

## The influence of independence, integrity, professionalism, and objectivity on fraud prevention in auditors with auditor ethics as a moderating variable: Empirical study at the Representative Office of the Supreme Audit Agency in North Sulawesi Province

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### ABSTRACT

This study aims to analyse the influence of independence, integrity, professionalism, objectivity, and ethics on fraud prevention among auditors. Additionally, this study also treats the auditor's ethics as a moderating variable. Conducted through survey methodology, the study involved distributing questionnaires to all auditors in the Audit Board of the Republic of Indonesia (or BPK) Regional Office for North Sulawesi Province. The questionnaires were disseminated to 138 respondents and achieving for 100% response rate. Analytical methods employed encompassed multiple moderated regression analysis. The results indicate that independence, integrity, professionalism, objectivity, and ethics positively influence fraud prevention. Moreover, the results also reveal that the auditor's ethics can moderate the influence of independence and professionalism on fraud prevention. The implications of the findings suggest that higher levels of independence, integrity, professionalism, objectivity, and ethics tend to increase effectiveness in fraud prevention within the BPK Regional Office for North Sulawesi Province.

Keywords: independence; integrity; professionalism; objectivity; ethics; fraud prevention

JEL Classification: M12; M41; M42

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### 1. Introduction

Fraud continues to evolve and remains a prevalent issue to date. No organization or institution is entirely immune from the potential occurrence of fraud; indeed, perpetrators of fraud can be found across all levels, from low-ranking to high-ranking employees. Therefore, awareness and vigilance from various parties are necessary to remain vigilant in the

workplace against opportunities for fraud. According to Albrecht et al. (2017), "*fraud is a common term and does not encompass all the ways in which an individual can skillfully select to gain advantage over others by making false representations.*"

The Audit Board of the Republic of Indonesia (or BPK), as one of the high state institutions characterized by independence and autonomy within the

state system, still faces challenges in preventing fraud. Fraud within the internal operations of BPK can lead to a loss of public trust in BPK's audit findings, and it can also reflect poorly on the government's efforts to combat corruption. Basic values are established to prevent fraudulent activities, regulating audit activities based on attitudes of independence, integrity, professionalism, and objectivity so that auditors can take appropriate actions and decisions in accordance with applicable procedures and regulations.

Independence is a characteristic that arises from within the auditor which is difficult to influence and free from intervention by any party in the decision-making process and execution of tasks, thereby adding value to the financial reports presented by management. Furthermore, integrity is a quality or state that demonstrates integrity, honesty, hard work, and adequate competence. The third fundamental value, professionalism, refers to the ability, expertise, and commitment of the profession in carrying out tasks, accompanied by the principle of due care, precision, and meticulousness, while adhering to standards and legal regulations.

Ethical considerations play a crucial role in the fraud prevention process for auditors because ethical values can discourage stakeholders from engaging in fraud. An auditor must be able to identify fraudulent behaviour as a moral issue. Fraudulent actions are not aligned with obligations based on ethical norms and virtues. The significant role of ethics encourages researchers to further examine the influence of ethics on the relationship between independence and dependence.

In organizing auditor ethics, BPK has established implementing elements responsible for formulating ethical values and integrity enforcement policies within the BPK's work environment. This function is embedded in the Main Inspectorate (or Itama), specifically in the

Enforcement Integrity Inspectorate. Therefore, ethics can be used as a consideration to assess how an auditor can perform audit tasks in accordance with existing fundamental values, while prioritizing independence, integrity, professionalism, and objectivity to avoid "moral hazards" by individuals with vested interests.

