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How do ethical orientation and ethical cultural affect auditor's ethical behavior?

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ABSTRACT

This research aims to test and provide empirical evidence of an ethical orientation of idealism, relativism, and ethical culture of the organization to auditor ethical behavior with experience as a moderation variable. This study used the census methods to all auditors in Badan Pemeriksa Keuangan Republik Indonesia the Provincial Representative of East Kalimantan. Data obtained by 33 respondents and processed with SmartPLS. The result shows that idealism and the ethical culture of the organization have a positive effect on the auditor's ethical behavior, whereas relativism has no negative effect on the auditor's ethical behavior. The moderation test result shows that the experience cannot moderate the ethical orientation of idealism and relativism on auditors' ethical behavior, however, experience has proven to moderate the ethical culture of the organization on auditors' ethical behavior.

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Introduction

Business Auditor is a profession that has an important role in business world, not only that the auditors increase the credibility of the financial report that are examined but also to provide guarantees for investment from investors in a company. In addition, public trust also depends on the quality of audits produced by auditors. Therefore, auditors are required to have knowledge, understanding, and ethics application capably in order to carry out their work (Rosyida, 2017). According to Widiastuti and Nugroho (2015) application of these ethics will affect the ethical behavior of the auditor when making decisions.

Issue about problems auditor ethics in Indonesia continues to grow along with the occurrence of several cases of violations that have been revealed. This problem occurred not only to independent auditors or public accountants, but also happens to government external auditors implemented by the Audit Board of the Republic of Indonesia. The case involved intermediate auditors at Sub-Auditoriat VII B2 of Audit Board RI which is proven to accept bribes in form of gifts such as Harley Davidson motorbike because it has changed the provisional findings of the Audit Team with specific objectives for managing business revenue, controlling costs and investment activities in a Limited Company (Gabrillin, 2018).

The application of the code of ethics is expected to minimize the level of ethical violations, but in several circumstances, regulation will not guarantee to be able to anticipate problems such as the case with government auditors involved. The case of profession ethics violations is based on cognitive moral development theory developed by Kohlberg (1971), it can be seen that the individual is at the post-conventional stage where a person at this stage has a behavior in accordance with his own thoughts and considerations and does not fully accept the group's criteria. This is supported by a model developed by Trevino (1986) that is *A person-situation interactionist model* regarding the process ethical decision making in organizations that combine individual variables and situational variables, that the auditor's actions also influenced properly situational factors so that auditors make wrong decisions when faced with ethical dilemmas and ultimately behave unethically. This case cause reduced public trust in the auditor profession, therefore a research is needed to find out about internal and external factors that influence the ethical behavior of auditors.

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This study uses cognitive moral development theory by Kohlberg (1971) to determine the factors that influence the ethical behavior of auditors. This theory suggests that ethical behavior can be influenced by personal factors coming from within the individual and situational factors coming from outside the individual (Normadewi et al, 2018). Based on this theory, it is known that the influencing personal factors are ethical orientation, obtained through a process of thought and opinion. According to Forsyth (1980) ethical orientation is controlled by two characteristics, namely idealism and relativism. Research by Widiastuti and Nugroho (2015) have proven that the ethical orientation of idealism and relativism affect the auditor's ethical behavior, but different from Kartika's research (2017) which shows that the ethical orientation idealism and relativism have no effect on the auditor's ethical behavior. Theory of cognitive moral development explained that situational factors could influence ethical behavior is an organizational culture which is a system of general values. This is supported by research of Barrainkua and Pike (2018), and Normadewi et al. (2018) which proves that ethical culture of the organization affect the ethical behavior of auditors.

The inconsistent research findings are related to the influence of the ethical orientation of idealism, relativism and ethical culture of the organization on the ethical behavior of auditors can be caused by the absence of moderation variables in previous studies. This experience variable which is suspected to be moderation is based on cognitive moral development theory. Kohlberg (1971) suggested that the moral value of an individual will increase with increasing experience encountered during his life. Experience is a process of learning and increased potential behavior earned from formal and non-formal education, which suggest that experienced auditors are considered to be more conservative when dealing with ethical issues. Hayunigtas and Murtanto (2014) explain that experience can influence auditors in making decisions when facing ethical dilemmas. More experience the auditor has then the decision taken will also be better and this shows the auditor will behave ethically.

