



Dynamics of Ethical Considerations in Independent Auditor Decisions

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Abstract:

This study examines the influence of professionalism, independence, and social responsibility on ethical judgment. This research is motivated by the frequent occurrence of audit failures, which are often linked to indications of ethical code violations by public accountants. Audit failure is not only experienced by small and medium-sized public accounting firms but also by firms categorized within the Big Four, which have faced similar cases involving suspected ethical breaches by public accountants. The research method employed in this study is a quantitative approach. The population consists of public accountants in Bandung. The sampling technique used is purposive sampling. Based on this technique, 56 public accountants met the criteria during the observation period. Hypothesis testing was conducted using multiple regression analysis. The results indicate that professionalism, independence, and social responsibility significantly influence ethical judgment. The higher the levels of professionalism, independence, and social responsibility, the better the moral judgment of public accountants.

Keywords: Professional Ethics, Public Interest, Independence, Profesionalism

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INTRODUCTION

Public accountants, also known as independent auditors, take an essential part in making sure that the financial statements that the company's management presents are accurate and pertinent in order to boost the confidence of all parties involved. But the rise in instances of ethical transgressions and deviations by public accountants has harmed the public's perception of the public accounting profession (Barrainkua & Espinosa-Pike, 2018; Ismail, 2015; Rehman et al., 2023). This impacts the independent auditor profession which is currently experiencing a crisis of trust in providing financial report information that can be relied on by the public.

The phenomenon that stole the public's attention in 2024 involved a well-known public accounting firm, namely PricewaterhouseCoopers (PwC) operating in China. PwC was fined 441 million yuan or around 958 billion rupiah. This is because the Securities Regulatory Commission in China found an audit failure in the form of negligence in helping to cover up fraud committed by Evergrande, this happened when PwC conducted an audit of Evergrande's main business unit, Hengda Real Estate in 2019 and 2020. In addition, in the previous year, one of the Public Accounting Firms known as one of the Big Four, namely Deloitte Touche Tohmatsu Ltd, received a sanction in the form of a 3-month operational suspension and a fine of 212 million yuan or equivalent to 462 billion rupiah because the Chinese Ministry of Finance found that Deloitte conducted an unprofessional audit of the Chinese company Huarong Asset Management Co throughout the period 2014 to 2019. The Chinese Ministry of Finance said that Deloitte failed to detect the problem of the underlying asset status owned by Huarong by ignoring the compliance aspect in approving large investments and easily believing what Huarong said.

In addition to audit failures occurring overseas, a similar incident took place within the country in 2023, when the Financial Services Authority (OJK) revoked the registration certificate of the Public Accounting Firm Kosasih, Nurdiyaman, Mulyadi, Tjahjo & Rekan, affiliated with Crowe Horwath

International. This sanction was based on findings that revealed the appointed Public Accountant lacked the necessary competence and expertise to operate in the financial services sector. The examination also showed that both the accountant and the firm failed to detect signs of financial statement manipulation, particularly the omission of increased production from high-risk saving plan insurance products initiated by the company's shareholders, directors, and commissioners. As a result, Wanaartha Life appeared financially sound and healthy, misleading policyholders into continuing to invest in its products, which promised high returns without due consideration of the associated risks.

Audit scandals that occurred both abroad and domestically and involved well-known Public Accounting Firms have had an impact on the current independent auditor profession. Current users of financial statements have doubts about the independent auditor profession in providing financial statement information that can be relied on by the public. To meet the public's demands for quality financial information with good credibility, professionalism, and commitment are needed from the public accounting profession.

Auditor professionalism is one of the factors that is highlighted for the performance of independent auditors, because as professionals, public accountants realize that they have responsibilities to clients, the public, and fellow practitioners, including the obligation to behave professionally and ethically even if they have to sacrifice personal interests (Handayani et al., 2023; Salsadilla et al., 2023; Siahaan & Simanjuntak, 2019). This indicates that audits conducted by professional auditors are held to higher standards and are generally more trustworthy. Various studies have explored the values and attitudes of auditors by examining their level of professional commitment. Portet, Steers, Mowday, and Boulian (1974) define professional commitment as a belief in and dedication to the goals and principles of one's profession.