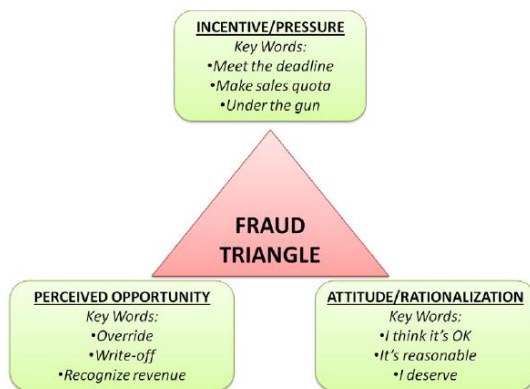
The findings of Risandy et al. (2019) indicate that auditor ethics moderation can moderate the relationship between independence, integrity, professionalism, auditor accountability, and audit quality. Several previous accounting studies have been conducted to evaluate components influencing fraud prevention, but the results have been inconsistent. Karamoy and Wokas (2015) demonstrate that professionalism significantly influences fraud detection, while the independence variable does not significantly affect internal auditors in the North Sulawesi Inspectorate. The findings of Wijaya and Adechandra (2020) show that the ethical-egoism climate is strengthen the relationship between professionalism and fraud prevention. The ethical-egoism climate strengthens the relationship between independence and fraud prevention. This means that if the company has a low ethical-egoism climate, fraudulent actions can be prevented. Rini (2021) examines the variables of integrity, independence, and professionalism and finds that those variables are positively influence fraud prevention. The study by Bimantara and Ngumar (2018) shows that independence, objectivity, and auditor experience have a positive and significant influence on fraud detection, meaning that higher levels of independence, objectivity, and auditor experience can result in increased sensitivity of the auditor in detecting fraud. Based on the multiple linear regression analysis, it can be concluded that the most dominant variable is objectivity.

Based on the background, this study conducts in-depth research to identify the factors influencing fraud prevention among auditors in the public sector, considering the fact that previous research findings have been inconsistent. Therefore, this study aims to examine influence of integrity, independence, professionalism, and objectivity on fraud prevention among auditors with auditor ethics as a moderating variable at the Audit Board of the Republic of Indonesia, North Sulawesi Provincial Representative Office. This study also examines the implementation descriptions, then analyse why fraud often occurs despite the establishment of fundamental values regarding fraud cases involving BPK auditors.

## 2. Literature review

### *The basic theory*

- **Attribution theory.** Attribution predicts what causes others to behave in certain ways. According to Myers (1996), the tendency to attribute is due to human inclination to explain everything, including what lies behind the behaviour of others. According to Heider (1958), each individual is fundamentally a pseudo-scientist who seeks to understand the behaviour of others by combining and collecting information until they arrive at a reasonable explanation of why others behave in certain ways. Fundamentally, attribution theory states that when individuals observe the behaviour of others, they try to assess whether it arises internally or externally. Behaviour arising internally is believed to be under the personal control of the individual in conscious situations, such as personality traits, awareness, and abilities. Otherwise, behaviour arising externally is behaviour influenced by external interventions, such as circumstance, social influence from others.
- **Fraud triangle theory.** The fraud triangle theory, or the fraud triangle, is an idea about the causes of fraud, initially proposed by Cressey (1953), where fraud occurs due to three factors arising simultaneously. Cressey (1953) identified three factors that contribute to someone committing fraud: financial pressure that needs to be concealed (pressure), the opportunity to commit fraud (opportunity), and the rationalization by the perpetrator (rationalization). Figure 1 describes the three factors in the fraud triangle which explains why humans commit fraud. Cressey (1953) concludes that the tendency for fraud occurs when all three essential elements are present together, which are:
  1. *Incentive/pressure or motive* is the reason someone commits fraud. Motive is the driving-force that shifting from law-abiding to engaging in criminal activities.
  2. Perceived opportunity is the environment supportive of committing fraud. The amount of opportunity a person has to commit fraud is typically determined by their position of authority within an entity and their access to assets and records.
  3. Attitude/rationalization is how the perpetrator justifies their fraudulent behaviour. When the elements of motive and opportunity come together, the fraudster convinces themselves that what they are doing is not bad or wrong. Fraudsters often think of themselves as honest individuals who are merely borrowing and not stealing from the entity, and they don't consider themselves as criminals cheating the entity.



**Figure 1. Fraud Triangle**

- **Fraud prevention.** Tinay et al. (2022) explain that individuals are motivated to commit fraud because of perceived pressure, whether from themselves or others. This pressure drives them to commit fraud, which can occur due to opportunities arising from weak supervision. Fraud prevention is an activity undertaken by companies or organizations to reduce the risk of fraud and minimize potential losses if fraud occurs. To prevent cases of deviation, especially fraud that could harm an organization or institution, methods to anticipate such occurrences are required. According to Committee of Sponsoring Organization of The Treadway Commission (COSO), fraud prevention methods include building a strong internal control structure, risk assessment, control standards, information and communication, and monitoring. Just as it's better to prevent illness than to cure it, experts predict that successfully uncovered fraud represents only a small fraction of actual fraud incidents (Tuanakotta, 2016). Therefore, primary efforts should focus on prevention. There's an expression that succinctly explains the root or cause of fraud: fraud by need, by greed, and by opportunity. The meaning of this expression is that to prevent fraud, one should minimize or eliminate (based on cost-benefit analysis) the needs and greed that lead

to fraud. The element of opportunity in this expression is usually addressed through internal controls. Internal control is an action to ensure that the company's objectives regarding financial reporting, operational effectiveness and efficiency, and compliance with laws and regulations are achieved through processes designed, implemented, and applied by management, employees, and relevant parties in the company (Tuanakotta, 2014).