Explanation in the previous paragraphs shows that research related to the ethical behavior of auditors needs to be carried out based on several fundamental reasons. First, there is a phenomenon government auditor who violated professional code of ethics by committing fraud and accepting bribes when doing the inspection in 2018. Second, there are inconsistencies the results of previous studies related to the ethical orientation idealism, relativism and the ethical culture of the organization on the auditor's ethical behavior. Therefore, this research will do retest by adding experience as a moderating variable to the relationship of ethical orientation idealism, relativism and the ethical culture of the organization on the auditor's ethical behavior. The aim of this research is to find the influence of ethical orientation idealism, relativism and organizational ethical culture on the ethical behavior of auditors.

Literature Review

Theories of Cognitive Moral Development

The cognitive development approach was put forward for the first time by Dewey (Kohlberg, 1971), which was then further developed by Peaget and Kohlberg (Fraenkel, 1977; Hersh, et al. 1980). Dewey divides moral development into three stages, namely (1) the "pre-moral" or "preconventional" stage, in which at this stage one's behavior is driven by physical or social pressure; (2) The "conventional" stage, in this stage a person begins to accept values with a little critical, based on the criteria of the group; (3) "Autonomous" stage, in this stage a person has a behavior that is in accordance with his own thoughts and considerations and does not fully accept the group's criteria.

Kohlberg redefined and developed his theory in more detail. The level of moral development according to Kohlberg starts from simple consequences, in the form of an unpleasant influence from outside on behavior, up to the appreciation and awareness of universal human values. A person-situation interactionist model is a model developed by Trevino (1986) regarding the process of ethical decision making in organizations that combines individual variables and situational variables based on theories of cognitive moral development. The stage of cognitive moral development determines how a person thinks when faced with ethical dilemmas, decides what is right or wrong in a situation. However, true and false cognition does not adequately explain or predict behavior in making ethical decisions, individual and situational variables can also determine how individuals behave in response to the ethical problems they face. Three individual variables that influence behavior about what is right or wrong are ego strength, field dependence, and locus of control. Whereas the influential situational variable is organizational culture.

Auditor's Ethical Behavior

Ethical behavior is a behavior which is in sync with generally accepted social norms or rules related to right and good actions (Arifiyani and Sukirno, 2012). The basic principles that auditors must uphold in order to behave ethically according to Stamp and Moonitz (1988) in International Auditing Standards are freedom, integrity, and objectivity. Arens and Loebbecke (1986) explain that the auditor's principles in more detail include: (1) Independence, honesty, and objectivity; (2) Competencies and technical standards; (3) Accountability to clients; (4) Accountability to peers or professionals; and (5) accountability and other practices (Widyastuti and Ludigdo, 2010).

Ethical Orientation of Idealism

The theory of cognitive moral development explains how a person thinks about ethical dilemmas and the process of deciding what is right and wrong. This premise can be called an ethical orientation. The influence of ethical orientation on auditor behavior can be seen when an auditor determines his attitude. Auditors who have an attitude of idealism will tend to act in accordance with

predetermined guidelines or rules so that usually the auditor will behave ethically. Widiastuti and Nugroho research (2015) shows that idealism has a positive role on ethical auditors, this means that the higher the idealism, the auditor will behave more ethically.

H₁: Idealism ethical orientation has a positive effect on the ethical behavior of auditors.

Ethical Orientation of Relativism

Forsyth (1980) states that relativism is the thought of an individual who rejects universal moral principles and rules and believes that moral attitudes depend on the person and the conditions involved. Based on the theory of cognitive moral development, auditors with an attitude of relativism tend to reject moral rules and feel that moral actions depend on the individual and the situation, then if this attitude is applied inappropriately it might cause the auditor to behave unethically. Widiastuti and Nugroho research (2015) which shows that relativism has a negative effect on auditor ethics.

H₂: Relativism ethical orientation has a negative effect on the ethical behavior of auditors.

Ethical Culture of the Organization

The interactionist model developed by Trevino (1986) based on cognitive moral development theory, it is known that organizational culture can also play a role in the moral development of individuals. Organizational culture can influence thoughts, feelings, and also individual behavior. Barrainkua and Pike's research (2018) revealed that there is a significant influence of the organizational ethical culture on the professional attitudes and ethics of auditors. Auditors who consider their organization to have a strong ethical culture will tend to reject unethical practices.

H₃: Organizational ethical culture has a positive effect on the ethical behavior of auditors.

Experience

Kohlberg (1971) in the theory of cognitive moral development, suggests that a person's moral value will increase along with the amount of experience encountered. An experienced auditor certainly has good moral values, by understanding and obeying the rules and ethical standards set by his profession. So that auditors with a lot of work experience tend to behave ethically than auditors who are less experienced. Dewi and Wirakusuma research (2018) proves that experience has an influence on auditor behavior in audit conflict situations.