Besides professionalism, the independence of external auditors plays a crucial role in executing audit procedures effectively. Gendron et al (2006) suggest that auditor independence is traditionally viewed as a reflection of moral and ethical integrity. However, in the current context, it is increasingly treated as a measurable aspect that can be governed through ethical codes or regulatory standards, and its compliance can be evaluated through formal inspections.

In carrying out its duties, the auditor profession has slight differences from other professions such as lawyers and doctors. Lawyers or doctors as the first party work for the interests of the client as the second party who is the party requesting the service. Auditors are also required to serve the third-party community. The auditor's main responsibility is not to the client as the service applicant but to the third party. This is a unique characteristic of the auditor profession. This is in line with research Barrainkua & Espinosa-Pike (2018) which states that the core of the accounting profession also includes the concept of public interest. In addition, one of the ethical principles issued by the AICPA 2014 is the principle of public interest where the accounting profession is obliged to act to serve the public interest, respect public trust, demonstrate a commitment to professionalism, and always show high dedication to respecting public trust.

In this study, ethical consideration is defined as the degree to which people believe that unethical behavior is unacceptable in light of professional ethical norms. According to Kohlberg's cognitive development hypothesis (1984), one factor that might have a big impact on how well people develop their moral reasoning skills is age. In the context of auditing, age is closely related to the auditor's work experience. However, Ponemon (1992) concluded that experience hurts accountants' ethical judgments.

According to A. A. Arens et al. (2017), the definition of professionalism is "Professionalism means the responsibility to act beyond individual responsibilities under the law and beyond the legal requirements and regulations of our society". This means that professionalism is the responsibility to act beyond simply complying with responsibilities for oneself and the legal provisions and regulations of society (A. Arens et al., 2020, 2016).

Mulyadi (2014) defines independence is a mental attitude that is unaffected, uncontrolled, and independent of other people. Two aspects of independence are distinguished by A. Arens et al. (2012) categorize independence into two aspects, namely: independence in fact and independence in appearance. Tepalagul & Lin (2015b) stated that independence is the most important concern in the audit profession. This is because there is a continuous discussion over how audit legislation might influence the conduct of auditors and which standards are best for controlling the danger that auditors won't complete their task on their own. The ethics of professional accountants should therefore be strictly regulated by legislation, and auditors who are dedicated to upholding independence must regard them favorably as a type of independence norm (Indrawijaya et al., 2023; Orjinta & Udekweili, 2023; Patrick et al., 2017; Qawqzeh et al., 2018; Tepalagul & Lin, 2015a).

AICPA (2014) in one of its ethical code principles regulates the principle of respecting public interest. This principle is used by researchers to measure the extent of the accounting profession's commitment to the public interest, which includes: Serve the public interest; Respect the public trust; and Demonstrate a commitment to professionalism and continue to demonstrate high dedication to honoring the public trust.

Two relevant prior studies have contributed significantly to the understanding of auditor professionalism and independence, yet gaps remain that justify the present research. First, the study by Mardiaty and Pratiwi (2019) examined the effect of professionalism on auditor performance and found that professionalism significantly improves audit quality. However, their study did not fully explore how external environmental factors, such as recent scandals, affect the perception and behavior of auditors in upholding their professional standards. Second, Gendron et al. (2006) emphasized that auditor independence can be institutionalized and enforced through standards and inspections, suggesting that independence is not merely a personal virtue but a structural requirement. While these findings are important, they primarily focused on regulatory and ethical frameworks without directly addressing how professionalism and independence interact amid public scandals that have eroded public trust. The current study fills this gap by critically examining the relevance of auditor professionalism and independence in light of both international and domestic audit failures involving prominent public accounting firms, such as PwC, Deloitte, and Crowe Indonesia. This research integrates ethical theory and public trust considerations to offer a more nuanced understanding of the moral obligations of auditors in protecting the public interest. The objective of this research is to analyze how professionalism and independence affect auditor performance and trust restoration following high-profile audit failures. Its benefits lie in providing actionable insights for regulatory bodies, public accounting firms, and the wider financial community to strengthen ethical compliance and restore public confidence in the auditing profession.