#### *Hypothesis development*

- **Independence and fraud prevention.** According to Arens et al. (2014), independence in auditing means that a member in public practice must be independent in their performance as a professional service as required by standards announced by bodies appointed by the board. According to Rahayu and Suhayati (2013), independence means not easily influenced, neutral because auditors carry out their work for the public interest. Bimantara and Ngumar (2018), and Rini (2021) find that independence has a positive influence on preventing auditor fraud. Payapo et al. (2021) also prove higher the level of independence held by auditors then higher the level of fraud detection. Therefore, the hypothesis of this study is written as follows.  
*H1: independence has a significant impact on fraud prevention by auditors*
- **Integrity and fraud prevention.** Cloud (2007) argues that integrity cannot be separated from the effort to become a whole person and to function as designed beforehand because it is closely related to the completeness and effectiveness of an individual as a human being. Azra (2012) confirms that integrity is more defined as adherence and obedience to moral and ethical principles, moral character

integrity, honesty, and not morally corrupt or morally perfect without flaws. Dewi and Widanaputra (2018), Rifai and Mardijuwono (2020), and Rini (2021) find that integrity has a positive and significant influence on preventing auditor fraud. Those findings imply that when auditors have high integrity, they perform their duties in accordance with ethics. The honesty of auditors reflects accurate audit results and prevents fraudulent activities. Therefore, the hypothesis of this study is written as follows.

*H2: integrity has a significant impact on fraud prevention by auditors*

- **Professionalism and fraud prevention.** Kartasasmita (1997) states that professionalism can be interpreted as behaviour, manner, quality, which characterize a profession or a professional individual. Dwiyanto (2011) also explains that professionalism is the understanding or belief that the attitudes and actions of officials in carrying out government activities and services are always based on scientific knowledge and professional values that prioritize public interests. The professional attitude of an examiner during the examination process is required to prioritize professional judgment principles to prevent fraud. The studies by Payne and Ramsay (2005), Suyasa and Sudiana (2020), and Rini (2021) suggest that increasing in professionalism causes more effectiveness in preventing fraud. Those findings imply that the higher the level of professionalism possessed by auditors, the better they are at preventing fraud. Therefore, the hypothesis of this study is written as follows.

*H3: professionalism has a significant impact on fraud prevention by auditors*

- **Objectivity and fraud prevention.** Wardhani et al. (2014) define

objectivity as a principle that requires practitioners not to allow subjectivity, conflicts of interest, or undue influence from other parties to affect their professional judgment or business considerations. According to Agoes (2012), objectivity is a belief, a quality that adds value to the auditor's service. The finding by Bimantara and Ngumar (2018) imply that as the objectivity of auditor increases, there is a corresponding increase in the level of fraud detection. Rakhmat et al. (2019) find that the more objective an auditor tends to increase the effectiveness of an organization's internal audit in achieving its goals. Therefore, the hypothesis of this study is written as follows.

*H4: objectivity has a significant impact on fraud prevention by auditors*

- **Auditor ethics and fraud prevention.** Ardana (2014) states that ethics is practically interpreted as morality or moral values, which refer to customs, habits, values, and norms prevailing within a group or society. Arens et al. (2014) argue that ethics is crucial for humans to ensure orderly living. Kusumastuti (2019) also explains that ethics has a very important role in minimizing the risk of fraud. Empirical evidence from Hassan (2019) shows that high auditor ethics is a reliable factor in preventing fraud. Consistently, Lannai et al. (2021) and Amsar et al. (2022) also find that auditor ethics has positive and significant on preventing fraud.

