

## Audit Ethics as A Moderating Variable in Auditor Quality Assessment

Panji Putranto<sup>1</sup>

<sup>1</sup>Universitas Mercubuana

Corresponding Author: Panji Putranto

Email: [panji.putranto@mercubuana.ac.id](mailto:panji.putranto@mercubuana.ac.id)



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### Abstract

Urban regions face numerous challenges in implementing regional autonomy. The smart city concept has been implemented by cities in various countries to tackle these issues. This article aims to comprehend and assess the political laws selected by the Indonesian government to address the challenges of implementing regional autonomy in urban areas using smart city concepts and indicators. The research method employed was normative research through a statutory regulations approach, in addition to a conceptual approach. The research material was secondary data comprising primary legal materials as well as secondary legal materials amassed via online and offline research at the library. The data was then analyzed in a descriptive manner. The analysis results demonstrate that numerous Indonesian cities have introduced smart city indicators. However, these indicators lack a legal foundation referencing smart city standards. The absence of specific regulations for smart cities in Indonesia has resulted in unstructured and immeasurable implementation. In Indonesia, the closest legal regulations or policies to the concept of a smart city are those outlined in Government Regulation Number 38 of 2017 concerning Innovation. Going forward, it is necessary to establish legal guidelines that contain specific standards for smart cities, from inception to implementation, in order to enhance regional autonomy in urban areas.

## Introduction

Every government agency is obliged to provide financial reports as part of its duties and as an important part of state administration to help achieve the state's goal of creating a just, prosperous and prosperous society (Feng & Greenlee, 2023). Good, clean, transparent governance, free from collusion, nepotism and corruption requires an independent and professional public financial regulator. Based on Presidential Decree no. 192 of 2014, mandates the Development Finance Supervisory Agency (BPKP) to manage public finances efficiently, responsibly and transparently.

The concept of public sector accountability refers to the disclosure of information to the public as an embodiment of public rights. On the other hand, good governance as defined by the World Bank is careful and rational development management as demonstrated by the standards of majority governance and the business sector, including preventing misallocation of investment budgets, preventing political and administrative corruption, fiscal discipline and creating legal and policy framework that supports business growth (Busuio, 2021).

According to the Indonesian Accountants Association (IAI), the quality of an auditor's audit is considered valid if it meets audit standards, quality control and the auditor's professional quality criteria, namely independence, honesty and objectivity. According to Siregar et al. (2021), the technical skills and independence of the examiner influence the quality of the examination results. Shows that the factors of objectivity, competence, examination knowledge, honesty and professional ethics influence the quality of examination results

(Kertarajasa et al., 2019). As an audit agency for organizations that use public funds, BPKP must be more detailed and responsible in reviewing various types of audited reports,

According to Jeppesen (2019), auditors play an important role in eradicating corruption, but at the same time accountants themselves have expectations and risks. That's why becoming an auditor can have both beneficial and detrimental consequences. But it is hoped that the management can be better. Furthermore, examiners must face dangerous risks, such as pressure from examiners, psychological threats, and others. It should be the auditor's performance. determined by the auditor's independence in decision making (Natsir et al., 2021).

## Literature Review

### Agency Theory

Agency theory is a framework of thought that explains the relationship between parties who have an interest in an organization or company (called "principals") and parties who act on behalf of the principals (called "agents"). This theory focuses on how the principal can motivate the agent to act in accordance with the principal's interests, when the agent's interests are not always in line with the principal's interests. In the corporate context, agency theory explains how the company owner (principal) can ensure that management (agent) makes decisions that are in line with the company owner's interests, not management's personal interests. This theory has important implications in the fields of management and economics (Jensen & Meckling, 1976). Clients need information about all administrative processes related to their investments or finances. The principal requires an accountability report from the agent (manager) to evaluate management performance. However, management often takes steps to make reports look good so that performance looks good. To minimize management fraud and ensure the accuracy of financial reports, an independent audit from a third party is needed.