H_{4a}: Experience reinforces the influence of idealism ethical orientation on the ethical behavior of auditors.

H_{4b}: Experience reinforces the influence of relativism ethical orientation on the ethical behavior of auditors.

H_{4c}: Experience reinforces the influence of organizational ethical culture on the ethical behavior of auditors.

Figure 1: Research Model

Research and Methodology

The variables in this study were divided into three types, namely auditor's ethical behavior as the dependent variable (Y), ethical orientation and organizational ethical culture as independent variable (X), and experience as a moderating variable (Z).

This research uses a quantitative approach and can be categorized as explanatory research based on a positive paradigm. The data used are primary data obtained by distributing the questionnaires. The population in this study are all auditors working at Audit Board of the Republic of Indonesia Representative of East Kalimantan. This population selection due to the many findings of corruption cases in East Kalimantan, which not only involved regional officials but also government auditors from the Province of East Kalimantan. Therefore, East Kalimantan province has also been determined to be the future capital of the Republic of Indonesia so that in the future it will become role model by other regions.

This study uses a non-probability sampling method through saturated sampling method or better known as the census method, because all members of the population are used as samples. Population members in this study can be seen in table 1.

Table 1: Auditor at Audit Board of the Republic Indonesia the Provincial Representative of East Kalimantan

Position	Population
Technical Leader	1
Senior Team Leader	2
Junior Team Leader	8
Senior Team Member	10
Junior Team Member	9
Not available role	11
Total	41 people

Source: Audit Board RI (2020)

Data Analysis Technique

Data analysis in this study used the Partial Least Square-Structural Equation Model (PLS-SEM). The SEM modeling process consists of two basic stages, validation model measurement and structural model testing. This test uses SmartPLS. Evaluation of the hypothesized model in this study was done by evaluating the outer model and the inner model. The outer model will test the construct validity and reliability of the research instruments, which consist of:

- Convergent validity test, aims to see the correlation between indicators in measuring the construct that can be known through loading values > 0.7 ; significant p value < 0.05 ; the value of Average Variance Extracted (AVE) > 0.5 ; and communality values > 0.5 (Hair et al., 2017).
- Discriminant validity test, aims to determine the extent to which a construct is different from other constructs, where the model must have a cross loading value > 0.7 (Hair, et al., 2017).
- Reliability test, aims to test the consistency of respondents' answers which can be seen from the value of Cronbach's Alpha. An instrument is said to be reliable if it has a Cronbach's Alpha value > 0.70 (Hair et al., 2017).

The inner model evaluation is done by using the R^2 value as the construct of the dependent variable, while the significance test between constructs uses the t-values or path coefficient values. The hypothesis used in this study is the one-tailed hypothesis with t-values > 1.64 for the significance level of 5%.

Result and Discussion

This research uses non-probability sampling method through saturated sampling method, and the following can be seen the number of questionnaires distributed and the number of questionnaires returned.

Table 2: Questionnaire Return Rate

	Total	Percentage
Distributed questionnaire	41	100%
Questionnaire not returned	6	15%
Questionnaire cannot be used	2	5%
Questionnaire can be processed	33	80%

Source: Research data (2020)

Table 3: Result of Validity and Reliability Test

Construct	AVE	Composite Reliability	R Square	Cronbach's Alpha
Y	0.77	0.95	0.40	0.94
X ₁	0.53	0.91		0.89
X ₂	0.51	0.80		0.77
X ₃	0.60	0.94		0.94
Z	0.62	0.74		0.81

Source: Research data (2020)

Convergent Validity Test

Based on table 3, it is known that all constructs in this study have a value of AVE > 0.50, which means that from different instruments can measure the same construct and have a high correlation.

Discriminant Validity Test

Discriminant validity test based on the cross-loading factor value shows that each construct indicator used has a higher value or collects on the construct that has been determined, so it can be concluded that the instrument used in this study is valid.

Reliability

Table 3 shows the Cronbach's alpha value > 0.60 and composite reliability value > 0.70, which means that all the data used in this study are reliable.

Inner Model

The inner model test results can be seen in table 3 which shows the value of R² 0.40, so it can be seen that the independent variable can describe the dependent variable by 40%, and the remaining 60% is explained by other variables outside of this study. The results of testing the hypothesis in this study can be seen in table 4 below.

