

## The Influence of Conflict of Interest and Organizational Culture on External Auditor Audit Quality

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### ABSTRACT

External auditors play a crucial role in ensuring the reliability of financial statements by accumulating and evaluating evidence and providing an independent opinion. However, audit quality can be affected by conflicts of interest and organizational culture. This study examines the impact of conflicts of interest and organizational culture on audit quality, drawing on role theory and attribution theory. Data were collected through questionnaires distributed to external auditors in the Jakarta area, resulting in a total of 46 respondents. SmartPLS 4 was used for the analysis. The analysis results indicate that conflicts of interest and organizational culture affect audit quality. These findings underscore the importance of managing conflicts of interest and fostering a strong organizational culture to enhance audit quality. This study contributes to the accounting literature by providing empirical evidence on the significance of these factors in ensuring high-quality and independent audit practices.

**Keywords:** External Audit, Conflicts Of Interest, Organizational Culture, Audit Quality, Role Theory, Attribution Theory.

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## 1. INTRODUCTION

The success of an organization or agency can be observed and measured based on its annual financial statements, which show the company's financial position. Financial statements are the end result of the accounting process and provide very important information to assess the company (Pardiastuti & Herawati, 2020). The financial report will be used as an information tool aimed at interested parties in the business, including management, shareholders, creditors, and the government (Trisnowati, 2016). The purpose of submitting financial statements to interested parties is to provide an understanding of the company's financial condition and performance (Madani, 2023). However, due to the conflict of interest between the management and the owner of the company and the lack of trust of the stockholders, the company must ensure that the report is correct with the help of a third party. In this case, the third party in question is an independent external auditor (Ramadhany et al., 2021).

An external auditor has a crucial role in ensuring the integrity and reliability of a company's financial statements. With their competence and independence, auditors are responsible for the accuracy and compliance of financial statements in accordance with applicable regulations (Kristian, 2018). The auditor's primary duties include collecting and evaluating evidence to determine the extent to which the presented information meets the applicable criteria. When conducting an audit, an auditor must have valid information and established standards or criteria to evaluate the information during the audit process (Arens et al., 2017). Based on the evaluation results, the auditor can formulate an opinion on the financial statements and express it in a written report (Indonesian Institute of Public Accountants, 2011).

An audit report is the final outcome of the audit process, which includes a conclusion regarding the components of the audit objectives and suggestions for

correcting errors (Ramadhany et al., 2021). Auditors generally conduct audits of financial statements to assess the fairness of materials, financial position, changes in equity, and cash flows in accordance with Accounting Standards in Indonesia. The auditor then provides a judgement regarding the audited financial statements in the audit report (Kusuma, 2018). In an audit report, the auditor can give his opinion on the audited financial statements or not give an opinion. As a result, auditors must work professionally if they want their audit opinion to be reliable (Adnyasuari & Budiarta, 2018).

Even though a careful and thorough audit process has been carried out, there is still a potential that the audit report's results contain errors or misrepresentations that impact the audit's low quality. One of the causes of low audit quality is that auditees tend to repeatedly ignore auditors' advice within the company. Company management, in its strong belief in their understanding of the presentation of financial statements, often overrides the input or suggestions submitted by the auditor (Djusnimar & Dinata, 2022). Moreover, management often seeks or utilizes the services of auditors who already have a special relationship with them, even though this relationship is not publicly disclosed. These kinds of practices can lead to conflicts of interest and are indicated as fraudulent acts, as explained in the study (Dwi et al., 2018). In some situations, the auditee is unwilling to accept a report that is in accordance with the reality or real conditions, but also tries to damage the auditor's reputation by claiming that the auditee has paid the audit fee and made the decision to switch to another public accounting firm (Djusnimar & Dinata, 2022). As a result, auditors are often encouraged to comply with auditee requests rather than report the actual conditions in the audit report.

