit ethics have a positive effect on audit quality.

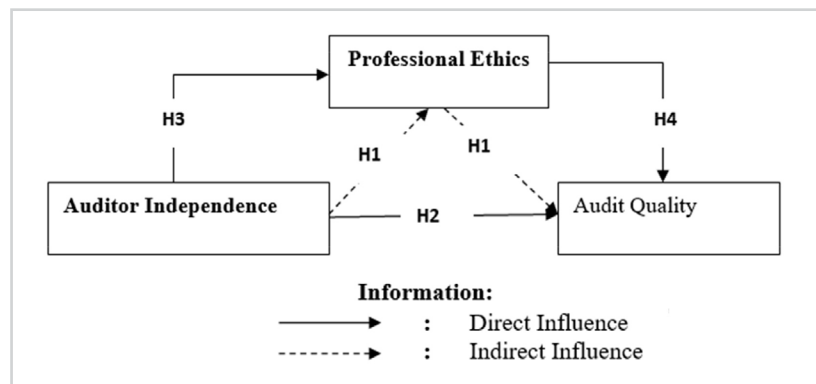


Figure 1:
Auditor independence, professional ethics and audit quality
Source: Compiled by the authors

The research type used in the current study is quantitative. The data collection needed in the current study is primary data, relating to data collected directly by researchers referring to variables of interest for certain purposes. The independence variable in this research is audit independence, audit professional ethics as an intervening variable and the dependent variable is internal audit quality. The data collection approach in the current study is based on questionnaires. Questionnaires can be administered personally, written to respondents, or distributed electronically. Questions are used directly to the target analysis unit, namely the Gorontalo city inspectorate, using the sample used in this research, namely a saturated sample, also commonly called a census, where the entire population was sampled with a sample size of 54 respondents consisting of 35 auditors and 19 P2UPD people. The statistical data analysis method used in this research is non-parametric with Partial Least Squares - Structural Equation Model (PLS-SEM). SEM is a multivariate statistical analysis method for analyzing data consisting of many variables and it is suspected that these variables are related to each other. SEM consists of Covariance Based SEM (CB-SEM) and Variance Based SEM or better known as Partial Least Squares (PLS).

Hypotheses testing is related to testing the relationship between variables. To see whether there is an influence of the independent variable on the dependent variable, it can be seen from the t-statistics value which is compared with the t-table value.

3. Results and Discussion

3.1. Measurement Model Fit Test (Outer Model)

Validity test

The validation aims to investigate the extent to whom the measuring tool accuracy can express the concept of the symptom/event being measured. In this research, a validity test is utilized to determine validation of the questionnaires. A questionnaire is said to be valid or not if the questionnaire is able to reveal something that will be measured. Validity testing with the SmartPLS program can be seen from the loading factor value for each construct indicator. The criterion (rule of the thumb) is that the loading factor value must be more than 0.7. But, for study in the first levels of extending a measurement range, a loading factor values of 0.55 - 0.65 is still considered valid (Chin in Ghozali, 2021)

In testing this validity, the researcher used 22 questions and all of them are valid. The results of validity testing can be seen from the loading factor values for each construct indicator and the suitability of the Measurement Model (Outer Model) as given in Figure 2.

Reliability Test

Reliability testing is a form of testing the quality of research instruments, with the aim of measuring the consistency of all questions in the research. A construct or variable is said to be reliable if it provides a Cronbach's alpha value greater than 0.7. The results of the research instrument reliability testing are presented in Table 1.

According to the findings of the reliability test, the Cronbach's Alpha value for each variable is greater than 0.7. With the resulting values, it can be concluded that all constructs have good reliability or are able to measure their constructs.

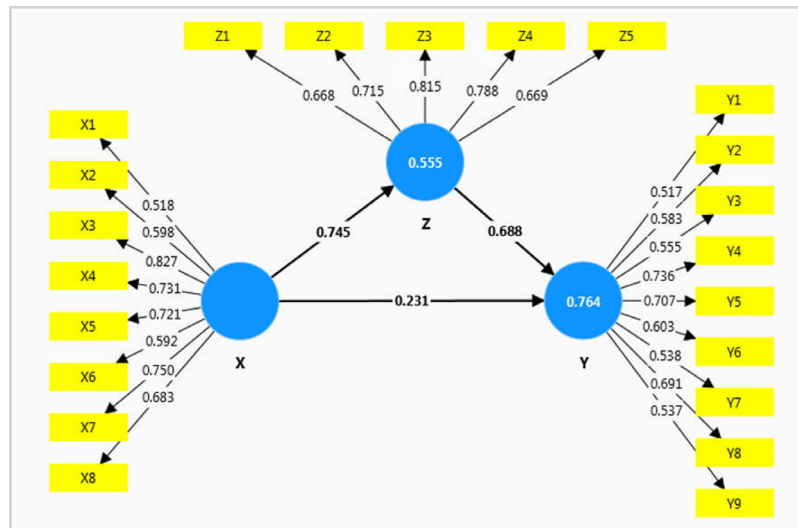


Figure 2:
Loading Factor
Source: Authors' own research

Table 1:
Reliability Test

Variable	Cronbach's Alpha	Information
Internal Auditor Independence	0.833	Reliable
Audit Quality	0.908	Reliable
Professional Ethics	0.788	Reliable

Source: Authors' own research

3.2. Structural Model Fit Test (Inner Model)

The model determination is an investigation of the findings of the links among constructs. This model investigating includes R-square, F-square and hypotheses testing.

a. R-Square

The structural model for the dependent construct is evaluated using R-Square or determination test. The R-Square value is presented in Table 2.

