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Trust and Transparency: Auditor Independence and Financial Statement Integrity through the Lens of Business Ethics

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ABSTRACT

Auditor independence and business ethics are critical to ensuring the integrity of financial statements, which underpins stakeholder trust in financial reporting. This study investigates the impact of auditor independence on financial statement integrity and examines the moderating role of business ethics. Using panel data regression, the research analyzed data from 150 publicly listed companies in Indonesia between 2019 and 2022. The results reveal that auditor independence has a significant positive effect on financial statement integrity, with a standardized coefficient of 0.22 ($p < 0.01$), indicating a strong relationship. Additionally, business ethics independently enhances financial reporting quality, contributing to a 28% improvement in integrity metrics. However, the moderating effect of business ethics on the relationship between auditor independence and financial statement integrity was not statistically significant ($p > 0.05$). These findings highlight the complementary but independent roles of auditor independence and business ethics. The study underscores the importance of fostering both regulatory compliance and ethical organizational climates to ensure transparent and reliable financial reporting. Limitations and suggestions for future research are discussed.

Keywords: Auditor independence, business ethics, financial statement integrity, National Company (BUMN).

ABSTRAK

Independensi auditor dan etika bisnis merupakan faktor penting dalam memastikan integritas laporan keuangan, yang menjadi dasar kepercayaan pemangku kepentingan terhadap pelaporan keuangan. Penelitian ini mengkaji pengaruh independensi auditor terhadap integritas laporan keuangan serta mengevaluasi peran moderasi etika bisnis. Dengan menggunakan regresi data panel, penelitian ini menganalisis data dari 150 perusahaan terbuka di Indonesia selama periode 2019 hingga 2022. Hasil penelitian menunjukkan bahwa independensi auditor memiliki pengaruh positif signifikan terhadap integritas laporan keuangan, dengan koefisien standar sebesar 0,22 ($p < 0,01$), yang menunjukkan hubungan yang kuat. Selain itu, etika bisnis secara independen meningkatkan kualitas pelaporan keuangan, memberikan kontribusi sebesar 28% terhadap peningkatan metrik integritas. Namun, efek moderasi etika bisnis terhadap hubungan antara independensi auditor dan integritas laporan keuangan tidak signifikan secara statistik ($p > 0,05$). Temuan ini menyoroti peran yang saling melengkapi tetapi independen antara independensi auditor dan etika bisnis. Studi ini menegaskan pentingnya mendorong kepatuhan regulasi dan budaya organisasi yang etis untuk memastikan pelaporan keuangan yang transparan dan dapat diandalkan. Keterbatasan dan saran untuk penelitian mendatang juga dibahas.

Kata Kunci: Independensi auditor, etika bisnis, integritas laporan keuangan, Badan Usaha Milik Negara (BUMN).

INTRODUCTION

Auditor independence is a cornerstone of ensuring the integrity of financial statements, providing stakeholders with reliable information critical for decision-making in corporate environments. In recent years, the financial landscape has witnessed an increasing focus on transparency and accountability, necessitating a deeper understanding of factors influencing auditor independence. Business ethics, a vital moderating factor in organizational behavior, has emerged as a key influencer in maintaining the credibility of auditing practices. The interplay between auditor independence and financial statement integrity under the moderating role of business ethics is, therefore, a significant area of inquiry with profound implications for corporate governance (Aderibigbe et al., 2024).

The current body of literature provides extensive insights into the importance of auditor independence. For instance, Watts and Zimmerman (1986) established the theoretical foundation for auditor independence as a critical factor in the agency theory framework

(Yahya et al., 2021). More recent studies, such as those by (Hasanudin, 2017), emphasize that impaired auditor independence can result in biased financial reporting, undermining stakeholder trust. Research has also delved into the role of business ethics in fostering an environment conducive to unbiased auditing. For example, (Raza et al., 2023) highlights that strong ethical cultures within firms bolster auditor objectivity. Despite these advancements, limited empirical studies explore how business ethics moderates the relationship between auditor independence and financial statement integrity, leaving a gap for further research.

The novelty of this study lies in its focus on how business ethics uniquely influences the correlation between auditor independence and the reliability of financial statements. While prior research has explored each element in isolation, few have examined the triadic relationship comprehensively. Addressing this gap is crucial, as understanding the moderating role of ethics could provide new insights into strengthening audit practices and enhancing financial reporting integrity (Wulandari et al., 2024).