Table 4: Results of Hypothesis Testing

Hypothesis	t-value
H ₁ Idealism ethical orientation has a positive effect on the ethical behavior of auditors.	2.08
H ₂ Relativism ethical orientation has a negative effect on the ethical behavior of auditors.	0.25
H ₃ Organizational ethical culture has a positive effect on the ethical behavior of auditors.	2.86
H _{4a} Experience reinforces the influence of idealism ethical orientation on the ethical behavior of auditors.	1.19
H _{4b} Experience reinforces the influence of relativism ethical orientation on the ethical behavior of auditors.	0.24
H _{4c} Experience reinforces the influence of organizational ethical culture on the ethical behavior of auditors.	1.95

Source: Research data (2020)

Table 4 shows that there are three accepted hypotheses and three rejected hypotheses. Based on table 4, it is known that H₁ is accepted with a positive coefficient 2.08 (> 1,64) which means that the higher the ethical orientation of idealism, behavior of the auditors will be more ethical. Based on cognitive moral development theory, auditors are considered to be at the conventional level, where someone with a high level of idealism, when experiencing ethical problems and must decide an action will be more directed to the guidelines or rules that have been set previously so that it will behave ethically.

Table 4 shows that H₂ is not accepted because t value 0.25 (< 1,64) which means that relativism has no negative effect on ethical behavior of auditor. The results of this study can be explained through the theory of Kohlberg (1971), namely that respondents are at the post-conventional level, where a person has a behavior that is in accordance with his own mind and consideration so that he does not fully accept the criteria of his group. Individuals who are relativism have a pragmatic way of thinking, because according to them ethical rules are not universal and each culture has different rules. So it can be seen that there are auditors in this study who are oriented towards ethical relativism and if it is applied at the wrong time it can cause the auditors to behave unethically.

Table 4 also shows that H₃ is accepted with a positive coefficient 2.86 (> 1,64), which means stronger the organizational ethical culture then the auditor will be behaving more ethically. The auditor that considers his organization has a strong ethical culture tends to reject unethical practices. This finding supports the theory of cognitive moral development by Trevino (1986) about organizational

culture that can play a role in the development of individual morals. Stages of cognitive moral development determine how individuals think when dealing with ethical issues and decide what action to take. However, true or false cognition does not adequately explain individual behavior in making decisions so there are external factors such as organizational culture that can also determine how an individual acts when faced with ethical dilemmas.

The results of testing effect of moderation variables in this study can be seen in table 4 which shows that H_{4a} and H_{4b} are not accepted with t value 1.19 and 0.24 (< 1.64), it means the amount of auditor's experience is unable to strengthen the bond of ethical orientation to the ethical behavior of the auditor. Experienced auditor does not guarantee the auditor will behave ethically, vice versa, inexperienced auditors also not necessarily going to behave unethically when dealing with ethical issues, because everything depends on the ethical orientation or way of thinking of each individual before acting. This finding does not support Kohlberg's (1971) theory, which states that individual moral values will increase as many experiences have been passed. However, the results of this study can be seen that experienced or inexperienced auditors do not influence their way of thinking before acting when dealing with ethical issues.

Table 4 shows that H_{4c} was accepted with t value 1.95 (> 1.64), it's mean which means more work experience and supported by a good organizational ethical culture it will produce behaving ethically auditors. The finding which show experience a moderating variable between organizational ethical culture and ethical behavior of auditor's support Kohlberg's (1971) theory and the model developed by Trevino (1986) that individual behavior can be influenced by individual and situational factors. Experienced auditors tend to have good moral values, while organizations that adopt a strong ethical culture will produce employees who tend to behave ethically as well.

Conclusions

Based on the results of the research conducted, it can be concluded that auditors who have an idealistic attitude will behave ethically, while auditors who are relativism will act according to the existing situation, and if applied at an inappropriate time it can cause auditors to behave unethically. The strict ethical culture of the organization that is applied can also make auditors behave ethically. The experience in this research is proven not to affect the mindset of an auditor in acting when facing ethical dilemmas. However, a strict organizational ethical culture supported by a lot of experience will definitely produce auditors who behave ethically.

The implication of the theory in this study is to strengthen the theory of cognitive moral development in determining factors that influence individual behavior, especially the ethical behavior of auditors. The practical implication in this research is to be able to give an illustration to the Audit Board of the Republic Indonesia apparatus that behaving based on professional code of ethics is important in carrying out examinations in Government institutions. Organizational ethical culture that is implemented properly in Government institutions can also improve the ethics of the apparatus. Increasing the ethical behavior of auditors can also increase the quality of the resulting audit.

The limitation in this study is that the respondents who filled out the questionnaire incorrectly are still found, as evidenced by the negative statements that the researcher deliberately made to see whether the respondents were focused or not in filling out the questionnaire. Suggestions that can be given to further researchers are that researchers can assist respondents when filling out questionnaires and add qualitative approaches such as interviews to strengthen research results.

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