

**PROFESSIONAL COMMITMENT, AUDITOR INDEPENDENCE, AND
ORGANIZATIONAL ETHICAL CULTURE: EMPIRICAL EVIDENCE FROM
INDONESIA**

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ABSTRACT:

The study evaluates the influence of professional commitment towards auditor independence as well as evaluates moderation effect towards organizational ethical culture. Auditor independence is an interesting topic for research since it gives some description about attitude of auditor when he or she is interacting with his/her clients. The study uses person-situation interactionist model. The sample of the study is 107 active Indonesian public accountants in 2015. Simple random sampling is used as the sampling method and survey becomes the data collection method. The findings show that professional commitment has positive influence towards auditor independence. Organizational ethical culture strengthens the influence of professional commitment towards auditor independence.

Keywords: *person-situation interactionist model, professional commitment, organizational ethical culture, auditor independence.*

1. INTRODUCTION

Background of the Study

In business world, companies depend heavily upon auditor to give information in the form of report and opinion towards process of audit. The information is in the form of financial report. It can be used in decision-making process for various interested parties. Patel and Psaros (2000) state that auditor's report and opinion are being questioned when there is indication that his or her independence is disturbed. It is going to influence his or her reliability.

Auditor independence is attitude where an auditor does not take side in any situation or condition, be it in factual independence or face independence. Skousen, Santagato, and Vanasco (1997) explain auditor's opinion is valuable when the auditor is independent from his/her clients based on factual or face independence. Factual independence refers to auditor's objectivity while face independence is expert's perception that an auditor does not have any relationship that may cause conflict of interest with his/her clients (Beattie, Brandt and Fearnley, 1999).

In doing his/her job, an auditor should be independent so that he or she can give objective information without any friction or pressure from other people. The pressure may be caused by conflict of interest that results in a decrease in auditor independence while he or she is interacting with his/her clients, for example Enron and WorldCom's manipulation scandal in taking place in the USA (Chan and Leung, 2006). Enron's case involved Arthur Andersen, a public accountant, who became external auditor and consultant for the company. He received too much money that it exceeded audit fee he was supposed to get. Chen, Elder, and Liu (2005) mention that both scandals have reduced public trust towards auditor independence as well as process of auditing sharply.

The accounting scandal took place due to conflict of interest between auditor and client that created some pressure for the auditor (Gendron, Suddaby, and Lam, 2006), and caused serious concern towards auditor's ability to refute client's offer (Lin and Fraser, 2008), as well as raised important questions about auditor independence (Law, 2008). Auditor's attitude becomes the major highlight from the society and financial report users because there is perception that auditor failed to carry out his/her role to serve the public. Public and financial report users are hesitant and doubtful whether auditor can keep his/her independence.

One of the reasons that cause auditor's failure in keeping his/her independence is some pressure from management of a company. As the effect, there is internal conflict within the auditor and he/she is forced to give opinions based on client's request; otherwise, he or she may lose the clients (Dillard and Yuthas, 2002; Larkin, 2000). The internal conflict hinders an auditor to work independently (Kaplan, 2004). Windsor and Ashkanasy (1995) state that ethical dilemmatic situation happens when an auditor is forced to make any decision that is conflicting to his/her independence and integrity, or receives economic consequence.

The study used Trevino's logical model, namely, person-situation interactionist model (1986). The model is commonly used in ethical decision-making context that becomes person-situation interactionist model, instead of independent variable. The interaction model developed in the study uses one individual variable as personal value variable that refers to professional commitment variable that has direct influence towards auditor independence as well as organizational ethical culture as moderator variable.

Looking at the mentioned situation, the purposes of the study are to (1) evaluate the influence of professional commitment towards auditor independence and (2) evaluate organizational ethical culture as variable that strengthens influence of professional commitment towards auditor independence.

2. LITERATURE REVIEW

Auditor Independence

Auditor independence has become one of the foundations for regulator, practitioners and researchers. Auditor independence occurs since auditor has important role in giving evidence about the credibility of a company's financial report. Auditor's role is to give opinion to an organization that financial report is true and is of valid reflection of its performance.

Auditor independence is related to factual and face independence (Abu Bakar, Abdul Rahman, and Abdul Rashid, 2005; Alleyne, Devonish, and Alleyne, 2006; Beattie et.al, 1999; Craswell, Stokes, and Laughton, 2002). Factual independence means objective mental state of an auditor while face independence

is perception of a professional or expert that auditor and client do not have any correlation that may lead to conflict of interest (Beattie et.al., 1999). Skousen et.al. (1997) state that auditor's opinion is valuable only when the auditor is independent from his or her client in terms of factual and face independence. Furthermore, Pany and Reckers (1988) describe that not only does auditor's credibility rely upon factual independence, but also face or perceptual independence in order to maintain and keep public's trust in his/her profession as auditor.