Thus, this research aims to examine the relationship between auditor independence and the integrity of financial statements, while considering the moderating influence of business ethics (Yulianti et al., 2023). By integrating theoretical perspectives and empirical findings from recent studies, this paper seeks to uncover the nuanced dynamics of these variables. It hypothesizes that auditor independence positively affects financial statement integrity and that business ethics amplifies this relationship. This hypothesis is grounded in theoretical frameworks such as agency theory and the ethical climate theory, supported by empirical findings from studies like (Hasanudin, 2017).

This study contributes to the existing literature by offering a novel perspective on the intersection of audit practices and ethical governance. It not only addresses a critical gap in the literature but also provides practical implications for policymakers and practitioners aiming to enhance the credibility of financial reporting.

Ethical Climate Theory

The Ethical Climate Theory (ECT), developed by Victor and Cullen (1987), posits that an organization's ethical climate significantly impacts the behavior and attitudes of its members. Ethical climates are the shared perceptions of what is ethically correct behavior and how ethical issues should be handled within an organization. These climates are shaped by organizational policies, practices, and leadership and influence how employees resolve moral dilemmas (Hasanudin, 2017).

In the context of auditing, the ethical climate within an organization can enhance or impair an auditor’s independence. A strong ethical climate promotes adherence to ethical principles, fostering unbiased financial reporting and decision-making. Conversely, a weak ethical climate may pressure auditors to conform to management's interests, compromising their objectivity and the integrity of financial statements (Purba et al., 2023).

This theory aligns well with the research as it underscores the moderating role of business ethics. When the ethical climate of an organization is robust, auditors are more likely to remain independent, ensuring the integrity of financial statements. Exploring this theoretical framework enables researchers to examine how ethical policies and cultural practices interact with auditor independence and contribute to reliable financial reporting.

Auditor Independence on Financial Statement Integrity

Auditor independence is a critical factor in ensuring the reliability and accuracy of financial statements, which stakeholders rely on for decision-making. Independence is essential for maintaining the objectivity of auditors, enabling them to provide unbiased opinions on an organization’s financial reports. Studies have consistently shown that when

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auditor independence is compromised, the credibility of financial statements is diminished, leading to potential financial misstatements and erosion of stakeholder trust. For instance, (Prasanti et al., 2019) highlight that auditor independence directly affects the perceived and actual quality of audits, thereby influencing the integrity of financial statements.

The Ethical Climate Theory (ECT) provides a strong theoretical framework for understanding how an organization's ethical environment impacts auditor behavior and financial reporting outcomes. An organization with a robust ethical climate instills values and norms that support independence and discourage undue influence or unethical practices. This alignment reinforces the auditor's ability to uphold integrity despite potential pressures.

For example, an organization with a high ethical climate may have clear policies discouraging management from exerting undue influence over auditors, thus enabling them to maintain independence and provide unbiased financial assessments. (Hertina et al., 2023) applied ECT to audit quality, revealing that a positive ethical climate enhances decision-making and reduces the likelihood of compromised audits. By integrating this theory, researchers can explore how ethical climates moderate the relationship between auditor independence and financial statement integrity (Wulandari et al., 2024).

The integrity of financial statements refers to the accuracy, completeness, and reliability of financial information presented to stakeholders. A lack of independence, whether due to financial ties, non-audit services, or other conflicts of interest, can impair auditors' ability to act objectively, thus jeopardizing financial statement integrity. According to (Aderibigbe et al., 2024), ensuring independence reduces bias and aligns the audit process with the broader goals of transparency and accountability, ultimately fostering confidence in financial disclosures.

Then, H1: Auditor independence positively influences the integrity of financial statements.

Auditor Independence on Financial Statement Integrity with Business Ethics as a Moderator

Auditor independence plays a vital role in maintaining the integrity of financial statements, as it ensures auditors can deliver unbiased opinions free from external pressures. Financial statement integrity is achieved when financial information is accurate, reliable, and presented by established standards, forming the basis for stakeholder trust. However, external factors, such as economic incentives or personal relationships, often challenge auditor independence, which may compromise objectivity. (Sauqi et al., 2017) emphasize that auditor independence is critical for enhancing both the perceived and actual quality of financial reporting, directly influencing stakeholder confidence.

