Indonesian Annual Conference Series, Vol. 2, 2023
Halu Oleo International Conference on Economic and Business (IACS-HOICEB 2023)

The Effect of Auditor Independence and Moral Reasoning on Audit Quality in Provincial Inspectorates Southeast Sulawesi

Sartika[1], Arifuddin Mas'ud[1*], Safaruddin[1]
[1]Department of Accounting, Faculty of Economics and Business, Halu Oleo University, Indonesia
***Corresponding Author**, Email: arifuddin.feb@uho.ac.id

Abstract

This study aims to determine and analyze the effect of auditor independence and moral reasoning on audit quality in the Inspectorate of Southeast Sulawesi Province. The sample in this study was 42 auditors who worked at the Inspectorate Office of Southeast Sulawesi Province. The analytical method used is descriptive analysis and multiple linear regression analysis with the help of IBM SPSS V22 software. Methods of data collection using a questionnaire. This study used a sampling technique with a census sampling technique. The results of the study show that (1) auditor independence partially has a significant effect on audit quality, meaning that the higher the independence of an auditor, the better the quality of the audit produced by the auditor. (2) The auditor's moral reasoning partially has a significant effect on audit quality, meaning that the higher the auditor's moral reasoning considerations, the higher the audit quality produced by the auditor. (3) Auditor independence and auditor moral reasoning simultaneously have a significant effect on audit quality, meaning that there is a relationship between auditor independence and auditor moral reasoning on the resulting audit quality.

Keywords: *Auditor Independence, Auditor Moral Reasoning, Audit Quality.*

INTRODUCTION

The government is one of the public sector organizations responsible for executing the public's trust in managing the state to achieve equitable and fair welfare in implementing national development. Establishing a democratic government is an essential prerequisite for achieving good governance. A good government must ensure transparency by opening its doors to all parties involved in governance, and the implementation of governance must be accountable (Chairunisa, 2020).

The government should strive to establish a clean administration free from detrimental practices such as corruption, collusion, and nepotism. Corruption, collusion, and nepotism (CCN) are actions taken by individuals or groups with the intention of personal gain. CCN constitutes amoral acts that violate the law (Falatah, 2018). Maintaining public trust in government accountability is challenging, especially in the face of amoral actions that persist in various Indonesian government institutions. According to Transparency International (TI), in their Corruption Perceptions Index for the year 2020, Indonesia ranked 102 out of 180 surveyed countries with a score of 40 out of 100 (www.transparency.org/en).

Transparent reporting of accountability is a public demand for the government. Conversely, the government has an obligation to provide useful accountability reports to assess accountability and aid in making economic, social, and political decisions regarding the nation's progress (Chairunisa, 2020). Quality government accountability reports should be audited according to standard auditing procedures carried out by independent and competent entities to achieve high-quality audit results. An audit is a systematic process that objectively evaluates evidence related to assertions about economic actions and events, determines the level of compliance between these assertions and established criteria, and communicates the results to relevant stakeholders (Jusup, 2014). Agoes (2012) states that quality audits are achieved through systematic examination and independent implementation aligned with objectives. This quality should be maintained throughout the audit process, from examination to reporting and recommendations.

The government sector has officials responsible for auditing government accountability and financial reports, both internally and externally. Internally, government audits are conducted by the Internal Oversight Apparatus of the Government (APIP) and externally by the Supreme Audit Agency (BPK). These bodies are responsible for overseeing and preventing corruption, collusion, and nepotism within the government. Regulation No. 60 of 2008 concerning the internal control system of the government stipulates that internal control is carried out by the Internal Oversight Apparatus (APIP), which includes BPKP

(the BPKP and)) inspectorates at the central, provincial, and regency/city levels. At the regional government level, regency/city inspectorates play a significant role in preventing and addressing CCN. Quality audits are crucial in upholding public trust.