One of the cases of conflict of interest in Indonesia occurred in PT Garuda Indonesia. After suffering considerable losses in 2017, the company recorded an

unreasonable surge in profit in 2018. This condition sparked controversy when 2 of its commissioners considered that the 2018 report was not in accordance with PSAK. This is due to the recording of debt which is recognized as income. In addition, external auditors of PT Garuda Indonesia are also involved in this problem because of audit problems that are not in accordance with accounting standards (Hartomo, 2019). In 2018, leading consulting firm PwC also faced a conflict of interest. The breach involved a PwC staff member signing an exclusivity agreement with a client without official permission from the team. This admission follows a question from Greens senator Barbara Pocock, who asked PwC to detail disciplinary actions related to conflicts of interest and the misuse of government information over the last five years (Belot, 2023). This phenomenon raises deep concerns in the accounting industry and among the wider community, as it has the potential to damage the trust and integrity of auditors. In fact, auditors should carry out their duties with professionalism, independence and skepticism (Djusnimar & Dinata, 2022).

In addition to conflict of interest, another factor that has great potential to affect audit quality is organizational culture. In the context of auditing, organizational culture can influence various aspects of organization including the commitment of auditors which ultimately determines their performance (Nopita, 2015). A strong organizational culture is usually characterized by the consistent and in-depth recognition and application of the organization's core values. This can form a strong foundation for high-integrity professional practices, which in turn can help maintain and increase public confidence in audit results. However, on the other hand, a weak or unclear organizational culture can lead to less responsible practices and inappropriate decisions, which has the potential to reduce the overall audit quality (Dewi & Sumadi, 2020). Therefore, it is essential for audit organizations to take their culture

seriously and strive to create a work environment that fosters dignified and transparent professional practices.

Previous research has examined the impact of certain variables on audit quality in quantitative studies. However, there are still very few studies that discuss the link between organizational culture in companies (Dewi & Sumadi, 2020; Moradi & Jodaki, 2023; Elianto & Baridwan, 2024) and the existence of conflicts of interest in the quality of audits produced by external auditors (Oktadelina et al., 2021; Djusnimar & Dinata, 2022). These five groups of researchers have contributed to our understanding of the influence of each of these factors individually. However, the problem this study seeks to address is the lack of in-depth investigation into how the simultaneous interaction between corporate organizational culture and conflicts of interest collectively affects external audit quality. This study offers a novel contribution by specifically testing and demonstrating the combined impact of organizational culture and conflicts of interest on audit quality, an approach that has not been widely explored. By adopting a managerial perspective, this research highlights aspects often overlooked in previous research, particularly how the involvement of auditors and company management in conflicts of interest, potentially exacerbated or mitigated by the prevailing organizational culture, has significant implications for the quality of the audits produced. The novelty of this study lies in its comprehensive analysis of the synergistic effect of these two factors, which not only adds to the academic literature but also provides crucial practical insights. Furthermore, this study aims to provide valuable insights for shareholders to better understand the dynamics that occur behind the audit process and increase awareness of potential conflicts of interest. The findings of this study are also expected to provide encouragement for public accounting professional organizations to focus more on the implementation of the code of ethics which is the basis for auditor

behavior. Therefore, this research not only contributes to the academic literature, but also has significant practical implications in increasing transparency and integrity in audit practice.

## **2. LITERATURE REVIEW AND HYPOTHESIS**

In analyzing the influence of conflict of interest and organizational culture on audit quality, the researcher will employ two theories: role theory and attribution theory. The focus of role theory is how a person acts as a social actor, studying and adjusting their behavior based on the social position they occupy (Kahn et al., 1964). Auditors, as actors in the audit organization, need to make contact with various parties, both internal and external to the organization, to understand and meet the expectations given by the role submitter (Fisher, 2001). This means that internal factors are not the only factors that affect a person's behavior; their social environment and the expectations attached to the role they play also contribute (Hutami & Chariri, 2011).

On the other hand, attribution theory introduces the concept of how individuals find out the reasons behind the behavior of others (Malle, 2011). This theory distinguishes between dispositional attribution, which refers to an individual's internal factors such as personality and motivation, and situational attribution, which involves external factors such as the environment and situation. In the context of auditing, attribution theory helps explain how auditors assess and act in various situations, including in dealing with conflicts of interest and interacting with organizational culture (Rosy et al., 2019). Auditors can view audit quality as a result of their attribution to a particular audit situation and attribution to themselves as auditors.