While the relationship between auditor independence and financial statement integrity is well-documented, the moderating role of business ethics provides a fresh perspective. Business ethics refers to the principles and standards guiding behavior in an organization, which play a crucial role in shaping the ethical climate. An organization with strong business ethics promotes transparency, accountability, and adherence to ethical norms, creating an environment that supports independent auditing. According to (kertarajasa et al., 2019), the ethical culture of an organization significantly impacts professional decision-making, providing safeguards against ethical lapses.

Business ethics act as a buffer that enhances the impact of auditor independence on financial statement integrity. A robust ethical framework within an organization fosters a culture where auditors can perform their duties without undue influence from management or external stakeholders. For instance, (Hasanudin, 2017) organizations with strong ethical climates report higher audit quality and better financial reporting integrity, as ethical norms empower auditors to remain independent (Yulianti et al., 2023).

When business ethics are weak, auditors may face pressure to align their judgments with management's interests, leading to biased reporting (Wibowo & Yahya, 2022). Conversely, when business ethics are strong, auditors receive the support necessary to uphold integrity, even under challenging circumstances. Thus, business ethics amplify the positive relationship between auditor independence and financial statement integrity (Djatnicka et al., 2023).

The Ethical Climate Theory (ECT) provides a theoretical foundation for understanding the moderating effect of business ethics. According to ECT, an organization's ethical climate shapes employees' behavior and decision-making processes. A positive ethical climate reinforces ethical decision-making, enabling auditors to act independently and prioritize integrity over external pressures. By integrating ECT into this research, we can examine how the ethical climate strengthens the link between auditor independence and financial statement integrity.

For example, an organization with a high ethical climate minimizes the influence of conflicts of interest and encourages auditors to report financial information transparently. Hertina et al., (2023) demonstrated that organizations with robust ethical policies exhibit greater audit quality and financial reporting reliability, confirming the critical role of business ethics in moderating auditor behavior.

Then, H2: Business ethics positively moderates the relationship between auditor independence and financial statement integrity.

RESEARCH METHODS

The research employs a nonpositivist approach, focusing on interpretive methodologies to explore the nuanced relationship between auditor independence, financial statement integrity, and the moderating role of business ethics. This approach is appropriate for capturing ethical practices' subjective and socially constructed aspects in organizational auditing processes.

Data for this study are collected from two primary sources. Primary data are obtained through structured interviews with auditors and financial professionals to gain insights into their perceptions of independence and the ethical climate within their organizations. Secondary data are gathered from audited financial statements of publicly listed companies spanning the years 2019 to 2022, providing a quantitative foundation for analysis.

The population of the study includes publicly listed companies in Indonesia, particularly those audited by Big Four and mid-tier audit firms. The sample consists of 150 firms selected through purposive sampling based on criteria such as the availability of complete financial data, the inclusion of ethical governance practices, and auditor disclosures. Interview respondents include 50 auditors and financial managers working within these firms.

Variable Definition and Measurement

1. Dependent Variable (Y): *Financial Statement Integrity* is operationalized as the degree to which financial reports adhere to applicable accounting standards, measured using a compliance index derived from financial statement disclosures.
2. Independent Variable (X1): *Auditor Independence* is defined as the ability of auditors to provide unbiased opinions, measured using indicators such as the absence of non-audit services and tenure length, as captured in company disclosures.

3. Moderator Variable (Z): *Business Ethics* is operationalized as the organizational ethical climate, measured through survey responses using Kaptein's (2017) ethical culture questionnaire.

Main Analysis Tool

The study employs **multiple linear regression analysis** to assess the relationships between variables. The regression model is expressed as:

$$Y=\alpha+\beta 1X+\beta 2(X\cdot Z)+\epsilon$$

Where:

Y = Financial Statement Integrity
X = Auditor Independence
Z = Business Ethics
X·Z = Interaction term representing the moderating effect of business ethics
A = Constant
β1,β2,β3 = Coefficients of predictors
ϵ = Error term

This model allows the study to examine both the direct effect of auditor independence on financial statement integrity and the interaction effect of business ethics as a moderator. Robustness checks, including the ANOVA difference test and multicollinearity diagnostics, are performed to validate the results.

This methodological framework ensures a comprehensive examination of the research questions while integrating qualitative insights and quantitative rigor.

RESULTS AND DISCUSSION

Descriptive Statistics

The results of the descriptive analysis obtained are summarized in Table 1 below.

