The Impact of Auditor's Independence, Ethics, and Competency in Audit Quality: Using Auditor's Integrity as a Mediator in the Sultanate of Oman

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Abstract: - Ensuring audit quality is crucial for many parties, including businesses, investors, shareholders, and researchers, who want to focus more on how auditors' input factors affect the quality of their work. The main objective of this study is to analyse the factors affecting the auditor's independence, ethics, and competence in audit quality, with the auditor's integrity as a mediator. The primary data was collected from questionnaires distributed to external auditors in the Sultanate of Oman's private sector with 236 respondents. A Smart-PLS (Partial Least Square) is used to analyse the data. The findings show that the auditor's independence, ethics, and competence significantly impact the audit quality. In addition, the result indicates that the auditor's independence with auditors' integrity as a mediator has a significant impact on audit quality, the auditor's ethics with auditors' integrity as a mediator has a significant effect on audit quality, and the auditors' competence with auditor's integrity as a mediator has a significant impact on audit quality.

Key-Words: - Audit quality, auditor's independence, auditor's ethics, auditor's competency, auditor's Integrity, Sultanate of Oman

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1 Introduction

Auditing plays a crucial role in ensuring the credibility and accuracy of financial statements, [1]. A high audit quality standard assures that firms' operations are well-managed and organised. The Global Financial Crisis (GFC) highlighted the failures of numerous giant corporations like Lehman Brothers Holdings Inc., General Motors, and CIT Group. As a result, regulators and financial media began to scrutinise auditors' reliability and performance.

Instances like the collapse of Lehman Brothers during the Global Financial Crisis highlighted significant shortcomings in financial reporting, casting doubt on the effectiveness of the auditing process. The Public Company Accounting Oversight Board (PCAOB) emphasised that auditors had failed to comply with auditing standards, including those pertaining to income statements and balance sheets. This lack of adherence to standards may have played a role in exacerbating the economic crisis. In response, there has been an increased call for audit firms to strictly adhere to auditing standards to enhance their services and elevate audit quality, [2].

To improve audit quality and mitigate future crises, audit firms must adhere strictly to enhanced audit standards, ensuring truthful financial reporting that accurately represents the actual financial position of their clients, [2]. To achieve this, various measures have been implemented, including the education of audit committees, joint audit agreements, regulations on non-audit services, and

auditor rotation, [1]. These initiatives aim to ensure that auditors perform their functions effectively and efficiently.

From an industry perspective, operating within the free market system, auditors play a vital role in maintaining market confidence and enhancing audit quality. The quality of an audit largely depends on the expertise and standards upheld by the auditors involved. Reputable auditing firms, recognised for their competence, tend to attract a substantial client base. Thus, establishing and preserving the trust of clients is of utmost importance for all audit firms, [3]. By upholding these standards and measures, auditors contribute to the overall integrity and reliability of financial reporting, bolstering market confidence in the audit process.

Auditor independence, ethics, and competence are three interconnected concepts that are vital for effective and reliable auditors. In brief, auditor independence refers to the objective performance of duties without personal biases, [4]. Auditor ethics entails prioritising the greater good over personal benefits, [2] and auditor competence involves the application of sufficient knowledge and skills to carry out tasks objectively, [5]. Auditor independence is crucial as it ensures ethical behaviour and upholds professional competence. Adhering to ethical principles allows auditors to utilise their knowledge and experience, demonstrating competency. These factors have been extensively discussed as significant contributors to audit quality.

On the other hand, integrity is vital in influencing these factors to audit quality. Integrity is the professional exercise of tasks with adequacy, care, and responsibility, considering all relevant interests, [6]. It encompasses traits like discernment, fairness, bravery, and temperance [7]. From an audit perspective, auditors' integrity guides them to forgo personal gains and avoid conflicts of interest related to business, finances, or jobs, [8], [9]. When the auditor's integrity is compromised, the other factors, independence, ethics and competency, might also be impaired.

The problem of this study is limited research on the effect of auditor factors on audit quality in the Sultanate of Oman. This study will concentrate on factors of independence, competence and ethics by choosing auditor integrity as a mediator to audit quality. The objective is to analyse the effect of auditors' characteristics on the audit quality and, simultaneously, assess auditor integrity as a mediator in the relationship between the auditors' factors and the audit quality. The research focuses on a unique industry environment, specifically the Sultanate of Oman, where the industry heavily relies on foreign auditors.

2 Literature Review

Auditing is an obligatory yearly procedure that entails the verification of a company's financial statements, adhering to strict auditing standards mandated by law, [10]. It is a thorough evaluation process that adheres to industry best practices set by audit standard setters, [11]. Auditors are primarily responsible for scrutinising and evaluating financial records and statements to ensure accuracy and respect applicable rules and regulations.

The scope of external auditors is not only to the certified truthful financial statements but also as professional support to a company's internal audit function, [12]. In performing their duties, auditors conduct risk assessments, which involve evaluating the internal control systems' efficiency. The auditor is responsible for maintaining them throughout the audit, exercising professional scepticism, and considering the possibility of management overriding controls to ensure the audit process effectively detects error and fraud, [13].

