

Improving Audit Quality by Using Increased Auditor Ethics: A Qualitative Approach

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Abstract

The objective of this study is to investigate the ethical approaches employed by auditors in order to improve the overall quality of audits. The study utilizes a qualitative research methodology. The individuals chosen for interviews consist of the Head of Department, Auditors, as well as functional and non-structural officials from a regional examination office located in Bandung City. The results obtained from the conducted research demonstrate that Audit Ethics positively influence the quality of audits, which can be classified as either moderately satisfactory or not yet reaching optimal levels. Consequently, the structural authorities have enhanced the optimization of ethical strategies aimed at enhancing audit quality. However, they need to gain familiarity with the evaluation and measurement of auditors' performance and the conduct of such evaluations or measurements. To achieve proficiency and excellence, auditors must consistently execute their responsibilities in a professional manner and adhere to the prescribed code of ethics. This commitment ensures unbiased outcomes that furnish valuable information to the pertinent organization.

Keywords: *Qualitative Approach, Auditor Ethics, Audit Quality*

Introduction

Implementing Good Governance is an essential prerequisite for achieving a government that embodies the aspirations of its citizens and places a high value on justice. To attain this objective, it is imperative to establish and execute a suitable, unambiguous, quantifiable, and valid system of accountability. This condition guarantees efficient and responsible utilization and advancement of government resources.

Enhancing oversight can be accomplished by augmenting the rigor and caliber of oversight and audit execution through the establishment and enhancement of institutional structural policies, the implementation of independent, effective, efficient, transparent, and measurable oversight procedures, and the diligent pursuit of follow-up actions on oversight findings to foster a more comprehensive oversight work environment. Furthermore, it is crucial to focus on advancing performance-based oversight and elevating auditors' professionalism. This condition can be achieved by enhancing the Government Functional Supervisory Agency (APFP) information system improving the quality of oversight information, ethical codes, and audit standards. Regular evaluations of performance and oversight findings should be conducted, and efforts should be made to enhance the working environment within law enforcement agencies. This condition will facilitate the effective follow-up on internal and external oversight findings.

In order to uphold equitable provision of information to all relevant stakeholders, financial statements must undergo the auditing process. The primary objective of this initiative is to enhance the level of transparency and reliability in financial statements. As per the Financial Audit Standard Statement, an audit is a methodical procedure that seeks to acquire and assess evidence gathered on statements or assertions about economic actions, events, and the correlation between said statements or assertions and factual information. The ultimate objective is to communicate the findings to relevant stakeholders. The Government's Internal Supervisory Apparatus is responsible for internal oversight, as mandated by the government through the Internal Control System. This system

encompasses various oversight activities such as audits, reviews, evaluations, monitoring, and other related processes.

The quality of an audit holds significant importance in the presentation of audit findings. In order to meet the expectations of governmental entities, auditors must possess positive attitudes, as these attitudes play a crucial role in ensuring the production of high-quality audits. The attainment of high-quality audit outcomes serves as an indicator of effective financial management within the government sector. Competent auditors play a crucial role in ensuring the efficacy of government financial management by facilitating the attainment of good audit quality. On the other hand, low-quality auditors may elevate the likelihood of errors or fraudulent activities during financial statement audits. (Bisogno, Grossi, Manes-Rossi, & Santis, 2022; Pamungkas, Ibtida, & Avrian, 2018) Hence, the presence of skilled auditors is necessary to uphold high audit quality standards. If an auditor uncovers misstatements or fraudulent activities while examining financial statements, it is imperative that they promptly report such findings by the specific circumstances at hand.

The financial examiner responsible for conducting financial audits must possess a high level of proficiency in accounting and auditing, along with a comprehensive comprehension of the generally accepted accounting principles pertinent to the specific entity under examination. Examiners entrusted with the responsibility of conducting collective financial audits must possess the requisite expertise and certifications widely acknowledged in the field. The individual tasked with conducting financial audits must possess a widely recognized certification within the professional field.