Using these two theories, researchers will investigate how conflicts of interest and organizational culture affect auditor behavior and decision-making, as well as their impact on the quality of the

resulting audits. Role theory will help in understanding how expectations of the role played by auditors can affect their actions in audit situations, while attribution theory will help in exploring internal and external factors that can influence auditors' assessment of audit quality. Thus, the merger of these two theories will provide a more comprehensive understanding of the complex dynamics between psychological and environmental factors that affect audit quality.

### **Audit Quality**

In general, an audit is a critical and structured inspection by a competent and independent individual of financial statements. The goal is to collect and evaluate evidence to assess and report the extent of the information presented in accordance with the stipulated provisions (Musfiroh, 2021). Another study explains that auditing is a discipline used to assess internal control with the aim of providing protection and security, thereby detecting irregularities and abnormalities that may occur within the company (Siregar et al., 2022). The company urgently needs an audit process to obtain an audit opinion regarding the fairness of financial statements based on applicable auditing standards. The audit is carried out with the aim of increasing user confidence in the financial statements in question (Musfiroh, 2021).

On the other hand, audit quality is also reflected in the auditor's ability to provide certainty that there are no material presentation errors in the audited report, thereby preventing fraud (Purba & Umar, 2021). In order for audit quality to improve, auditors must increase productivity and comply with professional standards. Facts show that auditors who review high-quality information can produce high-quality audits, improve client satisfaction, and maintain reputation. Competent and independent auditors must be able to maintain the trust of clients and stakeholders. In addition, audit quality can be described as the flow of auditing

financial statements that comply with the set standards, which is reflected through the professionalism and excellence of the auditor (Noviyanti, 2023).

### **Conflict of Interest**

Conflict, which comes from the Latin word “configere”, can be defined as a dispute between two or more parties who have different interests or opinions (Wahyuni, 2018). With this interpretation, conflict can be defined as the difference between the reality and expectations of an individual towards himself, others, or the institution he expects (Muspawati, 2014). According to the ACFE, workplace fraud can be divided into three main categories: corruption, manipulation of financial statements or embezzlement of company assets. Conflict of interest is one type of fraud that occurs in fraud groups (Saputra et al., 2019). When a person makes decisions about honesty, fairness, and truth when making legal, financial, purchasing, or sales decisions, there is a conflict of interest (Priantara, 2016). Conflicts of interest usually violate the goals and interests of the organization and do not pay attention to the code of ethics. Conflicts of interest do not always lead to direct losses such as Asset Misappropriation or abuse of power. However, because the impact is not always apparent directly or indirectly on the organization, the conflict can cause financial losses to the organization, other parties, or both (Atmadja & Kurniawan Saputra, 2018).

### **Organizational Culture**

Organizational culture, which includes traditions, habits, and norms applied in an organization, has a significant impact on the dynamics of the organization itself (Sunyoto, 2015). This is explained as a set of beliefs and values internalized by members of the organization in carrying out their duties, which is the basis for them to understand, reflect, and respond to various problems that arise. As rules or values that are embraced together, organizational culture plays an important role in shaping the organization’s identity

and encouraging behavior in accordance with these values. Especially in audits, unethical auditor actions can damage public trust in the profession, showing how important organizational culture is to create high moral standards (Dewi & Sumadi, 2020).

In addition, organizational culture also plays an important role in the overall success of the organization. Research has shown that different management cultures have to do with organizational quality and understanding these relationships allows managers to develop effective and competitive organizations (Corbett & Rastrick, 2000). Organizational culture is also positively related to knowledge sharing in the company, which in turn can lead to positive results. Thus, organizational culture is considered a key factor that determines the success of a company (Al-Alawi et al., 2007). Organizational culture also has a function in shaping the identity of organizational members, encouraging individuals to consider broader interests than personal interests, providing a balanced social framework, and being a mechanism for forming meaning and control that directs employee behavior (Onwardhani, 2023).

