

## The Influence of Auditor Ethics and Auditor Experience on Company Financial Reports

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### ABSTRACT

This research investigates the influence of auditor ethics and auditor experience on the quality of financial reports in the garment sector of West Java, Indonesia. This study employs a quantitative approach to measure auditor ethics and experience, utilizing statistical tools for analysis. The research targets financial auditors in Indonesia, with a sample size of 150 auditors selected purposively based on specific criteria. The study emphasizes the importance of auditors in ensuring the accuracy and reliability of financial information. The garment industry in West Java holds significance in Indonesia's manufacturing sector, particularly in terms of employment and export revenue. The research aims to contribute to the understanding of how auditor ethics and experience impact financial reporting quality in this specific industry.

**Keywords:** Auditor Ethics, Auditor Experience, Financial Reports, Garment Sector, West Java.

### INTRODUCTION

Businesses create financial statements that detail their performance and financial situation. Many different stakeholders, including investors, use this information while making financial decisions. Management is in charge of the data that is reported in financial reports. Information must be presented by management truthfully and in light of the situation as it stands (Suherman & Susanti, 2017). Financial statements are credible information sources by the financial statements users to determine the performance of management and the company's financial position (Mediawati, 2016). However, in reality, many companies in Indonesia violate predetermined standards, either intentionally or unintentionally. Meanwhile, users of financial reports must be protected from fraud on these financial reports (Yuliana et al., 2015). Therefore, it is necessary for an external party to audit the financial reports presented by the company.

There is no separation between what happens in the business and what happens to its employees, and one of the most important factors is the auditor, whose expertise is needed to make the right decisions in audit reports and this expertise can be seen in the extent and extent of the tasks he has completed (Syifa Hasna Iftinan & Edi Sukarmanto, 2022). Therefore, the auditor's expertise is very important in detecting fraud, because more experience produces more information. On the other hand, an auditor must also have appropriate integrity and ethics. In order to prevent unfair competition, it is expected of every auditor to adhere to the professional ethics established by the Institute of Indonesia Chartered Accountant (IAI) (Kuntari et al., 2017). The topic of accountant ethics is fascinating. This corresponds with the prevalence of multiple ethical transgressions committed by accountants, including government, corporate, and independent accountants. Fraudulent financial reports are often found in several institutions such as ministries, the private sector and government (Saiman & Mediawati, 2023)

This study aims to reveal the influence of auditor ethics and auditor experiences on the quality of company financial reports which will specifically focus on the garment sector in the West Java region. This region was chosen for several reasons. First, West Java, along with Central Java, East Java, and Banten, is a major hub for the

garment industry in Indonesia, accounting for more than 85% of all garment production in the country. Second, Indonesia's garment and apparel sector is highly concentrated on the island of Java, particularly in West Java, and is a major player in the global textile and apparel industry. It is a significant manufacturing base for leading international apparel brands, with 61% of manufactured garments being exported to international markets.

### **Literature Review And Hypothesis Development**

#### **a. Garment Industry in West Java**

The garment industry in West Java, Indonesia has been a significant contributor to the country's manufacturing sector, providing employment and contributing to export revenue. The industry has experienced growth and development over the last three decades, with the garment sector emerging as one of the primary export sectors in Indonesia. The garment industry has undergone remarkable structural changes, with the majority of garment enterprises located in Java, particularly in Jakarta and West Java. Economic considerations, such as superior infrastructure, have been the main reasons for the concentration of garment activities in West Java and Jakarta (Adam, 2004).

An important share of Indonesia's manufacturing sector is made up of the textile and apparel industries, which also provide a large number of jobs, especially for women. In spite of this, the proportion of women employed in the sector has been falling. The textile and clothing sub industry, which produces around 80% of Indonesia's clothing, textile, and footwear, has been the main driver of the sector. Another significant contribution to the nation's manufacturing gross value added has been the apparel sector (Horne & Cruz De Andrade, 2017).