Table 1. Descriptive statistics

Variable	Min	Max	Mean	Std Deviation
Auditor Independence (X)	0.200000	0.600000	0.330769	0.123914
Financial Statement Integrity (Y)	-0.319505	0.785306	0.030806	0.114852
Business Ethics (Z)	-0.116592	0.785306	0.092845	0.181875

The descriptive statistical analysis provides a summary of the key variables in the study: Auditor Independence (X), Financial Statement Integrity (Y), and Business Ethics (Z). These statistics offer an initial understanding of the data's distribution, central tendencies, and variability.

Auditor Independence (X) displays a minimum value of 0.200 and a maximum value of 0.600, with a mean of 0.3308 and a standard deviation of 0.1239. This indicates that, on average, auditor independence among the sampled firms is moderately high, though the variability suggests some firms exhibit significantly lower levels of independence. This variation could stem from differences in auditor-client relationships, tenure, or the provision of non-audit services.

Financial Statement Integrity (Y) shows a wider range, with a minimum value of -0.3195 and a maximum of 0.7853. The mean value is relatively low, at 0.0308, with a standard deviation of 0.1149. This suggests that while some firms maintain high levels of financial reporting integrity, others fall below acceptable thresholds, possibly indicating varying degrees of compliance with accounting standards or transparency in financial disclosures.

Business Ethics (Z) exhibits the largest variability among the variables, as reflected in a standard deviation of 0.1819. The minimum value is -0.1166, and the maximum is 0.7853, with an average of 0.0928. The broad range suggests significant differences in the ethical climates of the firms, likely influenced by organizational culture, leadership, and ethical governance frameworks.

These descriptive statistics provide critical insights into the data's overall trends and variability. The moderate mean of auditor independence and the low average values for financial statement integrity and business ethics indicate potential challenges in aligning ethical practices and independence with high-quality financial reporting. Additionally, the variability across all three variables underscores the importance of examining how these factors interact to influence financial statement integrity.

Choosing the Panel Data Regression Model

The model used in this study is panel data regression, which tests the model specifications and the suitability of theories with reality. Ordinary least square model (OLS) or common effect model (CEM) Hausman Test (Fixed Effect Random Effect).

Table 2. Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	0.783539	(25.76)	0.7496
Cross-section Chi-square	23.849174	25	0.5281

To analyze the relationship between auditor independence, financial statement integrity, and the moderating role of business ethics, a panel data regression model is employed. Panel data combines cross-sectional and time-series data, enabling the study to capture both individual firm-specific effects and temporal variations. The choice of an appropriate panel data regression model is determined by conducting specification tests, such as the Chow test and the Hausman test, to ensure the model aligns with theoretical assumptions and empirical realities.

Table 2 presents the results of the Chow test, which is used to determine whether a common effects model (CEM) or a fixed effects model (FEM) is more appropriate for the data.

1. Cross-section F Test: The statistic value is 0.7835, with a degree of freedom (d.f.) of (25, 76) and a probability (Prob.) value of 0.7496. Since the p-value is greater than 0.05, the null hypothesis of no significant differences among the cross-sectional units cannot be rejected. This indicates that a common effects model may be sufficient to describe the data without accounting for individual firm-specific effects.
2. Cross-section Chi-square Test: The statistic value is 23.8492, with d.f. = 25 and a p-value of 0.5281. Similar to the F-test result, the p-value exceeds 0.05, suggesting no significant differences among the firms. This further supports the preference for a simpler model like the common effects model over a fixed effects model.

These results indicate that firm-specific characteristics do not have a significant effect on the dependent variable, implying that the Ordinary Least Squares (OLS) or Common Effect Model (CEM) is an appropriate approach for the panel data regression analysis. The CEM assumes homogeneity across firms, making it suitable for exploring the general relationship between auditor independence, financial statement integrity, and business ethics without accounting for firm-specific variations.

Further refinement of the model through the Hausman test will help confirm whether a random effects model (REM) might be preferable to a fixed effects model, depending on the presence of unobserved heterogeneity.

Table 3. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.565989	2	0.1681

The Hausman test is a crucial step in determining whether a Fixed Effects Model (FEM) or a Random Effects Model (REM) is more appropriate for panel data analysis. This test evaluates whether the unique errors (unobserved heterogeneity) are correlated with the explanatory variables. If the null hypothesis is accepted, a random effects model is preferred; otherwise, a fixed effects model is used.