### **Conflict of Interest affects Audit Quality**

Several factors can impact the quality of audits, both directly and indirectly. These influencing factors can come from the individual or from around the individual. Conflict of interest is one of the external factors that can affect the quality of audits, both positively and negatively. The auditor’s primary responsibility is to provide an unbiased and objective assessment of the audited company’s financial statements. In the context of audits, a conflict of interest arises when the auditor has a personal or financial relationship with a client that could jeopardize their impartiality and objectivity (Hall et al., 2021) it is unclear whether this conservatism is always desirable or whether it can be excessive. To evaluate the usefulness of greater auditor

conservatism, we examine whether auditor conservatism improves audit quality and imposes real operating consequences for clients. We examine auditor behavior in a sample of auditors' client banks, when one of the auditor's other client banks fails (as deemed by the FDIC. Factors such as the auditor's financial dependence on the client, family relationships, or a history of previous cooperation with the research client could be the cause (Dwi et al., 2018). When such conflicts occur, there is a hypothesis that the auditor may not have examined the client's financial statements thoroughly, leading to a decrease in audit quality. They may ignore discrepancies or fail to report financial misstatements, reducing the reliability and accuracy of the audit. Therefore, mitigating and avoiding these conflicts is essential to ensure high audit quality. This hypothesis wants to explore more deeply whether conflicts of interest have a significant effect on audit quality.

H<sub>1</sub>: Conflict of Interest has a Significant Effect on Audit Quality

### **Organizational Culture Affects Audit Quality**

Organizational culture greatly affects the quality of audits. A strong and ethical organizational culture can encourage auditors to do their jobs with high integrity and professionalism, which in turn can improve audit quality. Conversely, a weak or unethical organizational culture can lead to a decline in audit standards and potential ethical violations, which can damage audit quality. Organizational culture is the core of an organization's operations, affecting its overall performance and the quality of its products/services (Salih & Hla, 2017). Previous studies have shown that organizational culture has a positive impact on audit quality (Dewi & Sumadi, 2020; Moradi & Jodaki, 2023; Elianto & Baridwan, 2024). Thus, auditors with a strong organizational culture will have better audit quality (Dewi & Sumadi, 2020). However, until now, organizational culture research on audit quality is still

classified as minimal. This happens because research that discusses organizational culture is usually only associated with auditor performance, while good or bad auditor performance will indirectly affect audit quality. Therefore, the hypothesis of this study wants to explore more deeply whether organizational culture can affect audit quality.

H<sub>2</sub>: Organizational Culture has a Significant Impact on Audit Quality

### **3. METHODS**

This study uses a quantitative method, this is because this study wants to identify the influence between conflict of interest and organizational culture. Using quantitative methods enables researchers to reach a larger number of respondents and gather their opinions on the influence of conflict of interest and organizational culture on audit quality. External auditors who have minimal experience as internal auditors with a minimum age of 20 - 25 years old are the criteria for respondents in this study.

Due to limited access to data, researchers were unable to find a population that met these criteria. As a result, researchers apply convenience sampling. This approach was developed because it is effective for the scope of non-probability sample selection when no population information is available (Hair, Page and Brunsveld, 2019). For the purpose of this study, a convenience sampling technique was used and sampling was carried out on KAP around the Jakarta area. The research model proposed in this study reveals that the maximum number of arrows pointing to a single construct is two. The confidence level of this study is a confidence interval of 95% which is equivalent to a significance level of 5% with a minimum of 0.5, so that the minimum number of samples needed is 33 (Hair et al., 2014; Cohen, 1992) although not comprehensive, presentation of required sample sizes is provided here. Effect-size indexes and conventional values for these are given for operationally defined small, medium, and large effects. The sample sizes necessary for .80 power

to detect effects at these levels are tabled for eight standard statistical tests: (a. However, the number of samples collected for this survey is 46, which is the number of respondents received.

The data collection method is using questionnaires so that the data obtained is in the form of primary data. The distribution of questionnaires to external auditors was carried out between June and July 2024 through LinkedIn and Google Mail. Based on the literature review, the questionnaire is focused on conflict of interest and organizational culture as independent variables, while audit quality is a dependent variable. This questionnaire will use the Likert Scale with 5 points from strongly disagree (1) - strongly agree (5).

This questionnaire is adapted from previous research for each variable as shown in Table 1. Table 1 summarizes the variable measurement instruments. The data is analyzed to check its validity. These results were used for hypothesis testing using Structural Equation Modeling (SEM) and the Partial Least Square (PLS) tool.