Professional Commitment

Aranya and Ferris (1984) state that professional commitment refers to individual's devotion and responsibility to carry out his or her duty based on regulation and norm attached to the duty. There are three indicators showing individual commitment, namely (1) acceptance towards professional goal and value, (2) strong willingness to make an effort for professional interest, and (3) willingness to maintain and keep his or her professional involvement. Furthermore, Aranya, Pollock, and Amernic (1981) define professional commitment as belief that accepts goal and organizational or professional value as well as passion to maintain one's organizational or professional involvement in a profession. Larkin (1990) explains professional commitment basically as perception of which basis is individual loyalty, determination and expectation that are dictated by system, value or norm that direct the individual to take action or work based on certain procedures in his or her attempt to perform his or her duty with high possibility of success.

Related to auditing as a profession, professional commitment refers to acceptance towards professional goals and value. Thus, strong professional commitment is reflected in higher sensitivity towards issues involving professional code of conduct (Lachman and Aranya, 1986). It happens because one aspect of professional commitment is accepting professional goals and norms (Aranya, Lachman, and Amernic, 1982; Lachman and Aranya, 1986). Lui, Ngo, and Wing-Ngar (2001) states that higher professional commitment makes an accountant having higher sensibility towards professional and ethical issues. Furthermore, Gendron et al. (2006) state that professional commitment refers to how much individual auditor considers standard and ethics as key to his or her profession and believes that the standard and ethics should work effectively and be emphasized in public accountant domain. In conclusion, professional commitment is pivotal for auditing as a profession.

Findings of Jeffrey and Weatherholt's study (1996) reveals that accountant who has strong professional commitment is going to be much more obedient towards rules and regulations compared to one with low professional commitment. As an addition, a study conducted by Ahmad, Anantharaman, and Ismail (2012) show that professional commitment determines not only professional loyalty towards profession but also obedience towards professional code of conduct. Almer, Higgs, and Hooks's study (2005) explains that auditor's professional commitment enables individual auditor to have strong commitment to serve the public and work with altruism level.

Organizational Ethical Culture

Organizational ethical culture, or organizational ethical climate or frequently called as corporate ethical value, becomes highlight in understanding individual ethics in an organization. Findings of Hunt and Vitell's study (1986) shows that one's professional ability to understand and be sensitive towards ethical issues in his or her profession are influenced by environment, culture and community where the profession is at, as well as professional and organizational environment and personal experience.

Trevino's Person-situation interactionist Model (1986)

Trevino's person-situation interactionist model is the development of Rest's model (1986) that describes basic perception. It becomes foundation to analyze ethical decision making, formulated by using Rest's four model components. Moralse-Sanches (2013) argues that ethical decision-making is a gradual process one should experience starting from the time one problem occurs until the time when he or she is involved in particular action. The Rest's Model (1986) shows that in order to solve issues related to moral, an individual should experience four different stages, namely, moral sensitivity, moral consideration, moral motivation and moral characteristic (Morales-Sánchez and Cabello-Medina, 2013)

Ethical decision making process proposed by Trevino (1986) starts with individual perception about ethical dilemma. An individual reacts based on his or her cognitive understanding in order to comprehend and make good or bad judgment. Cognitive moral development or moral reasoning, moral judgment, and moral thinking) is a factor that initiates moral behavior in ethical decision making. The model explains the findings that moral behavior can actually be traced back through one's comprehension. The model also

explains that incorrect moral judgment is related to analyzing apparent moral behavior as well as analyzing moral awareness that becomes the foundation of the moral behavior.

Trevino's model (1986) also states that individual variable that has interaction with situational variable affects one's cognition and action in dealing with ethical issues. Furthermore, Trevino (1986) argues that ethical or unethical behavior always has a correlation with organizational culture when it becomes pivotal part of an organization. Giving penalty for unethical behavior and organizational ethical code also influences individual belief about right or wrong (Trevino, 1986).

3. HYPOTHESES

Professional Commitment and Auditor Independence

Trevino's interaction model (1986) put professional commitment that becomes components of personal value as one of personal or individual factors related to one's inner strength that enables the individual to deal with pressures. Findings of Ponemon's study (1992) reveals that a professional commitment is the result of acculturation and assimilation while an individual decides to have and keep his or her profession as well as conclusion that ethical behavior of an auditor is related to his or her professional commitment. In other words, professional commitment is the foundation of one's behavior, attitude and professional orientation in fulfilling his or her responsibility. Larkin (1990) explains that professional commitment is individual perception of which bases are one's loyalty, determination and expectation that are dictated by system, value or norms that direct him or her to take actions or work based on particular procedures in his or her attempt to carry out his or her successful duty. Furthermore, Windsor and Ashkanasy (1995) found out that assimilation and organizational value that become the definition of professional commitment affect auditor's integrity and independence.