According to International Standards on Auditing (ISA) 240, the auditor's capacity to identify fraud is influenced by several variables, including the perpetrator's expertise, the frequency and extent of manipulation, the level of collaboration involved, the relative quantity of manipulated amounts, and the seniority of those involved. These factors highlight the need for competent auditors. Companies worldwide are continually seeking ways to enhance audit quality by leveraging the expertise of their auditors, [2]. The level of reliance that users of financial statements can place on an audit opinion is directly linked to the quality of the audit conducted, [14].

Audit quality receives much attention from investors, shareholders and other users who need reliable, accurate financial information, [15]. Different users may have varying perspectives on what constitutes audit quality. According to, [14] audit professionals view audit quality as adherence to professional auditing standards. At the same time, investors place more emphasis on the characteristics of the engagement team. However, researchers have a consensus, [14] that individual auditor characteristics significantly impact audit quality.

An effective auditor should be able to identify and report instances of fraud within a client's accounting system, [16], [17]. They are responsible for ensuring that the activities of the audited firms are well-managed and organised, which contributes

to the reliability of financial statements, [18]. Additionally, auditors possessing the necessary qualifications and attributes offer assurance that the financial statements faithfully represent the underlying economic reality of the company, [19].

Previous studies have identified several key auditor characteristics that are closely associated with audit quality, including auditor independence, [20], [21], [22], [23], auditor ethics, [24], [25], [26], and auditor competency, [21], [22], [23]. Additionally, numerous studies have emphasised the significant impact of auditor integrity on audit quality, [27]. Therefore, this study aims to explore the relationships between auditor independence, ethics, and competency with audit quality while considering the mediating role of auditor integrity.

2.1 Hypotheses Development

Auditor independence refers to the ability of auditors to perform their duties without being influenced by personal interests, [14]. It allows auditors to utilise their skills and technical expertise freely, without any external pressures, in formulating and expressing their opinions, [28], [29]. Therefore, many consider independence as the cornerstone of auditing, [30]. Several studies have provided evidence of the significant impact of auditor independence on audit quality, [21, [22], [23]. Based on this, the first hypothesis of this study is formulated as follows:

H1: Auditor independence has a significant impact on audit quality.

Auditor competency refers to the qualifications, high level of skills, knowledge, and unique abilities that positively impact their performance in carrying out their responsibilities, [31]. The key elements of competence include a deep understanding of accounting principles, auditing standards, regulations, and industry-specific knowledge, [32]. Competent auditors, with their comprehensive experience, are able to address the majority of issues they encounter swiftly, thereby enhancing audit quality, [14]. Many empirical studies have supported the significant impact of auditor competency on audit quality, [21], [22], [23]. Therefore, the second hypothesis of this study is as follows:

H2: Auditor competence has a significant impact on audit quality.

Auditor ethics refers to the moral principles, values, and professional standards that guide auditors in their conduct, [25]. Auditors must always maintain a high standard of ethical behaviour, as it is integral to preserving public trust and confidence in the auditing profession, [4], [33]. By adhering to ethical principles, the value of integrity, objectivity, professional competence and confidentiality can be upheld, leading to a good quality audit. Various researchers have supported this viewpoint, [24], [25], [26]. Therefore, this study hypothesised that:

H3: Auditor ethics has a significant impact on audit quality.

The significance of integrity in promoting trust among shareholders, stakeholders, and management and fostering public confidence in auditors' work has been emphasised, [29], [34]. Integrity encompasses moral principles like honesty and fairness and is closely associated with adherence to standard practices and policies, [6]. From an accounting perspective, integrity refers to providing services with honesty and prioritising the clients' interests while disregarding personal conflicts, [8]. Numerous studies have shown the considerable influence of integrity on audit quality, [8], [9], [22], [35]. These studies demonstrate how integrity affects the audit process's dependability, credibility, trustworthiness, and results. Thus, it is hypothesised that:

H4: Auditor integrity has a significant impact on audit quality.

The interaction of auditor independence, ethics, and competency depends critically on auditor integrity. It acts as a fundamental quality that affects and engages with these three elements. Auditors' independence is guaranteed by their integrity, which enables them to maintain objectivity and avoid conflicts of interest, allowing them to offer unbiased and objective recommendations. In addition, integrity, which includes honesty, impartiality, and adherence to professional norms of conduct, is a crucial aspect of ethical behaviour among auditors. Additionally, auditor integrity encourages a dedication to lifelong learning, adherence to professional standards, and the efficient use of their knowledge and experience in practice, all of which support sustaining their competency. In essence, auditor independence, ethics, and competence are supported by auditor integrity, which is a fundamental component.

Therefore, this study suggests that integrity acts as a mediator in the relationship between auditor independence, ethics, and competency in audit quality based on these beliefs. Auditors who uphold integrity show a dedication to moral behaviour and professional ideals, improving the audit process's overall quality and efficiency. As a mediator, the following hypotheses are to be tested.