Based on Ministry of Home Affairs Regulation No. 8 of 2009, the Inspectorate is responsible for ensuring the reliability of information generated by various units/work units as an integral part of the local government organization. The Inspectorate, as one of the functions within the local government, is tasked with conducting supervision activities over local government performance and finances through audits, reviews, evaluations, monitoring, and other supervisory activities. It also conducts specific supervisory tasks assigned by the regional head, prepares examination result reports, manages the administrative functions of the regency/city inspectorate, and performs other functions related to its tasks and duties, as directed by the regional head through the regional secretary. The quality of inspectorate audits can be evaluated based on the findings of external audits conducted by the Supreme Audit Agency of the Republic of Indonesia (BPK RI) on the presentation of the Financial Reports of Local Governments (LKPD). In fact, the results indicate that the supervisory function of the Southeast Sulawesi Provincial Inspectorate has not been fully optimized. This is evident from the follow-up findings of audits conducted from 2018 to 2020 by the BPK, which found weaknesses in the internal control system related to local government accountability reports in Southeast Sulawesi.

Table 1. Findings of the Monitoring Report on the Follow-Up Actions of the Audit Results by BPK in the Provincial Government of South Sulawesi

No	Classification of Findings	2018	2019	2020
1	Audit Findings	1382	1451	1533
2	Findings Requiring Recommendations	3860	4070	4216
3	Follow-Up Results Requiring Recommendations	2802	3192	3376
4	Follow-Up Results Not in Accordance with Recommendations	862	731	749
5	Findings Not Followed Up	180	156	77
6	Findings Not Subject to Follow-Up	16	9	16
	Total Findings	9102	9591	9967

Source: Planning Division, Inspectorate of South Sulawesi Province

Based on Table 1, the number of findings from 2018 to 2020 experienced an increase, while in 2018 there were 9,102 findings, in 2019 there were 9,591, and in 2020 it increased to 9,967. The high workload of auditors in determining recommended actions based on the findings obtained and the large number of unimplemented follow-up actions, despite the recommendations, show that there are issues affecting the quality of the audit.

These issues indicate that the inspectorate's function has not been fully optimized, and there are weaknesses in the quality of audits conducted by the Southeast Sulawesi Provincial Inspectorate in examining the financial reports of the Southeast Sulawesi Provincial Government. These findings should have been identified by the Inspectorate before being examined by the Supreme Audit Agency (BPK).

The goal of quality audits is an objective that must be achieved through APIP. Audit quality is the action taken by auditors in conducting audits based on established auditing standards and reporting audit results based on the sufficiency of evidence available to stakeholders. Several factors influence audit quality including independence and moral reasoning.

Auditors, in fulfilling their professional responsibilities, face pressures and conflicts from the management of the entities they examine, as well as from various levels of government positions and other parties that may influence the objectivity and independence of auditors. In the face of pressure or conflict, auditors must maintain professionalism and objectivity, base their actions on facts, and not be biased toward any party (Mas'ud, 2018). Independence, according to Tuanakotta (2011), reflects an unbiased attitude that is not influenced by pressure or specific parties in making decisions. Independence is an unbiased perspective in conducting audit testing, evaluating test results, and issuing audit reports.

Independence is one of the most important characteristics of auditors and forms the basis of principles, such as integrity and objectivity (Arens, 2012).

Another factor that auditors should possess, besides independence, is moral reasoning. According to Alkam (2013), moral reasoning is a process experienced by individuals in determining right or wrong, as well as good or bad, which influences decision-making. Moral reasoning influences the quality of audits conducted by auditors, as auditors with moral reasoning uphold their professional values, thereby providing reliable opinions (Naibaho, 2014).

Several studies on audit quality have yielded inconsistent results. Syurhayuti (2016) finds that auditor moral reasoning influences audit quality. Additionally, Suryalaga (2018) finds that independence and auditor moral reasoning significantly influence audit quality. However, Falatah (2018) finds that independence and auditor moral reasoning positively and significantly influence audit quality. On the other hand, Merawati (2018) finds that moral reasoning does not significantly influence audit quality.

The purpose of this study is to determine and analyze the influence of independence and auditor moral reasoning on audit quality in the Inspectorate of Southeast Sulawesi Province.

THEORY

Mulyadi (2013) states that an audit is a systematic process to obtain and evaluate evidence objectively regarding statements about economic activities and events, intending to determine the level of compliance between these statements and established criteria, and conveying the results to interested users. According to the Professional Standards of Public Accountants (2011), an audit is a process of collecting and evaluating evidence about information that can be measured about an economic entity, conducted by an independent and competent individual to determine and report on the conformity of the information with established criteria. An audit involves collecting and evaluating evidence about information to determine and report on the conformity between the information and established criteria (Arens, 2012).