#### **b. Auditor Ethics**

Auditor ethics refers to the moral principles and values that guide auditors in performing their duties with integrity, objectivity, competence, confidentiality, and professional behavior. The impact of auditor ethics on the quality of financial reports of a company is significant. Studies have indicated that auditors with strong ethical principles are capable of generating high-quality audits, hence enhancing trust in the financial statements and preserving audit quality (Alsughayer, 2021). Strict standards and procedures should be implemented to monitor and oversee the professional ethics of auditors, as they have a significant impact on audit quality. This will ensure that the code of ethics is followed (Alsughayer, 2021). High ethical standards can result in reliable, transparent, and objective financial reports, while a lack of professional ethics can lead to a decline in the quality of financial reports and create an unrealistic picture of the financial statements. Therefore, the ethical conduct of auditors is crucial in upholding the integrity and reliability of financial reporting, which in turn impacts public trust and confidence in the financial information prepared by the organization (Ardelean, 2013).

Auditor ethics is an important factor that can influence the quality of financial reports in Indonesia. Auditors are expected to maintain high ethical standards to ensure that their work is objective, independent, and free from bias. Several studies have been conducted to examine the relationship between auditor ethics and audit quality in Indonesia. One study found that auditor ethics did not have a significant effect on audit quality (Parluhutan et al., 2022). However, other studies have found that auditor ethics, along with auditor independence and professional skepticism, can have a positive influence on audit quality (Lamba et al., 2020). While there may be

some conflicting findings, it is generally agreed that auditor ethics is an important factor that can influence the quality of financial reports in Indonesia. Maintaining high ethical standards is crucial for auditors to ensure that their work is objective, independent, and free from bias. From this review, a hypothesis can be built as follows: *h1: Auditor Ethics have a positive and significance effect on quality of company financial reports.*

#### **c. Auditor Experiences**

The auditor's experience plays a crucial role in ensuring the quality of a company's financial report. An experienced auditor is better equipped to identify potential errors, irregularities, or misstatements in the financial statements, thereby enhancing the reliability and accuracy of the financial report. The impact of auditor experience on the quality of financial reports is evident in various studies and publications. An independent audit opinion regarding the fair presentation of financial statements must be expressed by an external auditor with sufficient experience and knowledge, according to a study that looked at the impact of audit quality on financial reporting quality. An auditor's duty is not only to identify any violations of accounting standards but also to validate the quality of financial reporting (Mesbah, n.d.). Moreover, the agency theory validates that high-quality financial reporting and auditing enhance the dependability of financial statements and reduce information asymmetry (Alsmady, 2022). From this explanation a hypothesis can be drawn as follows: *h2: Auditor experiences have a positive and significance effect on quality of companies financial report*

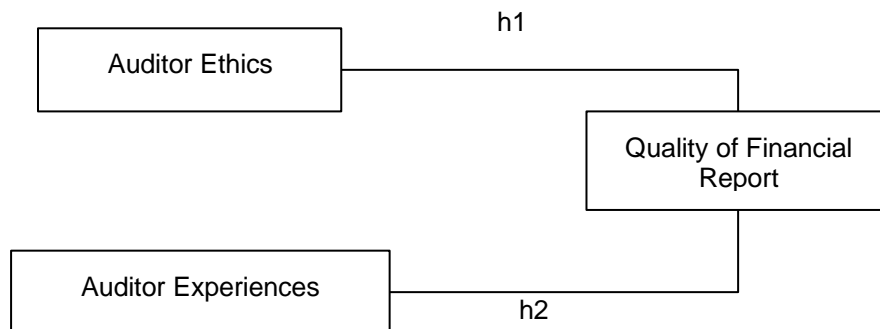
#### **d. Quality of Financial Reports**