### Attitude and behavior theory

The theory put forward by Utama (2021) shows that human behavior is influenced by many factors, including attitudes, social rules that are considered binding, customs, and the consequences of this behavior. In relation to statutory audits, professional auditors are expected to act in accordance with applicable regulations and professional standards when conducting statutory audits. By adhering to applicable audit principles and guidelines, auditors can ensure that the audit results obtained are of high quality and reliability.

More specifically, Jafer et al. (2020) theory of attitudes and behavior can be related to an examiner's behavior during an exam. A positive attitude towards good corporate governance, compliance with audit rules and standards, and respect for integrity and professional ethics are important factors in shaping the behavior of an auditor. In addition, carrying out appropriate and thorough audits and considering the implications of actions taken in the audit process can help the quality of audits carried out by auditors so as to achieve the expected audit objectives.

### Audit Quality

Hamdani et al. (2020) stated that audit quality is the auditor's ability to identify and report anomalies in the accounting system. Audit quality depends on the auditor's competence and independence in detecting discrepancies. According to the Government Accountability Office, audit quality refers to compliance with professional standards and contractual relationships during the audit process. However, perceptions of audit quality are influenced by the opinions of users, auditors, regulators, the public and other stakeholders who have different interests in the accounting process. Therefore, the metrics used to assess audit quality should reflect the views and interests of the various parties involved in financial reporting. In assessing audit quality, it is necessary to pay attention that independent auditors work professionally and in

accordance with applicable regulations. Audit quality also considers the auditor's professional ability to carry out their duties and the auditor's independence in reporting non-compliance. However, assessment of inspection quality is not only based on the examiner's perspective, but also includes users, regulators, the public and other stakeholders. Thus, evaluation of audit quality must reflect the views and interests of all parties involved in the financial statements. Accurate and objective evaluation of audit quality can increase public confidence in a company's financial reports. Audit quality also considers the auditor's professional ability to carry out their duties and the auditor's independence in reporting non-compliance. However, audit quality assessment is not only based on the auditor's point of view, but also includes users, supervisors, the public and other interested parties. Therefore, audit quality assessments must reflect the views and interests of the parties involved in the financial statements. An objective and accurate assessment of audit quality can help increase public confidence in an entity's financial statements.

### **Auditor competency**

According to Barišić et al. (2020), audit competency requires not only a good understanding of accounting and auditing standards, but also general knowledge of the environmental institutions, programs and activities being audited. From two points of view, namely individual and group audits, audit quality can be observed. Competency reflects the mastery and maintenance of understanding and knowledge that enables team members to provide services with discretion and ease. Competence in this context is a fundamental characteristic that directly influences professional success or can predict excellence (Murkatik et al., 2020).

The auditor's ability to use his knowledge and experience when conducting an audit is known as auditor competency, so that the audit can be carried out carefully, thoroughly and objectively. Auditor qualifications include technical knowledge, professional skills and a strong personality. A qualified auditor can ensure that audit results are accurate, reliable and in accordance with applicable auditing standards.

### **Independence**

Substantive independence refers to the auditor's ability and willingness to act objectively and impartially in carrying out his duties and not be influenced by the interests of other parties. Independence is very important in the audit process because it can ensure that the financial reports prepared by clients reflect their financial results accurately and reliably. In practice, independence can be measured in two ways, namely actual independence and perceived independence. Factual independence refers to the auditor's impartiality in drawing conclusions from facts, while emotional independence refers to the auditor's impartiality in responding to pressure or influence from other interested parties.

At the same time, independence is also formally regulated by the Mandatory Accounting Principles, which require auditors to be independent in all matters relating to the audit contract. This is important to maintain the integrity and reliability of the accounting profession and ensure public trust in audit results. A highly independent auditor can find and report audit findings objectively and without outside influence. Thus, independence is an important characteristic of a professional auditor in carrying out his audit duties.

### **Professionalism**

According to Payne et al. (2020), accountant professionalism is the responsibility to do more than fulfill obligations or comply with the laws and rules of society. As a professional, an accountant recognizes his responsibilities to society, clients, and the profession, including maintaining respectful behavior, even at his own expense.