RESEARCH METHOD

The quantitative research method is the one that is employed. Sekaran & Bougie (2016) define a quantitative research method as a technique for studying a particular population or sample, gathering data with research tools, and analyzing quantitative or statistical data in order to test a

hypothesis. This study is classified as descriptive research, which is defined as research intended to characterize the traits of individuals, occasions, or circumstances. The survey method will be used in this study in compliance with the aforementioned research design. The survey method, according to Sekaran & Bougie (2016) is a way to gather data from individuals in order to characterize, contrast, or explain their behavior, attitudes, and knowledge. Surveys include goal setting, data collection, research design, creating reliable and valid survey instruments, administering surveys, managing survey data analysis, and reporting the results. Based on the explanation above, this research was conducted to obtain data that provides an overview of what influences the ethical assessment of independent auditors represented by Public Accountants at Public Accounting Firms in the city of Bandung. These factors include professionalism, independence, and public interest.

RESULTS AND DISCUSSION

Research Results

The total number of public accounting firms in Bandung is 37 public accounting firms and from the 37 accounting firms, 30 independent auditors are willing to be respondents. The following is a table of questionnaire returns rates. The following is a table of questionnaire returns:

Table 1. Questionnaire Return Rate

No	Information	Amount
1	Number of Questionnaires Distributed	56
2	Number of Undistributed Questionnaires	1
3	Number of Questionnaires received	30
4	Number of Questionnaires not returned	25

Research Instrument Test

Validity Test

One approach for determining if a questionnaire is legitimate or not is a validity test. Using Pearson correlation to examine the relationship between item scores and each variable's overall score is how the validity test is carried out. A statement item is considered valid if r count is more than r table. Value of the r table > 0.3 .

Table 2. Validity Test

Question Items		R count	R table	explanation
Professionalism (X1)	PA 1	0,4	0,3	VALID
	PA2	0,5	0,3	VALID
	PA3	0,4	0,3	VALID
	PA4	0,5	0,3	VALID
	PA5	0,5	0,3	VALID
	PA6	0,4	0,3	VALID
	PA7	0,3	0,3	VALID
	PA8	0,4	0,3	VALID
	PA9	0,3	0,3	VALID
	PA10	0,4	0,3	VALID

	PA11	0,6	0,3	VALID
Independence (X2)	XA1	0,4	0,3	VALID
	XA2	0,5	0,3	VALID
	XA3	0,5	0,3	VALID
	XA4	0,6	0,3	VALID
	XA5	0,6	0,3	VALID
	XA6	0,6	0,3	VALID
	XA7	0,4	0,3	VALID
Public Interest (X3)	KA1	0,7	0,3	VALID
	KA2	0,6	0,3	VALID
	KA3	0,6	0,3	VALID
	KA4	0,8	0,3	VALID
Ethical Considerations (Y)	PE1	0,6	0,3	VALID
	PE2	0,9	0,3	VALID
	PE3	0,9	0,3	VALID
	PE4	0,8	0,3	VALID
	PE5	0,8	0,3	VALID

Source: Processed primary data

Table 2 show that the variables of auditor professionalism, independence, and public interest have a calculated $r > 0.3$. Consequently, it can be said that every study question is valid.

Reliability Test

Reliability is a measuring tool to show the extent to which the questionnaire appears biased (free from errors) and therefore ensures consistent measurement over time across various instrument items (Sekaran & Bougie, 2016). To be able to measure this indicator, Croanbach's Alpha is used for each variable. Croanbach's Alpha is a reliability coefficient that shows how well the items in a collection are positive (Sekaran & Bougie, 2016).

Table 3. Reliability Test

Variable	Cronbach's Alpha	explanation
Profesionalism (X1)	0,614	Reliabel
Independence (X2)	0,602	Reliabel
Public Interest (X3)	0,640	Reliabel
Ethical Considerations (Y)	0,854	Reliabel

Source: Processed primary data

According to Table 3, the Cronbach's alpha value for the variables of independence, professionalism, public interest, and ethical considerations is higher than 0.6. This demonstrates the validity of the study's question items. for each question item to yield consistent data and for the response to be essentially the same if the question is asked again.