Financial reporting quality refers to the degree to which financial reports contain relevant, accurate, complete, and unbiased information. Several criteria that can be used as a reference to see whether financial reporting quality is good or not are relevance, reliability, comparability, understandability, timeless, and full representation (Herath & Albarqi, 2017). The concepts of usefulness and materiality are intimately related to relevance. The disclosure of forward-looking information, information on business prospects and risks, and feedback on how big market events and large transactions affected companies are all important factors in evaluating the level of relevance, and annual reports play a critical part in this process (Beest et al., 2009). For information to be relevant in financial reporting, it must possess the property of reliability. When people can rely on information without prejudice and significant errors, it is said to possess this characteristic. Analyzing reliability is done with information that is neutral, verifiable, and faithful (E. Cheung et al., 2010). According to Cheung, comparability requires that the two scenarios' identical events be reflected by the same accounting facts and figures, while the different events must be reflected by the different accounting facts and figures in a way that quantitatively reflects the differences in a comparable and understandable way. Whereas, one of the most important characteristics of the data in financial reports is its understandability. Communication that is clear and concise is the key to achieving understandability. Therefore, the higher the quality that is attained, the better the users' understanding of the information (E. Cheung et al., 2010). Another boosting qualitative trait is timeliness. Timeliness serves as an example of how information must be made available to decision-makers before it loses its positive and potent effects. The time between year-end and the date the auditor's report was released—that is, the number of days it took the auditor to sign the report following the financial year-end—is used to evaluate the timeliness of reporting in an annual report (Beest et al., 2009). Lastly,

the idea of faithful representation refers to reflecting and portraying the actual financial information's state of affairs. This idea is useful because it clarifies how well financial resources and responsibilities, including events and transactions, are reflected in financial reporting (Herath & Albarqi, 2017).

#### e. Conceptual Framework

Based on the literature review and existing hypotheses, a conceptual framework used as a reference in this research is as shown in Figure 1 below.



**Figure 1. Conceptual Framework**  
Source: Literature Review, 2023

## METHOD

### a. Design

This study uses a quantitative approach to answer and decide whether the existing hypothesis is accepted or rejected. The use of this approach is also based on several reasons. First, A quantitative approach allows for the measurement of auditor ethics and experience, which is essential for understanding their impact on financial reports (Kuntari et al., 2017)(Mulyani, 2020). It enables the use of statistical tools to analyze the relationship between auditor ethics, experience, and financial reporting, providing empirical evidence of their influence (Wahidahwati & Asyik, 2022). By using numerical data, a quantitative approach can provide objective insights into the influence of auditor ethics and experience on financial reports, reducing bias and subjectivity.

### b. Sampling Technique and Sample Size

This research targets financial auditors in Indonesia. So that research can be carried out more easily, sampling using a purposive technique is carried out by referring to several sample criteria below.

- a) Auditors are professional auditors whether they are members of audit institutions or individuals.
- b) Auditors have at least 5 years of experience as auditors.
- c) The auditor once audited the financial reports of a garment company located in the West Java region.
- d) Auditors have never been involved in cases of ethical violations and have never received sanctions for ethical violations.

Referring to the sample size suggestion submitted by (Hair & Alamer, 2022), a good sample is at least 6-10 times the number of indicators. Thus, the number of samples used in this research was 150 auditors. This figure has exceeded the criteria

suggested by (Hair & Alamer, 2022) that at least this research must use a sample of 54-90 auditors.

### c. Data Collection

Data collection was carried out using a survey method using a questionnaire containing statements with five answer points in Likert scale format. Surveys are taken in two ways, namely offline and online surveys. The offline survey was carried out by contacting several Public Accounting Firms whose data was sourced from the official data of the Indonesian Financial Services Authority. Meanwhile, the online survey was carried out via the Google Forms platform by contacting auditors via email, WhatsApp and LinkedIn. A total of 200 questionnaires were distributed and only 173 questionnaires were returned and after checking the suitability of filling out the questionnaires, 150 questionnaires could be continued to the next stage of analysis.

### d. Data Analysis

The data that was collected was then analyzed using the Structural Equation Modeling method combined with Partial Least Square (PLS SEM) with the help of the SmartPLS application. This method is a method that is able to test complex relationships between existing variables (Mulyani, 2020)(Idris et al., 2019). SEM can also be used to analyze data collected through surveys or other methods, and it can help researchers identify the most important factors that influence the outcome of interest (Parluhutan et al., 2022). The analysis will be carried out in three parts, namely analysis of respondent demographic data, outer model testing, and inner model testing.