Table 2:
R-Square

Variable	R Square	Strong Relationships
Audit Quality (Y)	0.764	Strong
Professional Ethics (Z)	0.555	Moderate

Source: Authors' own research

b. F-Square

The effect size index (F-SQUARE) shows the significant effect an independent hidden variable has on the dependent variable. The size of the F^2 effect is a ratio of F^2 changes to a part of the variance of the endogenous variable that remains unexplained in the model. The effect size, which was also called Cohen's F^2 index, was introduced by Cohen (1988). This index is used to fit the partial least squares structural equation model. One variable in a structural equation model may be affected by a number of different variables. Removing an exogenous variable can affect the dependent variable. F^2 is the change in F^2 when an exogenous variable is removed from the model. Based on the findings of SmartPLS3, the F-Square are considered as Table 3.

Table 3:
Square results

Variable	Effect Size	Ratings
Audit Quality (Y)		
Internal audit independence(X1)	1.101	Intermediate
Professional Ethics (Z)		
Internal Control (Y)	0.893	Big

Source: Authors' own research

Based on Table 3, it shows that the internal audit independence variable (X1) has an influence in the medium category in influencing the audit quality variable (Y). Furthermore, the internal audit independence variable (X1) has an influence in the large category in influencing Professional Ethics (Z) through Audit quality (Y).

Hypothesis testing

The criterion (rule of thumb) used in this research is the t-statistics > t-table. The t-table value with a p-value of 0.05 (5%) is 2.00665. This can be seen in Table 4.

Table 4:
Hypothesis test results

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Internal Auditor Independence (X1) -> -> Role of Professional Ethics (Z) -> -> Audit quality (Y)	0.513	0.528	0.066	7.789	000
Internal Auditor Independence (X1) -> -> Audit quality (Y)	0.231	0.231	0.094	2.460	0.014
Internal Auditor Independence (X1) -> -> Role of Professional Ethics (Z)	0.745	0.755	0.056	13.427	0.000
Role of Professional Ethics (Z) -> -> Audit Quality (Y)	0.688	0.702	0.092	7.461	0.000

Source: Processed by the authors (2023)

The first hypothesis states that there is a positive influence independence of internal auditors to audit quality through the role of professional ethics. The test results show a t-statistics value of 7.789 which is greater than the t-table value (2.00665) and the significance level (P Values) 0.000 below 0.05, so the first hypothesis is accepted. This proves that independence of internal auditors has an indirect positive and significant influence on audit quality through the role of professional ethics. This is supported by previous research by Sitohang and Siagian (2019) that independence has a significant effect on audit quality through the role of professional ethics as an intervening variable. Likewise research by Kharismatuti and Hadiprajitno (2012) and Saputra (2012), according to which independence influences the quality of internal audit through the contribution of the ethical role of audit professionals.

The second hypothesis states that there is a positive influence of internal auditor independence on audit quality. The test results show a t-statistics value of 2.460 which is greater than the t-table value (2.00665) and the significance level (P Values) of 0.000 is below 0.05, so the second hypothesis is accepted. This proves that Internal Auditor Independence has a positive and significant influence on audit quality. This research strengthens attribution theory by emphasizing that a person's behavior is influenced by internal or external factors in this case independence of internal auditors By basing it on factual and physical aspects of behavior, it is able to produce quality audits. This is supported by previous research by Qasim (2021) where independence has a significant effect on audit quality where independence is the back bone in the implementation of the audit profession where auditors must carry out their duties independently and with dignity to provide quality audit results.

The third hypothesis states that there is a positive influence of internal auditor independence on the role of ethics Professional. The test results show a t-statistics value of 13.427 which is greater than the t-table value (2.00665) and the significance level (P-Values) 0.000 below 0.05, so the third hypothesis is accepted. This proves the independence of internal auditors has a positive and significant influence on the role of professional ethics. The independence of internal auditors is one factor in improving the ethics of the audit profession. This strengthens the attribution theory by emphasizing that a person's behavior is influenced by internal or external factors in this case independence of internal auditors based on factual and physical independence, it can produce more professional audit ethics.

The fourth hypothesis states that there is a positive influence on the role of proportional ethics on audit quality. The test results show a t-statistics value of 7.461 which is greater than the t-table value (2.00665) and the significance level (P-Values) 0.000 below 0.05, so the fourth hypothesis is accepted. This proves that the role of professional ethics has a positive and significant influence on audit quality. In this context, it is important for an auditor to have integrity in carrying out audit duties, because ethics is an integral part of the capabilities needed to ensure optimal audit quality.

4. Conclusions

From the results obtained, several conclusions can be drawn namely:

1. The independence of internal auditor's matters positive and significant towards quality of internal audit through the role of professional ethics. This means that directly or indirectly the independence of internal auditors, both independence in factual form as well as physical independence has an influence on audit quality through the professional ethics possessed by internal auditors in the Gorontalo city regional government.
2. There is a positive influence and significant variable independence of internal auditors on audit quality. This means that the more independent the internal auditor is, both factually and physically, the higher the quality of the audit results obtained
3. Internal auditor independence has a positive effect and significant towards the role of ethics auditing professionals. This means that the internal auditors are becoming more independent both factually and physically the better it reflects the professional ethics possessed by Gorontalo city regional government auditors.
4. The role of proportional ethics has a positive influence and significant on the quality of internal audit. This means that the better the ethics possessed by local government auditors, the higher quality the audit results produced will be.

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