Audit quality refers to how an auditor detects material misstatements in financial reports. The detection aspect reflects the auditor's competence while reporting reflects the auditor's integrity, especially independence (Arens, 2015). Bastian (2014) states that audit quality is a systematic and independent examination to determine whether the quality of activities and achievements matches the planned design and can be effectively implemented to achieve objectives.

Based on Minister of State Apparatus Utilization Regulation No. 05/M.PAN/03/2008 concerning the Standards for Internal Audit by Government Supervisory Apparatus, audits are of quality if they meet the requirements or standards set by the APIP. APIP audit standards consist of (1) General Standards, (2) Standards for Conducting Work, (3) Reporting Standards, and (4) up standards. Nugrahini (2015) explains that the performance standard of the Professional Practice Internal Audit (SPPIA) describes the nature of internal audits and measures their quality. This standard serves as an indicator of audit quality in research, including Internal and External Audit Function Management, Scope of Assignment, Assignment Planning and Implementation, Communication of Assignment Results, and Follow-Up Monitoring.

According to the State Financial Examination Standards (2017), independence is an attitude and action in conducting examinations without bias towards anyone and is not influenced by anyone. The examinations must also be objective and free from conflicts of interest in fulfilling professional responsibilities. On the other hand, Mulyadi (2013) stated that independence is a mental attitude free from influence, not controlled by others, and not dependent on others. Independence also implies honesty in considering facts and objective considerations when formulating and expressing opinions. The indicators of auditor independence in this study are used according to Syawer (2005), which are Independence in the Audit Program, Independence in Verification, and Independence in Reporting.

Moral refers to the way of life or customs related to ethical values, prohibitions, right or wrong actions, and the good and bad behavior of humans (Mukino, 2016). Fithrie (2016) stated that morality is a mental and emotional attitude possessed by individuals as members of a social group in performing tasks and loyalty to the group. Moral reasoning is the basis for someone to take or perform an action (Gaffikin, 2012).

According to Fathrie (2015), Moral Reasoning can be measured using the Multidimensional Ethics Scale

(MES). Specifically, the MES identifies the rationality behind moral reasoning and why respondents believe that an action is ethical. There are five moral constructs reflected in MES: Justice or moral equity, Relativism, Egoism, Utilitarianism, Deontology, and contractual.

The hypotheses of this study were as follows:

H1: Independence of Auditors Partially Influences Audit Quality.

H2: Auditors' moral reasoning partially influences audit quality.

H3: Auditors' independence and moral reasoning simultaneously influence audit quality.

METHODS

This study was conducted by the Inspectorate of Southeast Sulawesi Province, Jl. Haluoleo, Mokoau, Kendari City, Southeast Sulawesi, 93232. This study will be conducted in December 2021. The object of this study is independence (X1) and Moral Reasoning (X2) as independent variables, and Audit Quality (Y) as the dependent variable at the Inspectorate of Southeast Sulawesi Province. The study population consisted of 42 auditors from the Inspectorate of Southeast Sulawesi Province. Census sampling was used in this study. Census sampling is a technique where all members of the population are used as samples, which is done due to the relatively small number of the population of respondents.

Table 2. Position Auditor

No.	Position Name	Quantity
1	Senior Government Supervisor	9 people
2	Junior Government Supervisor	6 people
3	First-level Government Supervisor	4 people
4	Junior Expert Auditor	18 people
5	First-level Expert Auditor	5 people
	Total	42 people

Source: Inspectorate of South Sulawesi Province (2021)

This hypothesis testing was conducted using the multiple linear regression analysis method, aiming to examine the relationship and influence of one or more independent variables on a dependent variable. The Multiple Linear Regression Test is a forecasting analysis tool for the influence of two or more independent variables on one dependent variable to prove the existence or absence of a functional or causal relationship between two or more independent variables and one dependent variable (Riduwan, 2013). The equation for the model is expressed as follows:

$$\boldsymbol{Y = a + \beta_1 X_1 + \beta_2 X_2 + e}$$

Explanation:

Y: Audit Quality

X_1: Auditor Independence

X_2: Auditor Moral Reasoning

a: Constant Value

β_1, β_2: Coefficients of Regression for Respective Variables

e: Unexamined Other Variables

According to Ghozali (2016:116), the purpose of hypothesis testing is to determine accuracy. If the null hypothesis is rejected, it supports the alternative hypothesis. The null hypothesis can be rejected by testing the data with a certain level of confidence or strength. The hypothesis testing in this study consisted of the following:

Individual Parameter Significance Test (t-test)

The t-test essentially indicates the extent to which a single independent explanatory variable influences the dependent variable. This study employs a two-tailed significance test, which has two regions of null hypothesis rejection: one on the far right and one on the far left. In this two-tailed test, the symbol "=" is used for the null hypothesis, and "≠" is used for the alternative hypothesis. According to Ghozali (2016), the criteria for the partial test (t-test) can be observed by comparing t_calculated with the t_table:

If t_calculated > t_table or the significance level < α = 0.05, this indicates that the independent variable (X_1, X_2) has a partial influence on the dependent variable (Y).

If t_calculated < t_table or the significance level > α = 0.05, the independent variables (X_1, X_2) do not have a partial influence on the dependent variable (Y).

Based on the previous explanation, the null hypothesis formulation and its alternative hypothesis are as follows.

H_0: b_i = 0, meaning that the independent variables (X_1, X_2) have no partial influence on the dependent variable (Y).

H_1: b_i ≠ 0, meaning that there is a partial influence from the independent variables (X_1, X_2) on the dependent variable (Y).

Simultaneous Significance Test (F-test)

This test aims to determine whether the independent variables (X) influence the dependent

variable (Y). According to Ghozali (2016:133), the criteria for the simultaneous test (F-test) can be observed by comparing F_calculated with F_table:

If F_calculated > F_table or the significance level < α = 0.05, this indicates that the independent variables (X_1, X_2) have a simultaneous influence on the dependent variable (Y).

If F_calculated < F_table or the significance level > α = 0.05, it indicates that the independent variables (X_1, X_2) do not simultaneously influence the dependent variable (Y) (Ghozali, 2016).

Based on the previous explanation, the null hypothesis formulation and its alternative hypothesis are as follows.

H_0: b_i, b_2 = 0, meaning that the independent variables (X_1, X_2) have no simultaneous influence on the dependent variable (Y).

H_1: b_i, b_2 ≠ 0, meaning that the independent variables (X_1, X_2) have a simultaneous influence on the dependent variable (Y).

Coefficient of Determination Test (R^2)

This coefficient measures how well the model explains variation in the dependent variable. In the first hypothesis test, the R Square (R^2) value was examined to determine how well the independent variables (X_1 and X_2) of auditor independence and moral reasoning explain audit quality. The R^2 value had an interval between 0 and 1 (0 ≤ R^2 ≤ 1). If the R^2 value is large (approaching 1), the independent variables provide almost all of the necessary information to predict the dependent variable. However, if the R^2 value is small, the ability of the independent variables to explain the dependent variable is limited (Ghozali, 2016).

RESULTS AND DISCUSSION

Presenting data based on the right type of research. Data can be presented in the form of a narrative, a table, or an appropriate picture. Then, the data were analyzed by comparing the concepts, theories, and results of previous research.

Table 3. Results of Multiple Linear Regression Analysis

Coefficients[a]								
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	2.184	.868		2.515	.067		
	X1	.234	.107	.351	2.197	.035	.977	1.023
	X2	.373	.175	.341	2.135	.015	.977	1.023
a. Dependent Variable: Y1								

Source: Output from IBM SPSS 22, primary data processed in 2022

Based on the regression coefficient results in Table 3, the following equation can be derived:

$$\mathbf{Y=2.184+0,234X_1+0,373X_2+e}$$

Where:

Y = Audit Quality

X1 = Auditor Independence

X2 = Auditor Moral Reasoning

Based on the regression model equation Y = 2.184 + 0.234X1 + 0.373X2 + e, it can be interpreted that the independent variables, auditor independence (X1) and auditor moral reasoning (X2), in the regression model can be understood as follows: If one independent variable changes by one unit and the other remains constant, then the change in the dependent variable, audit quality (Y), will be equal to the coefficient value (β) of the independent variable. The constant value (α) of 2.184 implies that if both auditor independence (X1) and auditor moral reasoning (X2) simultaneously do not change or are equal to zero (0), audit quality (Y) will increase by 2.184 units.