#### 4. RESULTS AND DISCUSSION

##### Profile Responden

Table 2 shows that as many as 32.6% of respondents have worked in the company for 1-5 years, as many as 28.3% have worked for less than 1 year, as many as 23.9% of respondents have worked for more than 10 years, and only as many as 15.2% have worked for 6-10 years. In addition to

Table 1. **Variables Explanation**

Variable	Definition	Indicator	Measurements	Sources
Conflict of Interest (COI)	Conflicts of interest arise when a person's personal interests can influence their judgments, decisions, or actions at work.	a. Override rules b. Unclear instructions c. Unnecessary activities d. Adequacy of authority	5-point Likert	Hanna & Firnanti (2013)
Organizational Culture (BO)	Organizational culture is the habits, traditions, and general way of doing things in an organization	a. Integrity b. Objectivity c. Confidentiality	5-point Likert	Handayani (2019)
Audit Quality (KA)	Audit quality is the auditor's assurance that there are no misstatements in the financial statements, thereby preventing fraud.	a. Report all client errors b. Understanding of client information systems c. Strong commitment to completing audits d. Guided by auditing principles e. Don't believe in client statements f. Cautious attitude in decision-making	5-point Likert	Lilasari (2019)

Source: Processed Data

work experience, the survey also collects other demographic information including gender, age, education level, and job title. The respondents in this study were evenly distributed, with 50% being men and 50% being women, and the majority of respondents were aged between 20 and 25 years old (45.2%). The selection and focus on this age group is based on its relevance to the “*emerging adulthood*” stage (Arnett, 2019), a crucial period for the exploration of identity, particularly in career paths and worldviews, and marks important transitions such as completing education and entering the professional world of work (Settersten & Ray, 2010). This aligns with the findings that many respondents are in early-career positions, such as Intern Auditors and Junior Auditors. The majority of respondents also obtained a bachelor’s degree (76.1%). The position or position

of the respondents was also obtained in this survey, where as many as 26.1% of respondents chose Auditor Internship, as many as 23.9% of respondents chose Junior Auditor, as many as 17.4% chose Senior Auditor, as many as 13% chose as a partner, as many as 10.9% chose Junior Manager, and as many as 8.7% chose Senior Manager.

### **Evaluation of Measurement Model (Outer Model)**

This study applies SmartPLS 4 for data analysis because it is a non-parametric statistical tool used to analyze relatively small sample sizes and complex models without the assumption of distributed data (Hair, Page and Brunsveld, 2019). From the number of indicators used to assess the variables in this study, the PLS model is estimated as shown in Figure 2.

**Table 2. Demographic Information**

No	Variables	Category	N	Percentage
1	Age	20 - 25 year	23	50%
		26 - 30 year	6	13%
		31 - 35 year	6	13%
		> 35 year	11	23,9%
2	Gender	Man	23	50%
		Woman	23	50%
3	Educational Background	S1	35	76,1%
		S2	10	21,7%
		S3	1	2,2%
4	Working Experience	< 1 year	13	28,3%
		1 - 5 year	15	32,6%
		6 - 10 year	7	15,2%
		> 10 year	11	23,9%
5	Position	Auditor Internship	12	26,1%
		Junior Auditor	11	23,9%
		Senior Auditor	8	17,4%
		Junior Manager	5	10,9%
		Senior Manager	4	8,7%
		Partner	6	13%

Source: Data Processed, 2024



## Validity and Reliability Test of the Measurement Model

### Convergence Validity Test

The study ran several tests to test inferential statistics. The convergent validity evident in the results of Table 3 indicates that the majority of variables have an outer loading value greater than 0.6, except for the variables COI1, COI2, KA1, and KA3. COI1 presents a value of 0.255, COI2 presents a value of 0.047, KA1 presents a value of 0.422, and KA3 presents a value of 0.507, where the value of the four variables is below 0.6. As a result, the four variables were excluded from the next test.

In addition to the convergence validity test, this study conducted a construct validity test using average variance extract (AVE). The results can be seen in Table 4 where all variables have points greater than 0.50. This means that all variables are valid because they have more than 0.50 points.

Examining the combined results between AVE and factor loading indicates that this study is valid, and the research can proceed to the next step.