## RESULTS AND DISCUSSION

### Result

#### a. Respondent Demographic

**Table 1. Respondent Demographic**

Gender	N	%
Men	84	56
Women	66	44
Age	N	%
18-25 Years	4	2,67
25-35 Years	12	8
36-45 Years	67	44,67
46-55 Years	56	37,3
>55 Years	11	7,33
Auditors Experience	N	%
5-10 Years	58	38,67
11-15 Years	66	44
15-20 Years	13	8,67
>20 Years	13	8,67
Type of Auditor	N	%
Independent Auditor	40	26,67
Internal Auditor	58	38,67
Government Auditor	52	34,67

Source: Primary Data, 2023

The table encapsulates a comprehensive profile of a surveyed group of auditors, shedding light on their demographic and professional attributes. In terms of gender representation, the survey encompasses both male and female auditors, with 56% identified as men and 44% as women. Regarding age distribution, the



respondents span various age groups. Notably, the largest cohort falls within the 36-45 age range, constituting 44.67% of the total respondents. Conversely, the 18-25 age group represents the smallest segment, comprising only 2.67% of the surveyed auditors. The auditors surveyed exhibit diverse levels of professional experience, with the majority falling into the 5-10 years bracket, accounting for 38.67% of the respondents. Furthermore, nearly 44% of the auditors boast 11-15 years of experience, showcasing a seasoned and experienced professional cohort. The respondents are also categorized based on their roles, revealing a varied professional landscape. Internal Auditors emerge as the most prominent group, constituting 38.67% of the total. In contrast, Independent Auditors represent 26.67%, and Government Auditors make up 34.67%, showcasing the distribution across different sectors of the auditing profession.

#### b. Validity and Reliability

**Table 2.** Validity and Reliability of Construct

Variabel	Item	Code	Loading Factor
<b>Auditor Ethics</b>	CA=0,893, CR=0,933, AVE=0,823		
	1. I maintain independence in thought and action when conducting audits.	AEt.1	0,877
	2. I remain unbiased and objective in my assessment of financial information during audits.	AEt.2	0,894
	3. I exhibit professional skepticism by critically assessing evidence and challenging assumptions during audits.	AEt.3	0,895
<b>Auditor Experience</b>	CA=0,771, CR=0,867, AVE=0,688		
	1. I have accumulated a sufficient number of years of experience in auditing.	AEx.1	0,863
	2. My experience allows me to possess in-depth knowledge of the industries of garment I audit.	AEx.2	0,928
	3. I am adaptable to changes in the auditing environment and can apply my experience effectively.	AEx.3	0,929
<b>Quality of Financial Reports</b>	CA=0,777, CR=0,871, AVE=0,694		
	1. The financial reports I audit consistently provide accurate and reliable information.	QFR.1	0,880
	2. The financial reports I audit are presented in a clear and transparent manner, facilitating understanding by stakeholders.	QFR.2	0,848
	3. The financial reports I audit adhere to relevant accounting standards and regulatory requirements.	QFR.3	0,767

Resource: Data Analysis Result, 2023

Cronbach's alpha values for every variable are more than 0.7, indicating strong construct reliability. It is commonly accepted that sufficient dependability is defined as a number more than 0.7 (G. W. Cheung et al., 2023). When we examine the Composite reliability values generated in the table, we will likewise obtain identical outcomes. The model has good reliability if each variable has a Composite Reliability

score greater than 0.7. According to (Sarstedt et al., 2014), good reliability is indicated by CR values of 0.7 or higher. AVE calculates the difference between the variation a construct captures and the variance caused by measurement error. According to (Fornell & Larcker, 1981), all variables should match these requirements and have a value of 0.5 or higher. In a factor analysis, the loading factor is a metric that indicates how well a given variable is represented by a factor. When the loading factor is more than 0.7, it means that the factor accurately represents the variable. In (Sarstedt et al., 2014). Thus, the analysis can proceed to the next stage.