In addition, the ethical guidelines for the accounting profession established by Buhmann & Fieseler (2021) contain basic principles that emphasize the responsibility of the accounting profession as actors (auditors). These core principles include honesty, objectivity, independence, trust, technical standards, professionalism and ethical behavior. This shows the importance of auditor professionalism in carrying out their duties honestly and to a high standard, as well as upholding high ethical standards in conducting audits according to law.

### Audit Ethics

According to Payne et al. (2020), the core principles that guide the audit profession should be the basis for audit organizations to determine their own ethics. Ethics relates to human behavior towards other people. In this case, KAP must prioritize these basic principles so that its members carry out their professional duties ethically.

Auditor ethics is a code of ethics based on professional requirements, organizations and auditing standards. Auditors must follow minimum procedures in carrying out their audit duties, which can be considered a violation if not followed. The auditor's code of ethics must be understood and followed as a guideline in carrying out audit duties so that auditors do not act in violation of standards.

### Model and Hypothesis Development

Based on the theory and variables that have been explained, the following research model was built:

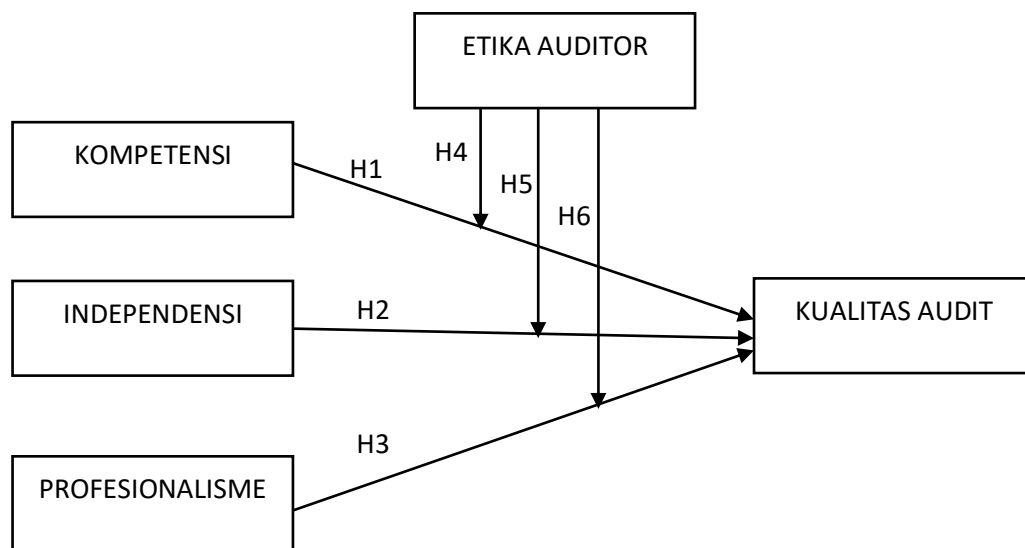


Figure 1. Research Model

Description: H1-H3: Hypothesis to test the independent variable and the dependent variable.

H4-H6: Hypothesis to test the independent variable with the dependent variable moderating variable.

### Methods

#### Method of collecting data

The population of this research is inspection auditors in West Java Province with a sample of 75 respondents using purposive sampling. The criteria for being a respondent is an auditor with

at least 2 years of experience. The data used was taken using a questionnaire specifically prepared for this research using a Likert scale approach.

**Data analysis method**

The data analysis approach used least squares structural equations (PLS-SEM) whose calculations utilized the SmartPLS version 3.0 program package.

**Results and Discussion**

**Measurement Model Evaluation (External Model)**

**Factor Loading**

In this study, to determine whether individual reflective measures correlate with the measured structure, factor loading values are used, which are considered significant if the value is greater than 0.70 (Hair et al., 2019). Based on the results from Table 1 in this study, it can be concluded that all external loading values on individual reflective actions meet these criteria with factor loading values greater than 0.70.