Jeffrey and Weatherholt (1996) evaluate relationship between professional commitment as well as ethical understanding and obedience. The findings show that strongly committed auditor is more obedient compared to auditor who does not have strong commitment to his or her profession. Moreover, professional code of conduct also facilitates problem-solving and minimize some threats towards auditor independence (Mednick, 1990). Auditor should value professional code of conduct in carrying out his or her profession.

Lord and DeZoort's study (2001) reveals that highly committed auditors emphasize on public interest and are not going to let anything intervene their professionalism. On the other hand, auditors with low professional commitment tends to be dysfunctional or put their clients' interest before interest of the society. Sikka, Willmott, and Lowe (1989) and Porter (1992) assume auditor should protect the society and is expected to put public interest before his or her personal interest.

Based on the findings of previous studies and the arguments, it can be concluded that professional commitment has positive influence towards auditor independence. It is reflected by auditor's obedience towards regulations and professional code of conduct that is to put public interest before his or her clients' interests. In conclusion, auditor's behavior, attitude, and independence should be consistent. Therefore, the first hypothesis is:

H₁: Professional commitment has positive correlations with auditor independence.

Organizational Ethical Culture and Auditor Independence

The study is related to auditor's behavior and put organizational ethical culture as situational factor that influences ethical decision-making of the auditor especially in the context of auditor independence. Key (1999) states that unethical culture is similar to a cancer that spreads out and eventually affects one's personality. Trevino (1986) as well as Hunt and Vitell (1986) state that organizational ethical culture is organizational factors that influence personal ethical behavior. Findings of Lord and DeZoort (2001), Windsor and Ashkanasy (1995), Libby and Thorne (2007) state that ethical auditor tends to give his or her ethical judgment and he or she tends to put public interest before clients' interest. Auditor's independence, or his or her ability to release himself or herself from clients' influence, also depends on professional ethics (Deis Jr and Giroux, 1992).

Findings of Windsor and Ashkanasy (1996) states that the current need is to decide how factors that influence auditor's independence can match with overall description of organizational culture. The basis for the study is perception that decision-making of auditor independence is reflected in organizational integrity outside an individual and seeps into organization through acculturation (Farmer, Rittenberg, and Trompeter, 1987).

Based on Trevino’s logical model (1986) and the findings of some previous studies, it can be concluded that organizational ethical culture may influence individual attribute that eventually has an impact towards individual ethical behavior especially in the context of independence. The study evaluates organizational ethical culture as moderator variable that strengthens auditor independence in conflict of interest situation. Thus, the second hypothesis for the study is:

H₂: Organizational ethical culture strengthen influence of professional commitment towards auditor independence.

4. RESEARCH METHOD

Data and Source of Data

The primary data are type of data obtained through questionnaire on auditor’s perception towards professional commitment, organizational ethical culture and auditor’s independence using survey as the method.

Population and Sample

The population is members of Institute of Indonesian Public Accountant who own Public Accountant License working in public accountant firm.

Simple random sampling is used as sampling technique. It is sampling technique that gives equal opportunity for all members of population to become sample. Total number of samples are 107 public accountants.

Data Analysis Method

The data analysis method is Partial Least Square (PLS) since it is useful to describe the construction being formulated with reflective and formative indicators or frequently called soft-modelling. Soft-modeling refers to the ability of PLS to show higher amount of flexibility and assumptions in multivariate statistics such as normality issues, small number of samples and ample indicators (Vinzi, Chin, Henseler, and Wang, 2010). PLS is powerful method of analysis since it does not have a lot of assumptions, data should not be normally distributed, samples should not be abundant and the method can explain correlation between variables (Ghozali, 2011, pp.14). Another advantage of PLS is that it can be used for data with different type of scale, to manage multicollinearity issue between independent variables, and to give valid, reliable data despite the fact that the data are not normally distributed or some of them are missing (Jogiyanto and Abdillah, 2009, pp. 16).

5. HYPOTHESIS TESTING

(H₁): Influence of Professional Commitment towards Auditor Independence

The purpose of the first hypothesis testing is to provide empirical evidence towards auditor independence. Tabel 1 shows coefficient rate of 0.943 with t-value 92.695 or higher than 1.645. It means professional commitment has positive influence towards auditor independence. Thus, H₁ is accepted.

Table 1. Effect of Professional Commitment on Auditor Independence

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
PC -> AI	0.943	0.944	0.010	0.010	92.695

Description: PC: Professional Commitment, AI: Auditor Independence

(H₂) Moderator Variable Effect: Organizational Ethical Culture

The second hypothesis testing aims at providing empirical evidence for influence of organizational ethical culture towards auditor independence. The results of total effects testing (path coefficients, DEV, t-statistics) in Table 2 shows that t-value is 1.725 (>1.645).