#### c. VIF Value

**Table 3.** Inner VIF Values

	AEt	AEx	QFR
<b>Auditor Ethics</b>			1,917
<b>Auditor Experience</b>			1,917
<b>Quality of Financial Report</b>			

Resource: Data Analysis Result, 2023

The second requirement for the PLS-SEM test series is to confirm that none of the variables that were utilized to generate a construct violate the multicollinearity assumption. According to Hair Jr et al. (2021), if the VIF value is less than 3,000, then this assumption should not be relied upon. The results of this investigation, which was conducted without reference to the multicollinearity hypothesis, are shown in the table below. The study meets all relevant conditions for the multicollinearity assumption criterion, as per Hair Jr et al., 2021. As shown in Table 3 above, each of the resulting structures has an inner VIF value less than 3,000. This implies that the variables used in the study are appropriate.

#### d. Model Fit

**Table 4.** Research on GoF

	Saturated Model	Estimated Model
<b>SRMR</b>	0,084	0,877
<b>d_ ULS</b>	0,786	0,888
<b>d_ G</b>	0,312	0,376
<b>Chi Square</b>	275,518	279,765
<b>NFI</b>	0,721	0,734

Source: Data Analysis Result, 2023

In Partial Least Squares Structural Equation Modeling (PLS-SEM), model fit is an important measure that determines how well the model-implied covariance matrix matches the sample covariance matrix. One commonly used measure for model fit in PLS-SEM is the Standardized Root Mean Square Residual (SRMR), with a value less than 0.10 or 0.08 considered a good fit. Table 4 above shows how the model in this study can be declared good with an SRMR value below 0.10, namely 0.084. Thus, this research can be continued to the next stage of analysis, namely measuring the coefficient of determination and finally hypothesis testing.

#### e. R Square Measurement

Using the coefficient of determination (R-square), one may determine how much the dependent variable is impacted by other variables. As per (Hult et al., 2018), the structural model's dependent latent variable exhibiting an R2 value of 0.67 or

above indicates that the influencing independent factors have a positive effect on the dependent variable that is being influenced. Conversely, the remaining results fall into two categories: moderate and weak. Values between 0.19 and 0.33 are deemed weak, whereas values between 0.33 and 0.67 are deemed moderate.

**Table 5. R Square**

	R Square	R Square Adjusted
Quality of Financial Report	0,686	0,682

Source: Data Analysis Result, 2023

Table 5 shows how the combination of exogenous variables, in this case namely auditor ethics and auditor experience, is able to strongly explain the quality of financial reports with an R square value of 0.686 or 68.6% (exceeding 0.67). Meanwhile, the remaining 31.4% is explained by other variables outside this research model.

#### f. Hypothesis Testing

The final stage is the hypothesis testing stage where at this stage the hypothesis will be tested to decide whether it will be accepted or rejected. Referring to (Hair Jr et al., 2021), the hypothesis can be accepted if the p-value from the bootstrapping analysis results is below 0.05. Table 6 below shows how the p value of the two existing hypotheses is below 0.05. The first hypothesis which explains the relationship between auditor ethics and the quality of financial reports has a p value of 0.018 (very far below 0.05) and indicates that this hypothesis can be accepted so it can be concluded that there is a positive and significant influence between auditor ethics and the quality of financial reports. company. Likewise, the second hypothesis which predicts the relationship between auditor experiences and the quality of the company's financial reports has a p value of 0.000 (very far below 0.05) and reflects the positive and significant influence of the auditor experiences variable on the quality of the company's financial reports.

**Table 6. Hypothesis Test**

	Original Sample	Sample Mean	STD DEV	T Statistics	P Values	Result
AEt -> QFR	0,149	0,155	0,063	2,367	0,018	Supported
AEx -> QFR	0,719	0,716	0,049	4,560	0,000	Supported

Source: Data Analysis Result, 2023

### Discussion

#### a. Impact of Auditor Ethics on Quality of Companies Financial Report

The results of the analysis and hypothesis testing show that the first hypothesis (h1) is acceptable so it can be stated that there is a positive and significant influence between the auditor ethics variable on the quality variable of the company's financial reports. This finding suggests that the more an auditor is guided by the applicable code of ethics, the better the quality of the company's financial reports being audited. These findings also underline the importance of implementing an accountant's code of ethics in the implementation of audits carried out by auditors in Indonesia. These findings also support and strengthen previous findings made by researchers.