### Discriminant Validity Test

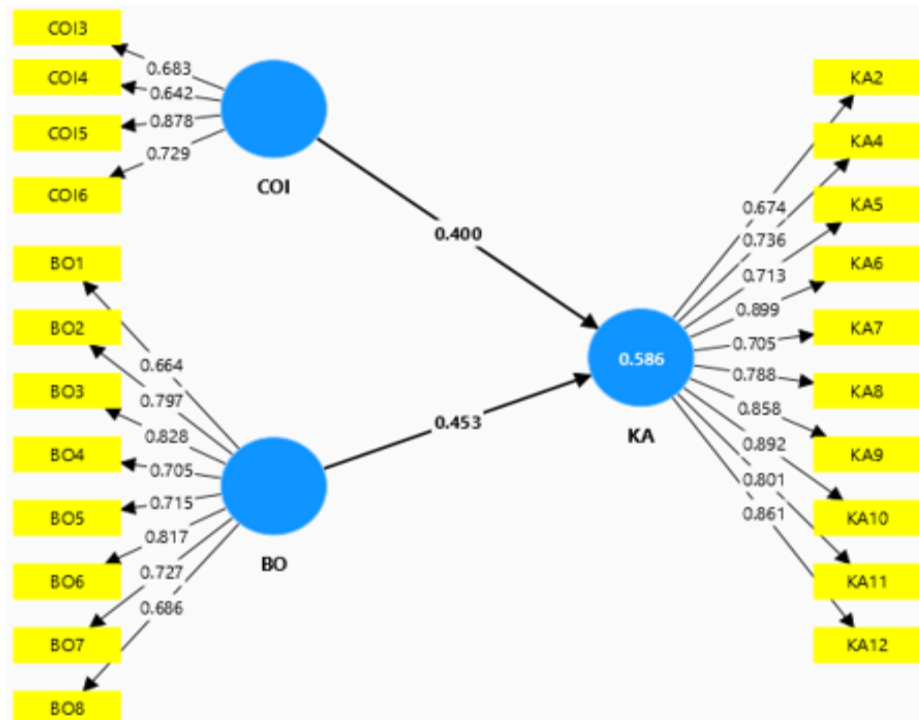
A variable has discriminant validity if its cross-loading number is greater than that of other variables. From Table 5, it can be seen that each variable produces greater cross-loading compared to other variables, indicating good discriminatory validity.

### Reliability Test

Based on table 6, Cronbach's alpha results for conflict of interest (0.725), organizational culture (0.886), and audit quality (0.935) are obtained. This result means that all Cronbach's alpha values for each construct are reliable and accepted because they are above 0.7 according to theory (Ghozali & Kusumadewi, 2023).

Based on table 7, the results of composite reliability were obtained for the variables conflict of interest (0.825), organizational culture (0.908), and audit quality (0.945). This means that all constructs have a good composite reliability value, because the value has  $> 0.7$  according to theory (Ghozali and Kusumadewi, 2023). Thus, Cronbach's alpha value and reliability composite value can be declared reliable and good.

Figure 2. Path Model PLS



Source: Processed Data

Table 3. Results of Loading Factor Value

Variables	Indicator	Loading Factor
Conflict of Interest	COI3	0.683
	COI4	0.642
	COI5	0.878
	COI6	0.729
Organizational Culture	BO1	0.664
	BO2	0.797
	BO3	0.828
	BO4	0.705
	BO5	0.715
	BO6	0.817
	BO7	0.727
	BO8	0.686
Audit Quality	KA2	0.674
	KA4	0.736
	KA5	0.713
	KA6	0.899
	KA7	0.705
	KA8	0.788
	KA9	0.858
	KA10	0.892
	KA11	0.801
	KA12	0.861

Source: Processed Data

Table 4. Average Variance Extracted (AVE)

Variables	Average Variance Extracted
Conflict of Interest	0.555
Organizational Culture	0.545
Audit Quality	0.634

Source: Processed Data

**Inner Model Evaluation**

This evaluation was carried out to determine the correlation of constructs between variables before hypothesis testing was carried out. The evaluation of the inner model in this study uses the  $R^2$  test,  $Q^2$  test, Goodness of Fit (Gof), and Hypothesis test

The  $R^2$  test is applied to review the model,  $R^2$  significance values and between constructs. It begins by reviewing  $R^2$  for each endogenous latent variable. Based on the data of table 8 ( $R^2$  value) on the audit quality of 0.586 means conflict of interest and organizational culture explains audit quality by 0.586 or 58.6% and the remaining 41.4% is explained through other constructs.