Classical Assumption Test

Normality Test

The purpose of the data normalcy test is to determine whether or not the error that results from a regression model has a normal distribution. The figure below shows the test results for the

Normal P-P Plot of Regression Standardized Residual graph, which is utilized in this study to test data normality:

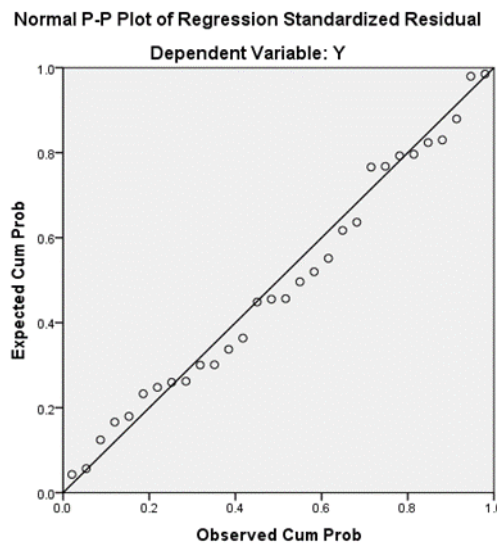


Figure 1. Normality Test

It is evident from Figure 1 that the points are dispersed around the diagonal line, with the spread's direction matching the diagonal lines. This demonstrates that since the regression model satisfies the premise of normalcy, it is practicable to employ.

Multicollinearity Test

The purpose of the multicollinearity test is to determine whether the regression model detects a relationship between the independent variables. Independent variables in a decent regression model shouldn't be correlated. A calculation illustrating the multicollinearity test is shown below. The following outcomes were obtained using SPSS Statistics software:

Table 4. multicollinearity test

Coefficients ^a		
Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Profesionalism	,933	1,071
Independence	,898	1,114
Public Interest	,886	1,129

Source: Processed primary data

Table 4 shows that the variables for auditor professionalism and accountability have a VIF below 10 and a tolerance value above 0.1. This indicates that there are no signs of multicollinearity in the regression equation model, allowing the data to be utilized in this investigation.

Heteroscedasticity Test

The purpose of the heteroscedasticity test is to determine whether the residuals' variances differ from one observation to the next. The scatterplot method, in which the distribution of the generated points is random, does not create a specific pattern, and has a direction above or below

the number 0 on the Y axis, can be used to discover heteroscedasticity. The graphic below displays the findings of the heteroscedasticity test.

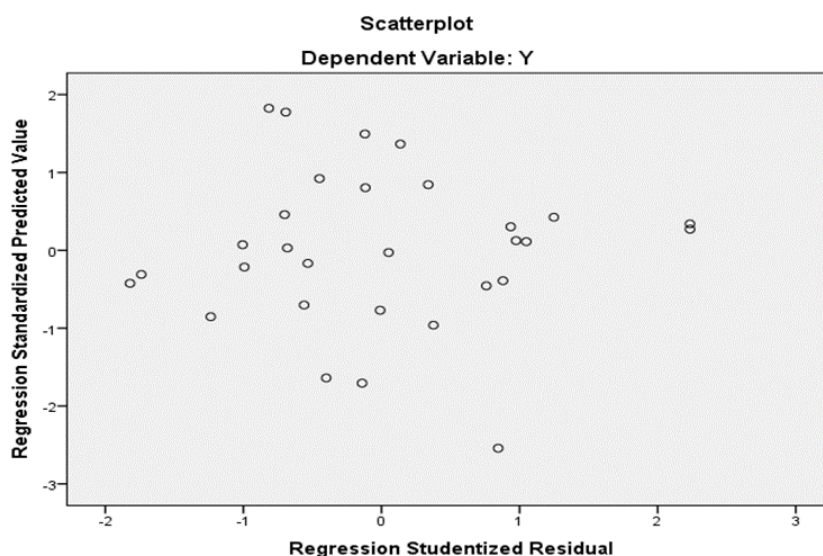


Figure 2. Heteroscedasticity Test

According to the scatterplot graph in the figure above, the data is dispersed along the Y-axis and lacks a distinct pattern in its distribution. This demonstrates that the regression model is appropriate for forecasting ethical considerations with influencing factors, including professionalism, independence, and public interest, because it does not exhibit heteroscedasticity.