The analysis shows that the moderator variable organizational ethical culture strengthens the influence of professional commitment towards auditor independence with coefficient score of 0.030. Thus, H₂ is accepted.

Table 2. Moderation Effect of Organizational Ethical Culture

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
PC -> AI	0.789	0.774	0.077	0.077	10.229
PC * OEC -> AI	0.030	0.036	0.017	0.017	1.725

Description: KP: Professional Commitment, OEC: Organizational Ethical Culture

6. DISCUSSION

Influence of Professional Commitment towards Auditor Independence

The findings of the study provide empirical evidence that auditor independence can be increased through professional commitment. It means the higher the professional commitment of a public accountant, the higher the auditor independence will be.

The study also describes how much pride an auditor has towards his or her profession. Such pride can increase professional commitment that describes individual respects towards his or her profession. Auditor has become member of the professional organization and, therefore, he or she has some sort of emotional attachment to maintain and stay at his or her profession. Strong professional commitment has direct influence towards one's intention to involve in organization and accept all types of job related to auditing job using the ethical code of conduct as the basis. Auditor with professional commitment will always use professional accountant code of conduct as reference whenever he or she interacts with clients, society, colleagues and other parties. He or she will act on the bases of objectivity, integrity and independence. Therefore, he or she will put public interest before personal or clients' interests.

The findings are in line with those of Jeffrey and Weatherholt (1996) that professional and strongly committed accountant is more obedient towards regulations and code of conduct compared to one having low professional commitment. Furthermore, the findings of Lord and DeZoort (2001) explain that when auditor has high professionalism, he or she will pay attention to public interest and not violate his or her professionalism. and auditor having low professional commitment will act dysfunctional by putting client's interest above any other aspects. The findings of the study are also in line with Almer et al.'s study (2005) that professional commitment of an auditor enables him or her to serve public interest thoroughly and work with altruism level. The findings of the study also support the findings of Ahmad et al.'s study (2012) that professional commitment determines not only professional act but also obedience towards professional code of conduct. They are also in line with Halim, Sutrisno, Rosidi, and Achsin's study (2014) that strong commitment an auditor has towards his or her profession means that the auditor always use the professional standard of public accountant and professional code of conduct in fulfilling his or her job.

Organizational Ethical Culture Strengthens Professional Commitment towards Auditor Independence

The findings of the study become empirical evidence that auditor independence increases along with the establishment of ethical culture in public accountant organization. It shows that higher organizational ethical culture strengthens the influence of professional commitment towards auditor independence.

The findings of the study also show that strong organizational ethical culture influences personal ethical behavior that emphasizes on respect and integrity as part of organizational code of conduct followed by member of organization. The members should be responsible, professional, and objective as well as have integrity. Thus, auditor should always be honest, assertive, independence and open-minded despite of pressure he or she gets from clients. These support findings of Trevino (1986) as well as Hunt and Vitell's study (1986) that organizational ethical culture is organizational factor affecting personal ethics and those of Morris (2009) describing that organizational ethical culture plays an important role to develop professional behavior of an auditor.

Conclusion and Limitation of The Study

It can be concluded that auditor independence increases through professional commitment. It shows how important professional commitment is for an auditor. Professional commitment of an auditor can be seen by how committed an auditor is to stay in his or her profession that can be seen by auditor's willingness to keep his or her accounting job.

The findings of the study give empirical evidence that auditor independence can be increased through professional commitment of the auditor which is supported by establishment of ethical culture in organization for public accountant. It means that organizational ethical reference should be the reference for each member in organization in order to create obedient individual that follows rules, regulations and procedure of an organization consistently. In other words, the establishment of strong organizational ethical culture in public accountant firm results in professional individual working with integrity who puts the professional code of conduct before anything else and can keep his or her independence despite of any pressure from his or her clients.

The limitation of the study is that it focuses on professional commitment of an individual as personal value and does not involve other personal factors such as locus of control, commitment to organization, moral characteristics, and moral motivation that may influence personal behavior more particularly auditor independence. Furthermore, it only involves one situational variable namely organizational ethical culture. The study has yet been able to describe other situational factors affecting auditor's independence such as local culture, complexity of task and many others. It has also yet been able to involve sex, age, level of education and type of public accounting firm as well as auditor's professional experience (how long one works as public accountant) since they may influence auditor's behavior particularly auditor independence.

Suggestions

The first suggestion for further studies is to identify other individual factors such as locus of control, commitment to organization, moral characteristics, moral motivation and others as well as situational factors that may potentially auditor independence such as culture, complexity of task and many others. Identifying the factors will facilitate description of personal behavior more particularly auditor independence.

Furthermore, it is suggested that further studies identify sex, age, level of education and type of public accounting firm as well as auditor's professional experience (how long one works as public accountant) since they may influence auditor's behavior particularly auditor independence.

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