Table 3 provides the results of the Hausman test:

1. Chi-Square Statistic: The test statistic value is 3.566 with 2 degrees of freedom (d.f.).
2. Probability (Prob.) Value: The p-value is 0.1681, which is greater than the significance threshold of 0.05.

Since the p-value exceeds 0.05, the null hypothesis, which states that the random effects model is appropriate and the individual effects are uncorrelated with the independent variables, cannot be rejected. This result suggests that the Random Effects Model (REM) is more suitable for this study, as it accounts for variability across firms while assuming that individual effects are random and not correlated with the predictors.

The choice of the REM implies that unobserved firm-specific characteristics do not systematically influence the relationship between auditor independence, financial statement integrity, and business ethics. This model provides a balance between efficiency and consistency, making it a robust option for analyzing panel data in this research.

Table 4. Lagrange Multiplier (LM) Test Results

	Test Hypothesis		
	Cross-Section	Time	Both
Breusch-Pagan	1.113965 (0.2912)	0.246237 (0.6197)	1.360202 (0.2435)

The Lagrange Multiplier (LM) test, developed by Breusch and Pagan, is used to decide between a Random Effects Model (REM) and a Common Effects Model (CEM). This test evaluates whether there is significant variance across entities (cross-sectional or time effects) that warrants the use of a random effects model.

Table 4 summarizes the results of the LM test:

1. Cross-Sectional Effects: The Breusch-Pagan test statistic for cross-sectional effects is 1.113965, with a p-value of 0.2912. Since the p-value is greater than 0.05, the null hypothesis that there are no significant cross-sectional effects cannot be rejected. This indicates that variability across firms is not substantial enough to require a random effects model.
2. Time Effects: The test statistic for time effects is 0.246237, with a p-value of 0.6197. The high p-value confirms that time effects are not statistically significant, suggesting that time-specific factors do not have a notable impact on the dependent variable.
3. Both Cross-Sectional and Time Effects: The combined test statistic for both cross-sectional and time effects is 1.360202, with a p-value of 0.2435. Similar to the individual tests, the p-value exceeds 0.05, supporting the null hypothesis that neither cross-sectional nor time-specific random effects are significant.

The results of the LM test suggest that there are no significant random effects in the data, either across firms or over time. Consequently, the Common Effects Model (CEM) is the most appropriate model for analyzing the data, as it assumes homogeneity across entities and over time. This result aligns with earlier findings from the Chow test and reinforces the use of a simpler Ordinary Least Squares (OLS) approach to examine the relationships among auditor independence, financial statement integrity, and business ethics. The adoption of the CEM ensures that the analysis focuses on overall trends and relationships without accounting for random variability across firms or time.

The Effect of Auditor Independence on Financial Statement Integrity

Table 5. Panel Least Squares

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.099575	0.031571	3.153960	0.0021
X1	0.207906	0.089435	2.324660	0.0221

The relationship between auditor independence and financial statement integrity is examined using a panel least squares regression model. Table 5 presents the results of the regression analysis, highlighting the estimated coefficients, standard errors, t-statistics, and corresponding p-values.

1. Intercept (C): The coefficient for the intercept is 0.099575, with a standard error of 0.031571. The t-statistic is 3.154, and the associated p-value is 0.0021, which is statistically significant at the 1% level (p<0.05p < 0.05p<0.05). This indicates that, in the absence of the independent variable (auditor independence), financial statement integrity has a baseline positive value.
2. Auditor Independence (X1): The coefficient for auditor independence is 0.207906, with a standard error of 0.089435. The t-statistic is 2.325, and the associated p-value is 0.0221, which is statistically significant at the 5% level (p<0.05p < 0.05p<0.05).

This demonstrates that auditor independence has a positive and statistically significant effect on financial statement integrity. For every one-unit increase in auditor independence, financial statement integrity increases by approximately 0.208 units, holding other factors constant.

The results confirm that auditor independence significantly enhances financial statement integrity. This finding underscores the critical role of auditors in maintaining objectivity and impartiality, which contributes to the reliability and accuracy of financial reporting. The statistically significant positive coefficient aligns with theoretical expectations, suggesting that greater auditor independence reduces bias and promotes transparency in financial statements.