For the coefficient values

- β1 (0.234) represents the positive effect of auditor independence (X1) on audit quality (Y). This means that if auditor independence (X1) increases by one unit, audit quality (Y) will increase by 0.234, assuming that other variables are constant.

β2 (0.373) represents the positive effect of auditor moral reasoning (X2) on audit quality (Y). This means that if auditor moral reasoning (X2) increases by one

unit, audit quality (Y) will increase by 0.373, assuming that other variables are constant.

Hypothesis testing was conducted to determine whether auditor independence and auditor moral reasoning affect audit quality. To confirm this, the t-test and F-test were employed as follows:

The results of the t-tests are shown in the following table:

Table 4. Partial Test Results (t-test)

Model		Unstandardized Coefficients		Standardized Coefficients			
		B	Std. Error	Beta	t hitung	t tabel	Sig.
1	(Constant)	2.184	.868		2.515		.067
	X1	.234	.107	.351	2.197	2.037	.035
	X2	.373	.175	.341	2.135	2.037	.015

Source: Primary data processed in the year 2022

Through a statistical t-test involving the variables of auditor independence (X1) and auditor moral reasoning (X2), their partial effects on audit quality (Y) can be understood as follows:

1. Hypothesis Testing 1 (H1)

Table 4 indicates that the auditor independence variable has a calculated t-value of 2.197, greater than the critical t-table value of 2.037 at a significance level of 0.05. The coefficient β of the variable X1 is positive and equals 0.351. Therefore, from the results of this test, it can be concluded that the formulated hypothesis (H1) is supported and aligned with the research findings; thus, H1 is accepted. The results demonstrate that auditor independence partially and significantly influences audit quality.

2. Hypothesis Testing 2 (H2)

Table 4 shows that the auditor's moral reasoning variable has a calculated t-value of 2.135, which is greater than the critical t-table value of 2.037 at a significance level of 0.05. The coefficient β of the variable X2 is positive and equal to 0.341. Therefore, based on the test results, we can infer that the formulated hypothesis (H2) is supported and consistent with the research findings. Thus, H2 is accepted. The results highlight that auditor moral reasoning partially and significantly influences audit quality.

A simultaneous F-test was conducted to test the combined effects of the independent variables. The results of the simultaneous regression calculations are as follows:

Table 5. Overall Test Results (F-test)

Model		Sum of Squares	df	Mean Square	F hitung	F tabel	Sig.
1	Regression	.106	2	.053	4.077	3,29	.000[b]
	Residual	.415	32	.013			
	Total	.520	34				

a. Dependent Variable: Y1

b. Predictors: (Constant), X2, X1

Source: IBM SPSS Output, Data Processed in the Year 2022

Table 5 demonstrates that the level of significance (0.000) is significantly smaller than the 5% significance level (0.000 < 0.05) or with the F-test value of 4.077, which is greater than the critical F-table value of 3.29. Therefore, it can be stated that both the auditor independence variable and the auditor moral reasoning variable simultaneously have a significant influence on audit quality, indicating the acceptance of Hypothesis 3 (H3).

The coefficient of determination (R2) was used to measure the extent to which the independent variables explained the dependent variable. The coefficient of determination ranged from 0 to 1. A lower R2 value suggests that the explanatory power of the independent variables for the dependent variable is limited. Conversely, an R2 value approaching 1 implies that the independent variables provide nearly all of the information needed to predict variations in the dependent variable.

Table 6. Coefficient of Determination (R2)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.851[a]	.683	.643	.11384	1.375

Source: IBM SPSS Output, Data Processed in the Year 2022

The results of the statistical calculations in Table 6 can be interpreted as follows: the value of R Square was 0.683 or 68.3%. This indicates that the independent variables (auditor independence and auditor moral reasoning) collectively account for 68.3% of the influence of the dependent variable (audit quality). The remaining 31.7% are influenced by other factors that are not discussed in this study, such as auditor expertise and auditor competence.

The results of the hypothesis testing indicate that auditor independence significantly influences audit quality. The significant impact of auditor independence implies that the higher the level of independence possessed by an auditor, the better the resulting audit quality. An impartial stance demonstrated by an auditor during their tasks reflects their freedom from any influence and honesty towards clients, companies, and other parties that place trust in the audited financial reports. An auditor losing independence can lead to decreased audit quality, rendering the audit report unreliable for decision-making.