Table 1 Factor Loading Values

	<b>Audit Ethics</b>	<b>Independence</b>	<b>Competence</b>	<b>Audit Quality</b>	<b>Professionalism</b>
M1	0.840				
M2	0.855				
M3	0.850				
M4	0.856				
X11			0.814		
X12			0.813		
X13			0.915		
X14			0.827		
X21		0.835			
x22		0.847			
x23		0.761			
x24		0.885			
X31					0.827
X32					0.788
X33					0.804
X34					0.731
X35					0.852
Y1				0.800	
Y2				0.894	
Y3				0.870	
Y4				0.881	

*Source: processed primary data*

**Reliability**

To determine the reliability criteria for a design in research, it can be determined from two parameters, namely composite reliability and Cronbach's Alpha coefficient. A construct can be declared to have good reliability if the combined reliability value is > 0.70 and the Cronbach's Alpha coefficient is > 0.60 (Ghozali & Latan, 2015).

Table 2. Composite reliability and Cronbach's Alpha Coefficient

	Cronbach's Alpha	rho_A	Composite reliability	Average
<b>Audit Ethics</b>	<b>0.873</b>	<b>0.874</b>	<b>0.913</b>	<b>0.723</b>
Moderating effect 1 X1*M	1000	1000	1000	1000
Moderating effect 2 X2*M	1000	1000	1000	1000
Moderation effect 3 X3*M	1000	1000	1000	1000
Independence	0.853	0.862	0.900	0.694
Competence	0.864	0.870	0.908	0.711
Audit Quality	0.884	0.888	0.920	0.743
Professionalism	0.860	0.865	0.900	0.642

Source: Primary Data, Processed

All variables in this study met the criteria for reliability and convergent validity based on the analysis results in Table 2. The high level of confidence was measured using composite reliability and Cronbach's Alpha, with composite reliability values greater than 0.70 and Cronbach's Alpha greater than 0.60. Convergent validity is measured using average variance extraction (AVE), with an AVE value greater than 0.50. All variables in this study meet these two criteria, indicating that the research structure meets the criteria for reliability and convergent validity.

### Discriminant Validity

To assess discriminant validity, it is necessary to conduct correlation analysis between first-order constructs. If a structural indicator is a reflection of a first-order construct, then the correlation value between these indicators must be higher than the correlation between this indicator and other first-order structures. Based on the analysis results, it can be concluded that the model described in this research is valid for all first-order structures. This is reflected in the correlation value between indicators according to the first order structure which is higher than the correlation value between indicators with other first order structures. This discriminant validity score is based on Hair et al. (2019).

Table 2 Cross loading values

	Audit Ethics	Moderating Effect 1 X1*M	Moderating Effect 2 X2*M	Moderation Effect 3 X3*M	Independence	Competence	Audit Quality	Professionalism
Independence * Audit Ethics	-0.415	0.821	1000	0.732	-0.247	-0.437	-0.508	-0.251
Competences * Audit Ethics	-0.461	1000	0.821	0.735	-0.439	-0.511	-0.648	-0.342
M1	<b>0.840</b>	-0.352	-0.367	-0.223	0.446	0.586	0.681	0.348
M2	<b>0.855</b>	-0.321	-0.279	-0.257	0.489	0.570	0.669	0.492
M3	<b>0.850</b>	-0.456	-0.383	-0.410	0.508	0.651	0.743	0.542
M4	<b>0.856</b>	-0.430	-0.379	-0.319	0.567	0.610	0.712	0.420
Professionalism * Audit Ethics	-0.359	0.735	0.732	1000	-0.261	-0.355	-0.454	-0.301
X11	0.621	-0.416	-0.404	-0.355	0.554	<b>0.814</b>	0.750	0.542
X12	0.491	-0.434	-0.349	-0.263	0.490	<b>0.813</b>	0.681	0.447