Based on a comprehensive analysis of empirical data collected by the researcher over an extended period of 8 years, it has been determined that the Supreme Audit Agency has consistently provided an Unqualified Opinion for all 28 districts and cities within the West Java Province. Nevertheless, it is worth noting that not all 28 districts and cities were granted a Unqualified Opinion. Instead, certain districts and cities were

issued a Qualified Opinion, while others were subject to opinions of Unqualified with Exception and Disclaimer of Opinion.

The primary objective of scrutinizing financial statements is to assess the equity and impartiality of the portrayal of said statements. An opinion is a formal declaration made by an examiner regarding the impartiality of the information presented in the financial statements. Financial audits are not primarily designed to detect fraudulent activities within financial management. Nevertheless, suppose the examiner identifies any anomalies, fraudulent activities, or breaches of legislation, specifically those that could potentially lead to financial losses for the government. In that case, it is imperative to report them.

Examining the 2020 Financial Statements of Regional Governments in the district/city governments in West Java has identified several issues that demand collective attention. These issues encompass the procurement of goods and services, leading to overpayments, challenges about the management and arrangement of fixed assets, errors in budgeting, untapped potential in local revenue, management of regional government accounts, management of property tax, particularly concerning unvalidated transferred arrears from the tax office, payment of health insurance contributions without reliable population data, and non-compliance in the accountability of grants and social assistance. Nevertheless, the concerns above did not significantly impact the financial worth, resulting in the Supreme Audit Agency issuing a Unqualified Opinion to the six Regional Governments.

The district/city governments in West Java continue to face several issues that necessitate collective attention. These issues encompass challenges related to the procurement of goods and services, which exhibit indications of potential financial losses to the region. Additionally, there are concerns regarding the mismanagement of accounts, resulting in non-compliance with regulations and the potential for fraudulent activities. Furthermore, managing fixed assets is problematic, encompassing organizational and utilization aspects. Nevertheless, it has been determined that these concerns lack significance in terms of value, resulting in the

Supreme Audit Agency issuing a Unqualified Opinion. Officials must furnish responses or justifications to the Supreme Audit Agency regarding the subsequent measures taken on recommendations outlined in the audit report, as per the action plan submitted within a maximum of 60 days after receipt of the audit report.

Auditors employed by the Supreme Audit Agency must possess the necessary expertise to comprehend and execute their professional duties. They are expected to engage in ongoing education, participate in pertinent training sessions, and receive technical guidance to enhance their audit capabilities. Furthermore, auditors are expected to hold certifications widely recognized within the field. In this context, effective communication with the auditee is also deemed essential for auditors. The second general standard posits that auditors from the Supreme Audit Agency must maintain independence by avoiding personal, external, and organizational influences that may impact their mindset and demeanor during the audit process. The concept of independence entails the avoidance of any associations or connections that could undermine the auditor's ability to maintain an unbiased mindset and professional demeanor while carrying out audits of high quality. According to a study conducted by Adiputra, Utama, and Rossieta in 2018, all individuals involved must possess the capability to generate audit quality equivalent to that achieved by auditors conducting audits in adherence to the applicable ethical codes and standards.

Koval et al. (2019) and Flint (2020) examine the concept of audit quality, which pertains to the probability of auditors detecting and disclosing irregularities within a client's accounting framework. The non-compliance assessment evaluates the audit quality level of the auditor's competence and proficiency. In contrast, non-compliance disclosure relies on the auditor's inclination to reveal such instances. The level of motivation is dependent on the independence of the auditor.

This study seeks to investigate the relationship between auditor ethics, audit quality, inhibiting factors, evaluation of auditor ethics, and auditor ethics strategies to enhance audit quality, building upon the

previously discussed research background. The primary aim of this study is to comprehensively examine and assess the ethical conduct of auditors, the level of audit quality they deliver, the factors that impede their ethical behavior, the methods employed to evaluate auditor ethics, and the strategies employed to enhance audit quality.

Research Method

The research necessitates utilizing a methodological approach to address the investigated problem. The selection of data collection techniques is expected to align with the chosen approach method and the purpose of this study. Hence, the chosen research methodology employed in this study is qualitative research. The qualitative approach is grounded in the theoretical framework of constructivism, which posits that reality is characterized by its multidimensionality, interactivity, and the social exchange of experiences that individuals subjectively interpret. Qualitative researchers believe that truth is a fluid concept that can solely be ascertained by scrutinizing individuals and their interactions within social contexts.