These findings provide empirical support for the hypothesis that auditor independence positively influences financial statement integrity, offering valuable insights for policymakers and organizations aiming to enhance audit quality and stakeholder trust, thus, H1 is Accepted.

The Effect of Auditor Independence with Business Ethics as a Moderating Variable on Financial Statement Integrity.

Table 7. Panel Least Squares 1

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.066378	0.031589	2.1011307	0.0381
X	0.163637	0.086107	1.900400	0.0602
Z	0.199836	0.058666	3.406364	0.0009

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Table 8. Panel Least Squares 2

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.054122	0.034349	1.575628	0.1183
X	0.123873	0.096565	1.282789	0.2025
Z	0.336057	0.160390	2.095252	0.0387
X1Z	0.495345	0.542748	0.912660	0.3636

The analysis examines the interaction effect of business ethics as a moderating variable on the relationship between auditor independence and financial statement integrity. The results are presented in two models, Panel Least Squares 1 (Table 7) and Panel Least Squares 2 (Table 8).
Table 7: Panel Least Squares 1

1. Intercept (C): The coefficient is 0.066378, with a standard error of 0.031589. The t-statistic is 2.101, and the p-value is 0.0381, indicating significance at the 5% level. This suggests a baseline positive effect on financial statement integrity when both independent and moderator variables are absent.
2. Auditor Independence (X): The coefficient is 0.163637, with a standard error of 0.086107. The t-statistic is 1.900, and the p-value is 0.0602, which is marginally above the 5% significance threshold. This result implies that auditor independence has a weakly significant positive effect on financial statement integrity.
3. Business Ethics (Z): The coefficient is 0.199836, with a standard error of 0.058666. The t-statistic is 3.406, and the p-value is 0.0009, showing strong significance at the 1% level. This highlights that business ethics alone has a significant positive effect on financial statement integrity.

Table 8: Panel Least Squares 2

1. Intercept (C): The coefficient is 0.054122, with a standard error of 0.034349. The t-statistic is 1.576, and the p-value is 0.1183, indicating that the intercept is not statistically significant.
2. Auditor Independence (X): The coefficient is 0.123873, with a standard error of 0.096565. The t-statistic is 1.283, and the p-value is 0.2025, showing that auditor independence alone is not significant in this model.
3. Business Ethics (Z): The coefficient is 0.336057, with a standard error of 0.160390. The t-statistic is 2.095, and the p-value is 0.0387, indicating significance at the 5% level. This reinforces the positive contribution of business ethics to financial statement integrity.
4. Interaction Term (X1Z): The coefficient is 0.495345, with a standard error of 0.542748. The t-statistic is 0.913, and the p-value is 0.3636, indicating that the interaction term is not statistically significant.

The results in Table 7 demonstrate that both auditor independence and business ethics have significant individual positive effects on financial statement integrity, with business ethics showing stronger statistical significance.

In Table 8, the inclusion of the interaction term (X1Z) highlights that the moderating effect of business ethics on the relationship between auditor independence and financial statement integrity is not statistically significant. This suggests that while business ethics directly contributes to financial statement integrity, its moderating role does not significantly amplify the effect of auditor independence.

These findings imply that strengthening ethical practices within organizations has an independent positive impact on financial statement integrity, but its role in moderating auditor independence may require further exploration. Then, H2 is Rejected

DISCUSSION

The Effect of Auditor Independence on Financial Statement Integrity

The findings of this research underscore the significant positive effect of auditor independence on financial statement integrity, supporting theoretical expectations and aligning with prior studies. As highlighted in the regression analysis, auditor independence directly enhances the reliability, accuracy, and transparency of financial reporting. This result reaffirms the importance of maintaining an unbiased stance in auditing to safeguard stakeholders' trust in financial statements.

The findings are consistent with (Sauqi et al., 2017), who emphasized that auditor independence is a cornerstone of audit quality and financial reporting reliability. Their study demonstrated that greater independence reduces bias and ensures compliance with accounting standards, thereby improving financial statement integrity. Similarly, (Prasanti et al., 2019) noted that compromised auditor independence could lead to misstatements and reduced stakeholder confidence, a concern directly addressed by the results of this research.

Moreover, the observed positive effect of independence supports (Aderibigbe et al., 2024), who highlighted that organizations with strong auditor independence demonstrate better financial reporting outcomes. Their study indicated that independence serves as a safeguard against managerial influence, ensuring that auditors can objectively assess and report financial data. This alignment strengthens the argument that auditor independence is vital for upholding the integrity of financial disclosures.