*H5: auditor ethics has a significant impact on fraud prevention by auditors*

- **Other evidence about ethics.** Some empirical evidence shows that ethics can be a moderating factor in fraud prevention. For example, Wijaya and Adechandra (2020) prove that the presence of an ethical egoism climate is significantly moderated the relationship between independence and

fraud prevention. Also, in-line with the Regulation No. 3 of 2016 concerning the Code of Ethics of the BPK, the findings by Dewi and Widanaputra (2018), and Dewi and Sumadi (2020) reveal that auditor's ethics strengthen the relationship of integrity on audit quality in the context of fraud prevention. Furthermore, an empirical gap occurs when the findings from Rizky (2017) and Wijaya and Adechandra (2020) are inconsistent with Hassan (2019) in the context of the interaction between ethics and professionalism in fraud prevention. The Code of Ethics for Professional Accountants suggests that objectivity is one of the fundamental ethical principles for members, which means not compromising professional or business judgment because of bias, conflicts of interest, or undue influence from others. There are not many studies on the interaction between ethics and auditor objectivity for fraud prevention purposes. However, Harjanto (2014) provides evidence that the interaction of these two variables is effective in fraud prevention.

*H6: auditor ethics significantly moderates the relationship between independence and fraud prevention by auditors*

*H7: auditor ethics significantly moderates the relationship between integrity and fraud prevention by auditors*

*H8: auditor ethics significantly moderates the relationship between professionalism and fraud prevention by auditors*

*H9: auditor ethics significantly moderates the relationship between objectivity and fraud prevention by auditors*

### 3. Research method

This study uses a quantitative approach to hypothesis testing according to the opinion of Sugiyono (2021). This study employs a survey using a census method through questionnaires distributed to all auditors in the BPK Representative Office of North Sulawesi Province. A total of 138 questionnaires were distributed and all were returned, resulting in a response rate of 100%. All of questions in questionnaires are measured by Likert scale. The variables in this study consist of the dependent variable is Fraud Prevention (FP) whose statement indicators are taken from Pusdiklat BPKP Fifth Edition in 2008 with some modifications. The independent variables of this study are as follows: (1) independence (IND); (2) integrity (INT); (3) professionalism (PROF) whose statement indicators are taken from SPKN in 2017; (4) objectivity (OBJ) whose statement indicators are taken from Code of Ethics for Professional Accountants with some modifications; and (5) auditor ethics (AE) whose statement indicators are taken from (Kurniasih, 2005). This variable is also treated as a moderator. The model used for hypothesis testing at 1%, 5%, and 10% with Moderated Regression Analysis (MRA) is written as follows.

$$FP = \alpha + \beta_{IND} + \beta_{INT} + \beta_{PROF} + \beta_{OBJ} + \beta_{AE} + \beta_{AE.IND} + \beta_{AE.INT} + \beta_{AE.PROF} + \beta_{AE.OBJ} + \varepsilon$$

### 4. Result and discussion

#### Result

- **Validity and reliability tests.** Table 1 presents the results of validity and reliability tests of this study. The validity test employs Pearson Correlation test while the reliability test uses the value of Cronbach's Alpha. The results of Pearson Correlation test show that all of items are significant correlated while the Cronbach' Alpha for all variables is more or equal to 0.6.

**Table 1. Validity and reliability tests**

|                 | IND    | INT    | PROF   | OBJ    | AE     | FP     |
|-----------------|--------|--------|--------|--------|--------|--------|
| Item 1          | 0.624* | 0.390* | 0.580* | 0.850* | 0.426* | 0.703* |
| Item 2          | 0.559* | 0.378* | 0.439* | 0.801* | 0.553* | 0.719* |
| Item 3          | 0.561* | 0.450* | 0.720* | 0.855* | 0.531* | 0.708* |
| Item 4          | 0.589* | 0.600* | 0.317* | 0.846* | 0.452* | 0.766* |
| Item 5          | 0.588* | 0.498* | 0.598* | 0.826* | 0.450* | 0.800* |
| Item 6          | 0.509* | 0.630* | 0.757* |        | 0.612* | 0.779* |
| Item 7          | 0.468* | 0.663* | 0.587* |        | 0.767* | 0.716* |
| Item 8          | 0.428* | 0.520* | 0.637* |        | 0.604* | 0.707* |
| Item 9          | 0.485* | 0.435* | 0.715* |        | 0.706* | 0.705* |
| Item 10         | 0.430* | 0.475* | 0.511* |        | 0.637* | 0.754* |
| Item 11         |        | 0.530* | 0.548* |        | 0.361* | 0.719* |
| Item 12         |        | 0.588* | 0.663* |        |        |        |
| Item 13         |        | 0.465* |        |        |        |        |
| Cronbach' Alpha | 0.694  | 0.731  | 0.825  | 0.890  | 0.775  | 0.910  |