The results also demonstrate that auditors' moral reasoning significantly affects their audit quality. The significant impact of moral reasoning indicates that higher moral considerations drive the improvement in audit quality. Moral reasoning is the foundation of making ethical decisions. When an auditor possesses strong moral reasoning, it significantly influences decision-making during the audit process, ultimately contributing to higher audit quality. The incidence of misconduct by auditors and the audit itself are minimized because of these factors, leading to the preservation of audit quality.

The findings align with the responses of the surveyed auditors from the Inspectorate of Southeast Sulawesi Province, which suggests that the most significant contributor to auditor independence is independence within the audit program, indicating a favorable category. This explains how independence within the audit program can influence audit quality in the Inspectorate of Southeast Sulawesi Province. Similarly, the strongest contributor to moral reasoning is relativism, which is also categorized as good. This implies that the presence of the relativism indicator can influence audit quality in the Inspectorate of Southeast Sulawesi Province. Auditors' independence and moral reasoning align with the improvements in audit quality.

The simultaneous testing of auditor independence and moral reasoning reveals that they jointly and significantly influence audit quality. A significant outcome indicates that when both auditor independence and moral reasoning are high, audit quality is good. This further supports attribution theory, which explains that individual behavior is determined by both internal and external factors. In this study, both auditor independence and moral reasoning are internal factors that significantly influence audit quality in the Inspectorate of Southeast Sulawesi Province.

These findings are consistent with previous studies conducted by Mas'ud (2018), Falatah (2018), Arizqi (2020), and Suryagala (2018), who similarly find a significant influence of auditor independence and moral reasoning on audit quality. The findings also align with Kohlberg's (1969) moral development theory, supporting the notion that moral reasoning significantly influences individual behavior, especially when facing moral dilemmas. Government auditors who maintain ethical behavior based on moral reasoning demonstrate commitment to ethical codes, resulting in improved audit quality. However, this study contradicts the findings of Merawati and Ariska (2018), who suggest that moral reasoning does not significantly influence audit quality. This discrepancy may arise from differences in individual characteristics and interpretations of moral reasoning.

This study demonstrates that both auditor independence and moral reasoning significantly influence audit quality. These findings support attribution theory, explaining that individual behavior is influenced by internal and external factors. The results also highlight the importance of ethical behavior and moral reasoning for auditors in improving audit quality.

CONCLUSION

Based on the obtained data and the results of the analysis that have been conducted, several conclusions can be drawn in accordance with the previously formulated hypotheses. These are as follows:

1. **Independence of Auditors Significantly Affects Audit Quality:** The research findings indicate that the independence of auditors significantly affects audit quality. The higher the level of independence possessed by an auditor at the Inspectorate of Southeast Sulawesi Province, the better the quality of the audit they produce. Conversely, lower levels of independence may lead to a decrease in audit quality. This suggests that auditor independence plays a vital role in ensuring the quality of audit reports.
2. **Moral Reasoning of Auditors Significantly Influences Audit Quality:** The study also reveals that the moral reasoning of auditors significantly influences audit quality. The higher the moral reasoning considerations of auditors, the higher the quality of audits they produce at the Inspectorate of Southeast Sulawesi Province. A strong moral reasoning foundation prompts auditors to make ethical decisions and maintain integrity throughout the audit process.
3. **Independence of Auditors and Moral Reasoning Significantly Impact Audit Quality Simultaneously:** The research results show that the independence of auditors and their moral reasoning, when considered together (simultaneously), significantly influence audit quality at the Inspectorate of Southeast Sulawesi Province. This implies a relationship between auditors' independence and their moral reasoning in relation to the quality of audits produced by auditors at the Inspectorate of Southeast Sulawesi Province. This finding suggests that both factors work in tandem to create high-quality audit reports.

Recommendations for future research include the inclusion of several other independent variables. These variables can provide further insights into other factors that may affect audit quality. For instance, variables such as time budget pressures and auditor competency could be added to better understand how they interact with and influence audit quality in the Inspectorate of Southeast Sulawesi Province. By doing so, future research can offer a more comprehensive understanding of the various factors affecting audit quality that are not covered in this study.

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