Table 5. Discriminant Validity Results

Items	Conflict of Interest	Organizational Culture	Audit Quality
COI3	0.683	0.415	0.376
COI4	0.642	0.430	0.369
COI5	0.878	0.615	0.697
COI6	0.729	0.289	0.458
BO1	0.412	0.664	0.397
BO2	0.504	0.797	0.665
BO3	0.458	0.828	0.556
BO4	0.515	0.705	0.466
BO5	0.572	0.715	0.616
BO6	0.433	0.817	0.574
BO7	0.383	0.727	0.336
BO8	0.250	0.686	0.353
KA2	0.594	0.526	0.674
KA4	0.396	0.459	0.736
KA5	0.474	0.409	0.713
KA6	0.534	0.586	0.899
KA7	0.564	0.498	0.705
KA8	0.653	0.652	0.788
KA9	0.507	0.580	0.858
KA10	0.526	0.599	0.892
KA11	0.464	0.545	0.801
KA12	0.594	0.614	0.861

Source: Processed Data

Table 6. Cronbach's Alpha Results

Variables	Cronbach's Alpha
Conflict of Interest	0.725
Organizational Culture	0.886
Audit Quality	0.935

Source: Processed Data

Table 7. Composite Reliability Result

Variables	Composite Reliability
Conflict of Interest	0.825
Organizational Culture	0.908
Audit Quality	0.945

Source: Processed Data

Furthermore, the model is analyzed by reviewing the  $Q^2$  value, if the  $Q^2$  value is greater than 0, it means that it is *predictive relevance*, while the  $Q^2$  value is less than 0, it means that it has not yet (Ghozali &

Kusumadewi, 2023). Based on the data of table 9 of the *Blindfolding* test,  $Q^2$  for audit quality is 0.510. Based on the calculations,  $Q^2$  is declared good (predictive) because the value is above 0.

Table 8. **R<sup>2</sup> Value Result**

Variable	R <sup>2</sup>	R <sup>2</sup> Adjusted
Audit Quality	0.586	0.568

Source: Processed Data

Table 9. **Q<sup>2</sup> Value Result**

Variable	Q <sup>2</sup>	RMSE	MAE
Audit Quality	0.510	0.723	0.514

Source: Processed Data

Table 10. **Coefficient Test Results**

Path Coefficient	Standard $\beta$	Standard Deviation	T-values	P-values	Results
COI ---> KA	0.400	0.147	3.068	0.002	Significant
BO ---> KA	0.453	0.130	3.085	0.002	Significant

Source: Processed Data

The last stage validates the model thoroughly, using *Goodnes of Fit*. According to Yamin & Kurniawan (2011), the GoF value is obtained through the calculation of the following formula:. The results of the calculation show a GoF value of 0.537 which means that this study has a large GoF value. In the end, it can be concluded that the model in the study is valid and has good performance, this is in accordance with the theory (Yamin and Kurniawan, 2011).

### Hypothesis test results

The hypothesis test was carried out through a bootstrap model which aims to minimize the problem of abnormalities found from the research data as seen in Table 10. The bootstrap results show that *conflict of interest* affects audit quality (COI  $\rightarrow$  KA;  $\beta = 0.400$ ;  $p = 0.002$ ), which means that hypothesis 1 is accepted. In addition, organizational culture also affects audit quality (BO  $\rightarrow$  KA;  $\beta = 0.453$ ;  $p = 0.002$ ). This shows that hypothesis 2 is accepted.

### DISCUSSION

The results of the hypothesis test ( $H_1$ ) indicate that conflicts of interest can affect the quality of the audit. This is influenced by the high proportion of respondents who are in the position of Internal auditor and junior auditor (50%), as well as the work experience of respondents < 1 year at 28.3% and 1-5 years at 32.6%, who may