The qualitative research method, grounded in the positivist philosophy, investigates phenomena occurring in natural settings rather than artificial environments. In this approach, the researcher assumes the role of the primary instrument for selecting sources and gathering data. This condition is achieved through triangulation, which involves combining inductive/qualitative data analysis and qualitative research findings. According to a study conducted by Dwekat, Seguí-Mas, Tormo-Carbó, and Carmona (2020),

The research was conducted within a specific inspection agency located in Bandung. Identifying and specifying the data object are crucial components in data collection, applicable to quantitative and qualitative research methodologies. Parameters can be considered analogous to the comprehension of statistical principles. *Statistics* is a discipline concerned with collecting, analyzing, interpreting, presenting, and organizing data to provide a comprehensive understanding of a particular problem or phenomenon. Typically, this involves converting raw data into numerical

representations, facilitating the exploration and description of the underlying issue. On the other hand, parameters refer to specific characteristics or attributes of the investigated data derived from the sources and types of data under study. In statistical research, data is typically obtained from a representative subset known as the sample, whereas in parameter research, data is derived from the entire study population.

Parameters refer to the inherent characteristics or attributes of the object being measured. In addition to ascertaining the object, parameters can also assess conditions or states and ascertain the indicators of the issues that will arise in the research. The utilization of parameters within this study will elucidate the veracity of the research quandary, and the acquired and observed parameters can be employed for data analysis. The presentation of the research findings is characterized by a descriptive approach, employing detailed descriptions to portray and elucidate the subject of the study. The methodology employed in this study adheres to the principles of qualitative research, which eschews the use of quantitative measurement instruments. The qualitative methodology yields descriptive data in written or spoken expressions obtained from the individuals and actors under observation. Secondary data sources, such as tabular representations, basic visualizations, photographic images, graphical illustrations, and cartographic depictions, are employed to present succinct and readily comprehensible factual information to the audience.

This study employs a descriptive and interactive approach to data analysis. The process of data analysis is methodically structured, commencing with the establishment of interview guidelines and the collection of relevant literature data. This condition is followed by the formulation of descriptive summaries, the reduction of data, the presentation of findings, and, ultimately, the drawing of conclusions. Spooner (2017) and Hill & Knox (2021) outline procedures to implement in the research process. These steps include data reduction, which involves selecting and converting relevant data gathered in the field. Data presentation entails organizing and synthesizing information in a coherent

and meaningful manner and formulating conclusions, which involves critically evaluating the findings to ascertain their validity and significance. The results that have been acquired are analyzed and subsequently conveyed in a narrative format. The study aims to establish relationships and connections between the findings derived from the comprehensive review of existing literature and the analysis of data collected in the field. In this manner, discrepancies in the execution of performance-based remunerations are also recognized. The procedures above are executed starting from the point of data collection, encompassing data reduction, data presentation, conclusion formulation, and data analysis, culminating upon completing the research endeavor.

Results and Discussion

Auditor Ethics presents many concerns that emerge from data analysis collected via interviews. The primary sources of information include the department head or inspector, non-structural functional officials, functional officials, and implementers/auditors. The research findings suggest that the ethical behavior of auditors can be assessed through five indicators, as identified in the interviews. These indicators encompass the presence of regulations established by the Mayor, the productivity of auditors, and the challenges associated with identifying and quantifying the outcomes of audit work. The outcomes derived from the audit activities primarily serve internal organizational objectives, thereby posing challenges in terms of evaluation. The completion of audit work and the attainment of audit results are the collective responsibility of a collaborative internal audit team. Auditors place significant reliance on their judgment during their audit activities, and it is worth noting that the exercise of judgment may vary among auditors due to disparities in their analytical abilities and professional backgrounds.

Enhancing The implementation of auditor discipline measures will strengthen auditors' level of accountability for their performance of audit tasks. Cultivating work discipline plays a significant role in fostering self-motivation and dedication within the auditing profession. This result

facilitates the maintenance of work accountability, which serves as a tangible expression of auditors' professional responsibility. The importance of work discipline lies in its ability to demonstrate the auditors' strong sense of responsibility in effectively fulfilling their assigned tasks.