Research conducted by (Edi & Enzelin, 2022) showed that professional ethics, including integrity, objectivity, competence, confidentiality, and professional behavior, play a crucial role in promoting the quality of financial reporting. Lack of professional ethics can lead to an unrealistic picture of financial reporting, potentially encouraging fraudulent financial reporting and resulting in a decline in the quality of financial reports



(Bakhtiari & عظیمی فر, 2013). According to a study by (Alsughayer, 2021), auditor ethics during the audit process have a beneficial impact on audit quality. An auditor's level of ethics directly correlates with the quality of the audit. This emphasizes how crucial it is to enforce stringent policies and procedures that monitor and manage auditors' ethics in order to guarantee code of ethics adherence and provide the intended high-quality audit. The ethical behavior of auditors has a significant impact on the quality of financial reporting and audit quality. Upholding professional ethics is crucial for maintaining the integrity and reliability of financial information, which in turn influences decision-making and public trust in financial reports.

***b. Impact of Auditor Experiences on Quality of Companies Financial Report***

It can be concluded that there is a positive and significant influence between the auditor's experience variable and the quality variable of the company's financial reports based on the analysis and hypothesis testing results, which support the second hypothesis (h2). This result implies that the quality of the financial reports being audited by the company increases with the experience of the auditor. These results also highlight how crucial the auditor's background and expertise are when performing audit tasks. These results further complete earlier research findings on this topic.

The impact of auditor experiences on the quality of companies' financial reports in Indonesia is a topic of interest in the field of accounting and auditing. Several studies have been conducted to explore this relationship. One study found a statistical and significant relationship between auditing complexity, companies' profitability, auditors' business risk, and industry classification and audit report lag and the experience of an auditor is needed to conduct a good quality of audit on this complexity (Rusmin & Evans, 2017). Research also reveals that there is an influence between audit fees which represent the quality and experience of the auditor on the quality of the audit (Yanti & Mediawati, 2023). Another study examined the effect of auditor's work stress that related with their experience and competencies on audit quality in Indonesian companies and found that work stress can impact the audit quality (Winoto & Harindahyani, 2021). Additionally, research has been conducted on the impact of factors on audit quality in Indonesia, with a focus on the moderating effect of professional commitments (Hikmayah & Aswar, 2020). The impact of auditor experiences on the quality of companies' financial reports in Indonesia is a complex and multifaceted issue that requires careful consideration of various factors. The research conducted in this area contributes to a better understanding of the dynamics involved and can inform efforts to improve audit quality and financial reporting practices in the Indonesian context.

***c. Implication***

The implications of this study are significant for various stakeholders, including auditors, regulatory bodies, companies, and investors. Regulatory bodies should emphasize and enforce strict adherence to the code of ethics for auditors. Implementing and monitoring compliance with ethical standards is crucial for maintaining the integrity and reliability of financial reporting. Next, auditors and audit firms should prioritize ongoing training and professional development programs to enhance ethical awareness and competencies. This is particularly important to ensure that auditors have the necessary skills and knowledge to maintain high-quality financial reporting standards. The study underscores the critical role of ethical conduct in the auditing profession. Ethical behavior is not only essential for ensuring accurate financial reporting but also for building and maintaining public trust. Auditors should

prioritize ethical considerations in their decision-making processes. Investors should consider the ethical standards and experiences of auditors when assessing the reliability of financial reports. Understanding the positive correlation between auditor ethics/experiences and financial report quality can aid investors in making more informed investment decisions.

### **CONCLUSION**

Based on the study's findings, it can be said that the caliber of financial reports produced by West Javan apparel companies is significantly impacted by the ethics and experiences of their auditors. These results highlight the need for auditors to be more devoted to adhering to the relevant code of ethics and emphasize the value of auditor experience in generating high-quality financial reports and audit procedures. Nevertheless, there are certain limits to this study, particularly with regard to its scope. The auditors who have examined clothing enterprises in West Java are the subject of this study. It is envisaged that new discoveries will be made possible by future study, which will broaden its industrial and geographic scope. This study can strengthen and add to earlier studies on the subject, and it can provide information to stakeholders developing rules and guidelines that will raise the caliber of work and professionalism among auditors.

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