X13	0.683	-0.455	-0.407	-0.309	0.536	<b>0.915</b>	0.817	0.528
X14	0.594	-0.421	-0.308	-0.266	0.584	<b>0.827</b>	0.717	0.497
X21	0.487	-0.387	-0.256	-0.221	<b>0.835</b>	0.559	0.611	0.501
x22	0.532	-0.476	-0.313	-0.284	<b>0.847</b>	0.606	0.702	0.432
x23	0.410	-0.184	-0.032	-0.047	<b>0.761</b>	0.504	0.523	0.456
x24	0.530	-0.379	-0.185	-0.284	<b>0.885</b>	0.460	0.623	0.479
X31	0.471	-0.226	-0.100	-0.184	0.489	0.513	0.558	<b>0.827</b>
X32	0.339	-0.209	-0.181	-0.174	0.298	0.421	0.499	<b>0.788</b>
X33	0.413	-0.391	-0.263	-0.297	0.521	0.547	0.605	<b>0.804</b>
X34	0.414	-0.201	-0.208	-0.222	0.425	0.452	0.513	<b>0.731</b>
X35	0.482	-0.321	-0.243	-0.309	0.481	0.457	0.600	<b>0.852</b>
Y1	0.636	-0.560	-0.404	-0.325	0.619	0.709	<b>0.800</b>	0.488
Y2	0.760	-0.622	-0.555	-0.470	0.636	0.803	<b>0.894</b>	0.569
Y3	0.683	-0.532	-0.374	-0.351	0.655	0.815	<b>0.870</b>	0.679
Y4	0.764	-0.521	-0.415	-0.416	0.657	0.709	<b>0.881</b>	0.653

Source: processed primary data

### Evaluation of the structural model (internal model)

PLS algorithm result structure model:

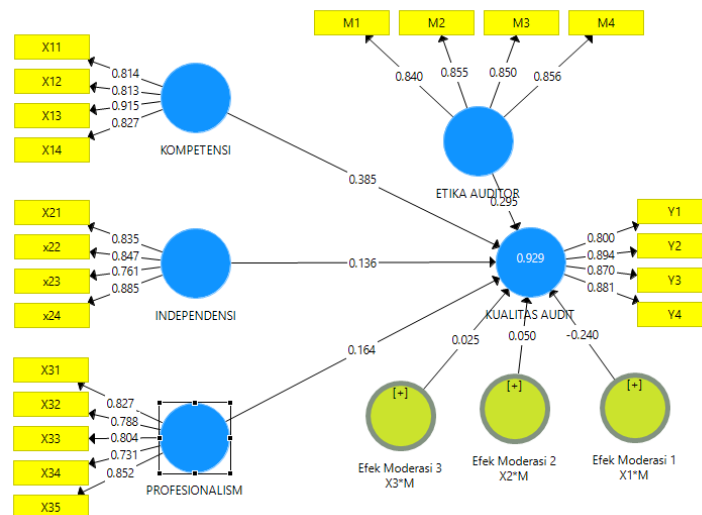


Figure 2. PLS Algorithm Results

Source: SmartPLS 3.0 processing results

Table 3 R-square results

	R-square	Adjusted R squared
<b>Audit Quality</b>	0.929	0.922

Data processing using SmartPLS to determine the significant influence between model scoring variables begins by looking at the R-Square value. Ghazali & Latan (2015) stated that an R-squared value of 0.75 is considered a strong model, 0.50 is medium, and 0.25 is weak. As seen in Table 4, the R-squared value for the audit quality variable is 0.929. These results indicate that the variables of competence, independence and professionalism, together, can explain the audit quality variable. Based on this description, it can be concluded that the R-squared value for the audit quality variable is in the very strong category.

## Model Fit

There are several criteria for evaluating a good model fit, including the SRMR (Standardized Root Mean Square) value must be smaller than 0.08. (Volosy et al., 2019) .

Table 4 Model Fit Test Results

	Saturated model	Valuation Model
SRMR	0.069	0.068
d_ ULS	1097	1083
for example	0.811	0.810
Chi-square	310 071	306 205
NFO	0.758	0.761

Source: primary data, processed

In Table 5, it can be seen that the SRMR (standardized root mean square) value in this study is 0.068, which means it correlates well with requires a fit model to be run, if the SRMR (standardized root mean square) value <0.08 then the fit model in this study works.

## Hypothesis test

Hypothesis testing determines the effect of the design on other models using the bootstrap method by testing parameter coefficients and t-statistic values. (Gozali & Lathan, 2015) . The values found in the output path factors for structural model testing are used as a basis for hypothesis testing. The t-statistic value is used as a benchmark for the results of the proposed hypothesis. The comparison of the t-statistic and t-table values is defined as greater than 1.96 or p-value <0.05. Where if the t-statistic value is > 1.96 or the p value is < 0.05, then the hypothesis is accepted and vice versa.