Regarding the concepts of equality and equitable distribution, the focus lies on the management, oversight, and conclusion of auditors, specifically regarding the Accounting System, Audit Evidence, Internal Control, and Review of Relevant Financial Reports. In order to effectively fulfill their responsibilities, auditors must possess a comprehensive comprehension of the transaction recording and processing system. Furthermore, they must evaluate the system's sufficiency as a foundation for preparing financial statements. Auditors procure pertinent and dependable audit evidence in order to formulate logical conclusions. For auditors to establish reliance on internal controls, they must undertake a thorough assessment and evaluation of said controls and conduct compliance tests. In addition to obtaining other audit evidence, auditors perform a crucial examination of pertinent financial reports to establish a logical foundation for forming an opinion on the financial statements.

There exists a range of perspectives among auditors, including the Unqualified Opinion, about the efficacy and efficiency of policy implementation about audit outcomes.

The data presentation on Audit Quality elucidates that auditors can be appointed through three distinct mechanisms: Initial appointment, Transfer appointment, and Inpassing appointment. In addition to fulfilling various administrative prerequisites, it is mandatory for a government auditor being appointed to the Functional Auditor role to complete the Functional Auditor Certification Exam commensurate with the level of the position they are to assume. Auditors are evaluated according to various dimensions, encompassing their educational background, which encompasses formal education and attended training programs. The demonstration of supervisory experience is manifested by the accumulation of credit points over a designated timeframe. The credit points acquired are assessed regularly at the end of each semester. The

responsibilities of Functional Auditors in performing supervisory duties are influenced by their hierarchical position and the specific roles they fulfill, including Quality Controller, Technical Controller, Team Leader, or Team Member. The allocation of these responsibilities is contingent upon the certifications possessed by the Functional Auditor. The enhancement of competencies for Functional Auditors is achieved by implementing educational and training initiatives. The challenges encompass issues of injustice and disparities, a decline in service quality, and variations in types of work and workload.

The data presentation examines the inhibiting factors that affect the integration of ethics to improve audit quality. These factors can either facilitate or impede the successful implementation of ethical practices in auditing. Several factors contribute to the facilitation of implementing supplementary income provisions. These factors encompass leadership policies, the allocation of a budget for supplementary income by the financial capabilities of the region, and the provision of transparent and predictable monthly income, which facilitates improved financial planning. Furthermore, various factors hinder the attainment of the stated goals of generating supplementary income. These inhibiting factors encompass the regulation of work behavior as stipulated in the Mayor's regulation, adherence to assigned tasks and functions based on one's position, performance considerations, and the execution of job responsibilities by the designated Standard Operating Procedures (SOP), including explicit functional transfers.

The data presentation about the evaluation of Auditor Ethics highlights a range of perspectives, including dissenting views regarding the policies that have been in effect over the preceding three-year period. This condition pertains to matters concerning the efficacy and efficiency of allowances, the equitable and fair distribution thereof, the responsiveness to policy impacts, and the accuracy of policies.

The analysis of the Auditor Ethics Strategy in Enhancing Audit Quality encompasses various dimensions, including the incentivization of auditors, the assessment of Auditor productivity within the governmental

context, and the reinforcement of disciplinary measures. The primary sources of information utilized in developing the auditor strategy to enhance audit quality at the Bandung City Inspectorate encompass the implementers/staff, department heads or inspectors, and auditors.

In order to safeguard the integrity of audit reports or examination outcomes and prevent the erosion or complete loss of public confidence, it is imperative to enhance the quality of audits. There is an increased focus among auditors on matters about quality audits in non-federal contexts. It is imperative to address the potential risks that may arise from implementing activities and the necessity for additional guidance to carry out audits effectively.