Regression Test and Determination Coefficient

Multiple Regression Analysis

The evaluation and interpretation of the multiple regression model comes next, following the completion of the classical assumption test and the overall findings demonstrating that the regression model satisfies the classical assumptions.

Table 5. Regression Equation Model

Model		Coefficients ^a		
		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-3172,890	790,241	
	Profesionalism	,403	,159	,233
	Independence	,868	,137	,592
	Public Interest	,450	,106	,399

The regression equation created in this regression test is as follows, based on the given table:

$$Y = -3172,890 + 0,403X_1 + 0,868X_2 + 0,450X_3 + e$$

The following interpretation of the model is possible:

1. The constant of -3172.890 means that if Professionalism, Independence and Public Interest have a value of 0 then Ethical Considerations will have a value of -3172.890.

2. The regression coefficient has a positive value, meaning that there is a positive relationship between Professionalism and Ethical Considerations. The better the Professionalism, the better the Ethical Considerations.
3. The regression coefficient has a positive value, meaning that there is a positive relationship between Independence and Ethical Considerations. The better the Independence, the better the Ethical Considerations.
4. The regression coefficient has a positive value, meaning that there is a positive relationship between Public Interest and Ethical Development. The better the Public Interest, the better the Ethical Development.

Uji R² (Coefficient of Determination)

The purpose of the determination coefficient test is to ascertain the extent to which the independent variable can account for the dependent variable.

Table 6. Coefficient of Determination

Model Summary ^b		
Model	R	R Square
1	.892 ^a	.796
a. Predictors: (Constant), Public Interest, Profesionalism, Independence		
b. Dependent Variable: Ethical Considerations		

From table 6 above shows that the value of the coefficient of determination or R Square is 0.796 or 79.6%. This shows that the variables together (stimulus) affect the dependent variable by 79.6%. While the rest (100-79.6% = 20.4%) can be explained by other variables outside the regression model above.

Hypothesis Testing

Partial Test (t-Test)

Each independent variable's impact on the dependent variable is examined using a partial test. By examining the significant value of the t count, the t-test is used to conduct the test. The independent variable is considered to have an impact on the dependent variable if the t count significance value is less than 0.05. These are the test results:

Table 7. Partial Test Results (t-Test)

Coefficients ^a			
Model		T	Sig.
1	(Constant)	-4,015	,000
	Profesionalism	2,538	,017
	Independence	6,335	,000
	Public Interest	4,245	,000

Through the t-test statistics consisting of Professionalism (X1) and Independence (X2) and Public Interest (X3), its partial influence on Ethical Considerations (Y) can be determined.

Simultaneous F Test (F Test)

Using the F test, the simultaneous test determines if the independent factors collectively have an impact on the dependent variable. α 5% is used in this test. The proposed hypothesis can be accepted with the caveat that the significance of the F count must be less than 0.05.

Table 8. Simultaneous Test Results (F Test)

ANOVA ^a			
Model		F	Sig.
1	Regression	33,836	.000 ^b
	Residual		
	Total		

a. Dependent Variable: Ethical Considerations
b. Predictors: (Constant), Public Interest, Professionalism, Independence

Given that Table 8's level of significance is less than 0.05, it may be concluded that, with a 0.000 likelihood, public interest, professionalism, and independence all simultaneously (collectively) affect auditor quality. The degree of auditor quality may be predicted using the regression model since the probability is significantly lower than the significant value of 0.05.

CONCLUSION

Based on the results of research on the influence of professionalism, independence and public interest on ethical considerations for Public Accountants at Public Accounting Firms in Bandung, the conclusions that can be drawn in accordance with the formulation of the research problem are as follows: (1) Professionalism influences the assessment of survey ethics on Public Accountants at Public Accounting Firms in Bandung. The better the professionalism, the better the ethical considerations. (2) Independence influences ethical considerations in surveys of Public Accountants at Public Accounting Firms in Bandung. The better the independence, the better the ethical considerations. (3) Public interest influences the ethical assessment of the survey of Public Accountants at Public Accounting Firms in Bandung. The better the awareness of Public Interest for Public Accountants, the better the ethical considerations. Future research is encouraged to expand the scope beyond Bandung to gain a more comprehensive understanding of ethical considerations among public accountants across different regions and firm scales

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