\* significant at 1%, 5%, and 10%

- **Classic assumption tests.** Table 2 presents the results of the normality tests, heteroskedasticity tests, autocorrelation test, and collinearity statistics. The statistics value of Shapiro-Wilk, Kolmogorov-Smirnov, and Anderson-Darling are insignificant which indicate that the residual error of regression model is normally distributed. The results of Breusch-Pagan, Goldfeld-Quandt, and Harrison-

McCabe also confirm that the residual error is free of heteroscedasticity. Furthermore, the statistic of DW also shows that the data for regression model is free of autocorrelation. The variance inflation factor (VIF) and tolerance confirm that there is no multicollinearity effect between independent variables. Based on those tests, the regression model is fit for further analysis.

**Table 2. Classic assumption tests**

|                                 | Statistic | Sig.  |                                | VIF  | Tolerance |
|---------------------------------|-----------|-------|--------------------------------|------|-----------|
| <i>Normality tests</i>          |           |       | <i>Collinearity statistics</i> |      |           |
| Shapiro-Wilk                    | 0.991     | 0.537 | IND                            | 1.25 | 0.801     |
| Kolmogorov-Smirnov              | 0.049     | 0.889 | INT                            | 1.60 | 0.626     |
| Anderson-Darling                | 0.346     | 0.479 | PROF                           | 1.32 | 0.757     |
|                                 |           |       | OBJ                            | 1.45 | 0.688     |
| <i>Heteroskedasticity tests</i> |           |       | AE                             | 1.72 | 0.580     |
| Breusch-Pagan                   | 5.25      | 0.812 | AE*IND                         | 1.80 | 0.555     |
| Goldfeld-Quandt                 | 1.04      | 0.439 | AE*INT                         | 2.44 | 0.410     |
| Harrison-McCabe                 | 0.49      | 0.430 | AE*PROF                        | 1.43 | 0.698     |
|                                 |           |       | AE*OBJ                         | 1.79 | 0.558     |
| <i>Autocorrelation test</i>     |           |       |                                |      |           |
| Durbin-Watson (DW)              | 2.15      | 0.416 |                                |      |           |

- **Moderated regression analysis.** Table 3 shows the results of moderated regression analysis with details as follows.
  1. H1 is accepted which indicates that IND is positive and significant on FP.
  2. H2 is accepted which indicates that INT is positive and significant on FP.
  3. H3 is accepted which indicates that PROF is positive and significant on FP.
  4. H4 is accepted which indicates that OBJ is positive and significant on FP.
  5. H5 is accepted which indicates that AE is positive and significant on FP.
  6. H6 is accepted which indicates that AE is positive and significant moderates the relationship between IND and FP.
  7. H7 is rejected which indicates that AE insignificantly moderates the relationship between INT and FP.
  8. H8 is accepted which indicates that AE is positive and significant moderates the relationship between PROF and FP.
  9. H9 is rejected which indicates that AE insignificantly moderates the relationship between OBJ and FP.

**Table 3. Moderated regression analysis**

| Predictor           | Estimate | SE     | t      | Sig.  |
|---------------------|----------|--------|--------|-------|
| Intercept           | -2.4668  | 0.6113 | -4.035 | 0.001 |
| IND                 | 0.3336   | 0.0857 | 3.893  | 0.001 |
| INT                 | 0.3631   | 0.1174 | 3.093  | 0.002 |
| PROF                | 0.2932   | 0.1042 | 2.815  | 0.006 |
| OBJ                 | 0.1678   | 0.0500 | 3.358  | 0.001 |
| AE                  | 0.3484   | 0.1239 | 2.812  | 0.006 |
| AE*IND              | 0.0784   | 0.0349 | 2.248  | 0.026 |
| AE*INT              | -0.0461  | 0.0348 | -1.325 | 0.188 |
| AE*PROF             | 0.0644   | 0.0285 | 2.257  | 0.026 |
| AE*OBJ              | -0.0105  | 0.0331 | -0.317 | 0.752 |
| F test              |          |        | 18.7   | 0.001 |
| R                   | 0.754    |        |        |       |
| R <sup>2</sup>      | 0.569    |        |        |       |
| Adj. R <sup>2</sup> | 0.538    |        |        |       |