The successful execution of the audit necessitates a comprehensive examination of audit quality concerns and the various factors that influence audit quality, with the ultimate objective of ascertaining the reliability and credibility of audit reports. In public administration, audit quality pertains to the likelihood that an auditor or examiner, specifically the Supreme Audit Agency in Indonesia, can identify and disclose any irregularities within an organization or governmental entity, encompassing both the central and regional levels. The likelihood of identifying anomalies is contingent upon the technical proficiency of the examiner. In contrast, the likelihood of reporting errors depends on the examiner's independence and competence in disclosing irregularities. The identification of the factors that exert influence on audit quality is imperative in order to enhance its overall performance.

One potential strategy for enhancing audit quality concerning auditor ethics is adopting remote auditing techniques. A comparative examination of remote auditing reveals similarities and disparities in efficacy and efficiency when contrasted with traditional auditing methods. The study employs a qualitative descriptive methodology, incorporating a literature review approach. The research findings elucidate that the remote audit process, when conducted by audit standards and the code of ethics for public accountants, upholds comparable quality to traditional audit processes.

Using the Inspectorate is a foundation for strategy selection when assessing strengths, weaknesses, opportunities, and threats (SWOT). Moreover, the institution demonstrates a responsive and respectful attitude by actively listening to the aspirations of stakeholders and acknowledging their demands for change and improvement. The ethical framework is established through the active engagement of the entire Inspectorate, employing a bottom-up planning approach to address all facets of its operations and fulfill its institutional obligations. A top-down planning approach for policy formulation and strategic development complements this.

Once all relevant information about the factors impacting the organization's sustainability has been collected, the subsequent course of action involves employing this information within quantitative models to facilitate the strategic formulation process. One viable problem-solving model that can be employed is the SWOT matrix, in conjunction with the internal-external matrix. Based on the study's findings, there is a significant correlation between Ethics and Audit Quality, which has a notable impact on the outcomes of audits and the public perception of auditors within the Bandung City Inspectorate. This condition implies that a positive correlation exists between Ethics and Audit Quality, whereby an enhancement in Ethics leads to an improvement in Audit Quality, and conversely, a deterioration in Ethics results in a decline in Audit Quality.

The research findings presented in this study are substantiated by prior investigations conducted by Alsughayer (2021), Kusumawati and Syamsuddin (2018), and Zahmatkesh and Rezazadeh (2017). These studies have demonstrated a notable impact of ethics on the quality of audits. Hence, this study provides partial evidence of the influence of ethics on the quality of audits. This study is additionally corroborated by De Angelo's (1981) theory, which posits that audit quality pertains to the state in which an auditor can identify and disclose discrepancies from established principles in a client's financial statements. The audit quality generated by auditors is associated with independence, auditor ethics, competence, and audit standards.

Conclusion

Auditors' adherence to ethical principles has a positive influence on their conduct while performing supervisory responsibilities in the government sector. Auditors consistently endeavor to furnish comprehensive information within their reports, ensuring objectivity and a factual foundation to maximize utility. The audit reports are effectively communicated clearly. The inclusion of inhibiting factors in assessing a sub-auditor's performance, along with the provision of effective oversight, can contribute to the objective measurement of their capabilities.

The assessment of auditor ethics for auditors leads to the conclusion that comprehensible regulations must be thoroughly grasped to optimize behavioral dimensions. The ongoing enhancement of ethics is imperative, specifically regarding the Auditor Code of Ethics stipulated in regional regulations and decrees. The current Ethics Strategy for Enhancing Audit Quality has been deemed optimal by authoritative figures regarding its provision of evaluations and measurements of auditor performance. However, auditors are not accustomed to being subject to performance evaluations and must be familiar with conducting such assessments.

In order to optimize the effectiveness of auditors in their role as government supervisors, they must demonstrate a solid commitment to integrity, impartiality in performance (by providing honest and accurate reports), diligence, and thoughtful consideration in conducting audits. In order to uphold objectivity in audit conclusions or findings, individuals must uphold information security and independence. The categorization of Audit Quality is reasonably good. In order to enhance the quality of their work, auditors must consistently adhere to professional standards and conduct their activities by the established code of ethics. This commitment ensures unbiased outcomes that furnish valuable information for the institution. The assessment of a sub-auditor's performance should consistently be conducted under the oversight of superiors in order to mitigate the risk of report violations. The production of objective reports necessitates a firm commitment from auditors towards their clients.

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