be more sensitive to conflicts of interest in their work. Interns and junior auditors often have less experience in handling complex situations that can create conflicts of interest, making them less prepared to face ethical dilemmas and make informed decisions. In addition, interns and junior auditors often feel pressured to please their superiors or clients to get a good performance appraisal or keep their job. This pressure can lead to ethical dilemmas in auditors that make them finally decide to ignore the principles of independence and objectivity, which are at the core of the auditing profession. Research from other sources also supports this finding. For example Oktadelina et al. (2021) competence, objectivity, accountability, and independence are several factors that can affect audit quality. This study aims to determine the effect of professionalism, competence, objectivity, and accountability on audit quality. The location of this research was conducted in a public accounting firm in Bali Province with a total sample of 90 respondents, using a saturated sampling technique. Collecting data in this study using a survey method with a questionnaire technique. The data analysis technique used is Moderated Regression Analysis (MRA emphasize that an auditor's objectivity, which requires the auditor to be impartial, intellectually honest, and free from conflicts of interest,

significantly affects audit quality. This directly underscores how the absence of conflicts of interest is a prerequisite for objectivity that impacts audit quality. According to Djusnimar & Dinata (2022) Conflicts of interest occur due to ethical dilemmas arising from pressure to maintain good relationships with clients, even though this violates the principles of independence and professionalism. The results of this test also support role theory, which states that individuals in certain roles in a company including public accounting firms tend to have responses and behaviors that are influenced by their work experiences and demands.

In addition, the results of the hypothesis hypothesis test ( $H_2$ ) show that organizational culture is also proven to have an effect on audit quality. This can be seen from the respondents having higher education, as many as 76.1% have a S1 degree, as many as 21.7% have a S2 degree, and 2.2% have a S3 degree. Higher education tends to increase awareness of the importance of a strong organizational culture in maintaining professional and ethical standards, which in turn contributes to improved audit quality. In the context of demographics, the varying ages of respondents, with most being between the ages of 20-25 (50%), suggest that the predominantly young workforce is potentially more adaptive and responsive to changes and improvements in organizational culture. In line with these findings, Febriani's (2011) research states that young and educated workers tend to be dynamic, progressive, and more responsive and easily receptive to change. The combination of good education and the ideal age is perfect for applying organizational cultural values that ultimately improve the quality of audits. Research from other sources also supports this finding, where according to Prabayanthi & Widhiyani (2018) a good organizational culture can influence or strengthen employees' commitment to the quality of their work, including audits. The results of this test are also in line

with attribution theory, which explains how people associate their behavior with internal or external factors, and in this context, higher education and young age are considered internal factors that make respondents more aware of the importance of a strong organizational culture.

## 5. CONCLUSION

The purpose of this study is to find out the impact of conflict of interest and organizational culture on audit quality. Our study showed two significant findings. First, conflict of interest affects audit quality. This may be the case if auditors, especially those who are young and in the early stages of their careers, such as interns and junior auditors, face pressure to please their superiors or clients. Their limited experience and immature understanding of the profession's code of ethics make them more vulnerable to situations that can interfere with their independence and objectivity. The results of this test also support role theory, which states that auditors in a public accounting firm tend to have responses and behaviors that are influenced by their work experience and demands.

Second, our research shows the impact of organizational culture on audit quality. A strong and ethical organizational culture can reinforce auditors' commitment to professional and ethical standards, which in turn improves audit quality. Higher education also indirectly contributes to a better understanding of the importance of a good organizational culture. The results of this test are also in line with attribution theory, which explains how auditors attribute their behavior to internal or external factors, and in this context, higher education and young age are considered internal factors that make respondents more aware of the importance of a strong organizational culture.

These findings add to empirical evidence that conflicts of interest and organizational culture play an important role in determining audit quality. In practice, conflict of interest and organiza-

tional culture are built from work experience, education, and ethical values internalized by auditors. As such, the solution for KAP needs to include in-depth training on the code of ethics, strong mentoring, and the creation of a work environment that supports professional and ethical values. This study contributes to the accounting literature by expanding on previous research on the influence of external factors such as conflicts of interest and internal factors, namely organizational culture, on audit quality. It provides further insight into the importance of managing these factors to ensure high-quality and independent audit practices.

This research is not without limitations. First, a relatively low questionnaire response rate led to a small research sample. This low response rate can be partly attributed to the limited data collection period, as questionnaire distribution was restricted to one month. This limitation presents opportunities for future research to utilize larger and more diverse samples from various regions, allowing for a longer data collection timeframe and potentially yielding more varied findings. Second, future research can add other variables such as coercive power as a moderator to investigate whether coercive power can strengthen or weaken the conflict of interest variable.

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