Dependent variable is FP

#### Discussion

- **Independence and fraud prevention.** This study finds that IND is significantly increases the FP. This finding implies that the higher the independence of an auditor, the higher the fraud prevention among auditors in the BPK Representative of North Sulawesi Province. On finding, this study is consistent with Rahayu and Suhayati (2013), Bimantara and Ngumar (2018), Rini (2021), and Payapo et al. (2021).
- **Integrity and fraud prevention.** This study finds that INT is significantly increases the FP. This finding implies that the higher the integrity of an auditor, the higher the fraud prevention among auditors in the BPK Representative of North Sulawesi Province as suggested by Cloud (2007) and Azra (2012). The finding of this

- study is consistent with Dewi and Widanaputra (2018), Rifai and Mardijuwono (2020), and Rini (2021).
- **Professionalism and fraud prevention.** This study finds that PROF is significantly increases the FP. This finding means that the higher the professionalism of an auditor, the higher the fraud prevention among auditors in the BPK Representative of North Sulawesi Province as suggested by Kartasasmita (1997) and Dwiyanto (2011). The finding of this study is consistent with Payne and Ramsay (2005), Suyasa and Sudiana (2020), and Rini (2021) where increasing in professionalism causes effectiveness in preventing fraud.
  - **Objectivity and fraud prevention.** This study finds that OBJ is significantly increases the FP. The finding implies that the higher the objectivity of an auditor, the higher the fraud prevention among auditors in the BPK Representative of North Sulawesi Province. This condition is consistent with Wardhani et al. (2014) that objectivity is free from subjectivity or any conflicts of interest. The finding of this study is consistent with Bimantara and Ngumar (2018) and Rakhmat et al. (2019).
  - **Auditor ethics and fraud prevention.** This study finds that AE is significantly increases the FP. The finding implies that the higher the auditor ethics, the higher the fraud prevention among auditors in the BPK Representative of North Sulawesi Province. Consistent with Ardana (2014) and Kusumastuti (2019), this study also suggests that ethics plays important role in minimizing the risk of fraud. Moreover, the finding of this study also consistent with Hassan (2019), Lannai et al. (2021), and Amsar et al. (2022) who found that auditor ethics has positive and significant on preventing fraud.
  - **Other findings about ethics.** This study provides evidence about ethics in the context of fraud prevention. Consistent with Wijaya and Adechandra (2020), this study shows that ethics can strengthen the relationship between independence and fraud prevention. This condition implies that auditors with good independence and working according to a code of ethics tend to increase fraud prevention. Attribution theory explains the causes of other people's behaviour or one's own behaviour, which will be determined whether it comes from internal factors such as nature, character, attitude, and others. One of the internal factors of an auditor is independence when conducting behaviour that impacts fraud prevention. Independence integrated into a person's nature and quality is under their control. Ethics serve as guidelines for acting freely but responsibly and as role models for auditors' behaviour, enabling them to decide what behaviour is ethical and unethical, as humans tend to prioritize their own interests or organizational interests depending on the level or intensity of the ethics they possess. The attitude and behaviour of auditors will be reflected in their ability to apply accountability in tasks, maintain independent attitudes in facts and perspectives, continuously improve audit knowledge, and maintain and apply auditor ethics in every audit assignment. Moreover, consistent with Rizky (2017) and Wijaya and Adechandra (2020), other findings also show that auditors who work professionally according to a professional code of ethics tend to reduce the risk of fraud. As professionals, auditors acknowledge their responsibility to the auditee, the public, including acting with respect, even at the expense of personal

sacrifice. This is further supported by the concept of professionalism when viewed from attribution theory, where task professionalism is carried out with principles of caution, precision, and thoroughness (internal factors), and external factors where auditor professionalism is guided by standards and legal regulations.

## 5. Conclusion

Fraud is still a major urgency in the context of financial performance and accountability. Auditors are one of the keys that play an important role in monitoring organizational operations. This study provides empirical evidence, especially on the issue of fraud prevention based on a survey of auditors of BPK at the North Sulawesi Province Representative Office. The findings reveal that independence, integrity, professionalism, objectivity, and ethics are the ideal characteristics that an auditor needs. This condition implies that the higher those factors are the more effective fraud prevention tends to be especially in context of attribution theory and fraud triangle theory. The results of this study are expected to serve as motivation for further research. This study only employs a subject which gives low level of generalization of the findings. It is recommended that further studies to expand the scope of objects and develop on a broader scale.

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