Table 5 Path coefficients (mean, STDEV, T-value)

	Initial sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics	P-value	Information
Audit Ethics -> Auditor Quality	0.295	0.297	0.053	5526	0,000	Significant
Moderation Effect 1_X1*M -> QUALITY CHECK	-0.240	-0.235	0.068	3526	0,000	Significant
Moderation Effect 2_X2*M -> QUALITY CHECK	0.050	0.053	0.061	0.818	0.414	Not significant
Moderation Effect 3_X3*M -> QUALITY CHECK	0.025	0.021	0.045	0.548	0.584	Not significant
Independence -> Quality Audit	0.136	0.138	0.059	2286	0.023	Significant
Competency -> Audit Quality	0.385	0.383	0.073	5235	0,000	Significant
Professionalism -> Audit Quality	0.164	0.164	0.044	3765	0,000	Significant

Source: Processed Primary Data

Based on the analysis results in Table 6, it can be concluded that audit ethics, professionalism, independence and auditor competence significantly influence audit quality. The impact of competency on audit quality shows a significance value of 0.000 ( $<0.05$ ), which means the effect is very significant. Likewise, with the influence of auditor professionalism and ethics on audit quality, both have a significance value equal to 0.000 ( $<0.05$ ). However, the influence of independence on audit quality has a significance value of 0.023 ( $<0.05$ ), which means the influence is still significant although not as strong as other factors.

Audit competency could also have a greater impact on audit quality if audit ethics were more strongly correlated with audit quality. This shows the importance of audit ethics as a moderating variable in determining the relationship between audit quality and competency. In other words, the stronger the positive influence of competence on audit quality, the higher the audit ethics.

This research confirms that competence, professionalism, independence, and audit ethics all have an important role in determining audit quality. Therefore, auditors need to pay attention to these four factors and always strive to improve the quality of audits carried out by following the ethical standards of the auditor profession and maintaining independence and professionalism in their work.

However, regarding independence and professionalism, audit ethics cannot reduce its impact on audit quality. So, this shows how important audit ethics is in influencing audit quality, especially regarding competency.

### **The Influence of Auditor Competency on Audit Quality**

Auditors who have adequate experience and knowledge and have relevant education are known as auditing competency. They have the ability to conduct objective and thorough audits, as well as identify irregularities in the context of the accounting system, the focus is given to audited financial reports. To perform this task, auditors adhere to audit standards and need good experience and knowledge to understand the client's financial position and financial statements and at the same time ensure good audit quality.

This research shows that competency has a significant positive effect on audit quality. So, the more competent an auditor, the higher the quality of the audit results he produces. These results support the research findings of and are in line with the research results of several researchers such as showing that knowledge has a positive effect on audit quality. It is therefore important that auditors continue to develop their skills and knowledge to ensure high quality audit results.

### **The Effect of Auditor Independence on Audit Quality**

Auditors need to be independent in carrying out their duties so that they are not influenced by personal interests that could interfere with their professionalism. Independence helps auditors to provide a neutral opinion in the process of studying, evaluating and preparing audit reports, helping to increase the reliability of financial reports. In addition, independence has a positive impact on audit quality and can help manage conflicts of interest between principals and agents. Auditor independence is influenced by attitude and behavior theory, which also shows that independence influences behavior in the audit process, so that auditors who maintain independence will guarantee good audit quality. The results of this research also support.

### **The Influence of Auditor Professionalism on Audit Quality**

Auditors must meet professionalism requirements in order to carry out their duties well. Auditor professionalism includes professional skills and behavior, including knowledge, experience, technological capabilities, as well as transparency and accountability factors.

Professionalism is very important in ensuring public trust in the reported audit results. As a code of ethics for BPK examiners, professionalism must be considered in carrying out examinations in order to obtain reliable examination results and gain public trust.