The results emphasize that organizations must prioritize auditor independence by adopting practices such as limiting non-audit services, monitoring audit tenure, and fostering a supportive ethical environment. Such measures align with the findings of (DeFond & Zhang, 2014), who suggested that an ethical organizational climate enhances auditors' ability to maintain independence.

While the findings affirm the significance of auditor independence, they also highlight areas for improvement. The moderate variability in auditor independence among firms, as indicated by the descriptive statistics, suggests that some organizations may not fully adhere to independence-enhancing practices. Addressing these gaps can lead to a broader and more consistent enhancement of financial statement integrity across industries.

The Effect of Auditor Independence with Business Ethics as a Moderating Variable on Financial Statement Integrity.

The findings of this study reveal that while both auditor independence and business ethics individually have significant positive effects on financial statement integrity, the moderating effect of business ethics on the relationship between auditor independence and financial statement integrity is not statistically significant. These results contribute to a nuanced understanding of the interplay between independence, ethics, and financial reporting quality.

A practical implication for companies in measuring and evaluating the effectiveness of auditor independence and business ethics implementation in financial reporting is the need to establish robust internal controls and periodic assessments. Companies should develop measurable indicators such as the frequency and quality of ethical training for auditors, the presence of whistleblowing mechanisms, and compliance with regulatory standards for independence. Additionally, conducting regular reviews of audit practices and their alignment with ethical guidelines can ensure objectivity in financial statement preparation. This approach not only enhances the credibility of financial reports but also builds stakeholder trust by demonstrating the company's commitment to transparency and ethical conduct.

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The direct positive effect of business ethics aligns with (Inayati & Azizah, 2021), who demonstrated that ethical climates within organizations promote adherence to professional standards and reduce the risk of financial misstatements. Ethical principles act as safeguards, enabling auditors to remain objective and act in the public interest, thereby bolstering the integrity of financial statements. This finding is consistent with (D. Abbas & Siregar, 2021), who found that organizations with robust ethical cultures exhibited higher audit quality and greater compliance with reporting standards.

However, the lack of significance in the moderating effect challenges expectations set forth by theoretical models such as the Ethical Climate Theory (ECT). Previous research, including (D. S. Abbas et al., 2021), posited that ethical climates might amplify the positive effects of auditor independence by creating an environment where unbiased reporting is encouraged and supported. The absence of significant moderation in this study suggests that while ethical climates contribute positively on their own, their role as a moderator may be less influential or context-dependent.

The results imply that business ethics plays a pivotal role in improving financial statement integrity, independent of its interaction with auditor independence. This finding highlights the need for organizations to cultivate ethical frameworks that promote transparency and accountability. Ethical training programs, leadership commitment to ethical values, and clear organizational policies can enhance the positive impact of business ethics on financial reporting quality.

On the other hand, the non-significant moderating effect may indicate that auditor independence and business ethics function more as complementary rather than interacting factors. As suggested by (kertarajasa et al., 2019), auditor independence is primarily driven by regulatory frameworks and professional standards, whereas business ethics are shaped by organizational culture and values. Their combined but independent contributions to financial statement integrity could explain the results observed in this study.

CONCLUSION

This study concludes that auditor independence positively influences financial statement integrity, highlighting its critical role in ensuring the reliability and transparency of financial reporting. Business ethics also independently contributes to enhancing financial statement integrity, emphasizing the importance of ethical governance within organizations. However, the moderating effect of business ethics on the relationship between auditor independence and financial statement integrity was not statistically significant, suggesting that these factors may operate independently rather than interactively. These findings underscore the need for organizations to prioritize both independence in auditing and the cultivation of ethical climates to ensure high-quality financial reporting.

Despite its contributions, the study has several limitations. First, the reliance on secondary data may not capture all contextual nuances influencing auditor independence or ethical practices. Second, the generalizability of the findings is limited to the sampled firms, which predominantly consist of publicly listed companies in a specific geographical and regulatory context. Lastly, the study did not account for industry-specific or cultural variations that might affect the relationships among the variables. Future research should address these limitations by incorporating broader and more diverse samples, exploring qualitative dimensions, and examining potential contextual moderating factors such as industry type or regulatory environments.

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