The research results show that professionalism directly influences audit quality. The more professional an auditor is, the better the audit results they produce. This can be seen from the results of studies that support the theory of planned behavior, where professionalism is a conceptual relationship. One approach that shows auditor professionalism is to comply with auditing standards and the auditor's code of ethics as regulated by the Accountant Professional Practice Standards and Accountant Code of Ethics.

The test results show that professional skills have a significant effect on audit quality. Therefore, maintaining public trust and protecting public interests must be the main goal of BPKP auditors in carrying out their duties. BPKP auditors are expected to take a professional approach in carrying out audit work and comply with audit standards and the auditor's code of ethics to maintain the quality of their work. The findings of this research support the results of previous research which shows professionalism has a positive impact on audit quality.

### **The Influence of Competency on Audit Quality with Audit Ethics as a Moderating Variable**

High ethical standards are one of the characteristics of audit quality, while other characteristics are related to auditor competence. Quality assurance is very important to ensure that auditors carry out their responsibilities professionally and responsibly to investors, the public, government and other parties who depend on the reliability of audited financial reports with good ethical standards. auditors will be better able to carry out their responsibilities if they understand professional ethics in the workplace better. This will ultimately lead to high-quality audits. The more an auditor adheres to morals and ethics, the higher the nature of the audit results he provides. On the other hand, the lower the quality of the audit results, the more unethical an auditor is. Furthermore, the higher the capability of an auditor, the higher the nature of the final assessment he produces. In this way, the examiner's skills and morals can influence the nature of the review results, depending on the circumstances faced by the auditor.

The findings of this research also confirm the findings of previous research that audit ethics influences audit quality. This confirms that the more ethical an auditor is, the stronger the positive influence of expertise on audit quality.

### **The Effect of Independence on Audit Quality with Audit Ethics as a Moderating Variable**

Auditors need to obtain the information needed to make reasonable audit decisions. Apart from competence, an important requirement for auditors is also independence which must be associated with their role. This independence may be affected by important ethical considerations regarding the quality of their audits. When operational disputes occur between auditors and management, management can force auditors to take actions that are not in accordance with standards, including providing inappropriate comments. This situation can slow down the auditor and force him to do what management wants. This can weaken auditors' independence and make them vulnerable to pressure from clients which can ultimately affect audit quality.

Studies also show that auditors' professional ethics do not always increase audit independence and quality. The balance between independence and ethical standards depends on the auditor's situation during the audit and can affect the quality of the audit results. However, this conclusion contradicts previous which shows that high ethical standards can increase the positive influence of independence on audit quality. Therefore, it is important for auditors to

not only have high qualifications, but also increase their independence through an ethical attitude and the ability to deal with difficult situations that may arise during the audit process.

### **The Effect of Professionalism on Audit Quality with Audit Ethics as a Moderating Variable**

In the context of competence, independence, professionalism and audit quality, the role of audit ethics as a moderating variable is evaluated in this research. The findings of this research lead to the conclusion that auditors' professional ethics do not have a positive effect on the impact of professionalism on audit quality. This may occur if the auditor has a conflict of interest, the client may force the auditor to violate professional standards, or the auditor may be pressured by poor financial conditions. This situation can affect auditors' independence and make them unable to withstand pressure from clients, which can affect audit quality.

The auditor's position is very uncomfortable when he has to fulfill the client's wishes, adhering to professional standards as a guideline in his work. This research is in line with the findings of previous research which shows that audit ethics cannot balance the influence of professionalism and independence on audit quality. Efforts should be made to strengthen the independence and integrity of auditors through a better understanding of professional ethics and strict adherence to ethical standards.

### **Conclusion**

Based on the results of the research and discussion, it can be concluded that auditor competence, auditor independence and auditor professional expertise have a positive effect on audit quality in West Java Province. Economic and Development Council. In addition, auditor qualifications can moderate auditor ethics related to audit quality, while auditor independence and professionalism have not demonstrated their ability to moderate auditor ethics related to audit quality. Based on the findings of this research, it is best for accountants from the West Java Province Economic and Development Agency to join and follow the professional ethics of accountants. In fact, unscrupulous auditors can weaken their competence, independence and professionalism, which in turn will affect audit quality.

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