H5: Auditor integrity mediates the relationship between auditor independence and audit quality.

H6: Auditor integrity mediates the relationship between auditor ethics and audit quality.
H7: Auditor integrity mediates the relationship between auditor competency and audit quality.

The conceptual framework of this study is depicted in Figure 1. The independent variables consist of auditor factors, including auditor independence, ethics, and competency. These factors are mediated by auditor integrity, and the dependent variable is audit quality.

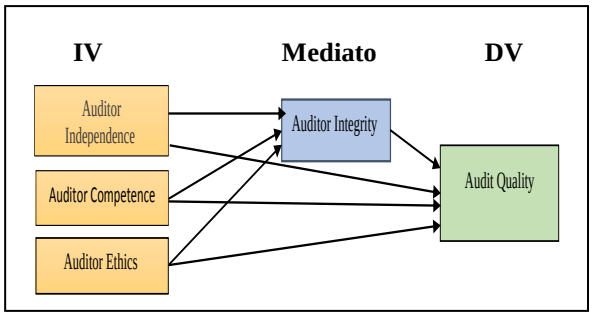

Fig. 1: The conceptual framework

3 Methodology

This study is conducted in the Sultanate of Oman due to the unique industry environment in the country's audit industry. Oman's audit industry heavily relies on foreign auditors, making it distinct from other countries. Conducting the study in Oman allows for a better understanding of the specific challenges and opportunities auditors face in this industry environment, contributing to the existing literature on auditing practices and regulations.

The type of data utilised in this study is primary data. The collection of survey data involved distributing and sending instruments, specifically a questionnaire, to the respondents. The questionnaire was exclusively made available to external auditors in the private sector of the Sultanate of Oman. The research population for this study consists of all auditors working in external audit offices throughout the Sultanate of Oman. The sample for this study was selected using purposive sampling.

A group of external auditors employed by audit companies in the Sultanate of Oman's private sector make up the population of this study. There are 838 external auditors in all. Following an email request, the National Center for Statistics & Information (NCSI) in the Sultanate of Oman (https://www.ncsi.gov.om) provided the participants' names in March 2022. Table 1 below shows the details of the population study.

Table 1. External Auditors in Oman

Nationality	Occupation	Total
Non-Omani	Auditor	629
Omani	Auditor	209
Total		**838**

4 Finding

Table 2 indicates that of the 400 distributed questionnaires, 246 were returned. After discarding ten incomplete responses, 236 valid questionnaires were analysed, yielding a 59% response rate.

Table 2. Responding rate

Details	Amount	%
No. of questionnaires distributed	400	100
No. of questionnaires returned	246	61.5%
No. of incomplete responses	10	4%
No. of questionnaires with complete responses	236	59%

Table 3 presents the demographic details of the respondents. Of the participants, 229 were male, and seven were female. Most auditors were aged 40-49. The predominant education level was a bachelor's degree. "Other" was the most common professional qualification, with accounting being the primary academic major. Most respondents were from local offices, and the majority had 11-15 years of experience.

Table 3. Respondents' Profile or Demographic Profile

Demographic Profiles	Category	Frequency	Per cent
Gender	Male	229	97 %
	Female	7	3 %
Age	20 to 29	24	10.2 %
	30 to 39	22	9.3 %
	40 to 49	151	64 %
	50 and above	39	16.5 %
Education Level	Diploma	12	5.1 %
	Bachelor	118	50 %
	Master	97	41.1 %
	Doctorate	9	3.8 %
Professional Qualification	CPA	44	18.6 %
	CFA	16	6.8 %
	ACCA	23	9.8 %
	Others	153	64.8 %
Academic Major	Accounting	129	54.7 %
	Finance	61	25.9 %
	Auditing	38	16 %
	Others	8	3.4 %
Office Location	One of the Big Four Audit Firms	8	3.4 %
	Local and regional consulting offices	67	28.4 %
	local offices	161	68.2 %
Experience	Below 5 years	15	6.3 %
	5 to 10 years	53	22.5 %
	11 to 15 years	76	32.2 %
	16 to 20 years	53	22.5%
	above 20 years	39	16.5 %

Table 4 details the internal consistency and convergence validity criteria, showcasing factor loading (FL), Cronbach's alpha (CA), construct reliability (C R), and Average Variance Extracted (AVE). For item reliability, standardised factor loadings of latent variables should be ≥0.50, [13], with some suggesting ≥0.70, [25]. Outside loadings should be ≥0.4, [17]. Table 4's results show outside loadings between 0.661 and 0.914, surpassing minimum requirements. Items assigned to the same constructs demonstrate strong internal links supported by construct-level reliability. Both Cronbach's alpha and composite reliability exceed the recommended 0.70, [36]. The AVE for latent variables averages >0.50, indicating over half the variance in measuring items. The factor loadings in Table 4 and Figure 2 meet these standards.

Table 4. Internal consistency and convergence validity results

Constructs	Items	F.L	CA	CR	AVE
Auditor Competence (AC)	AC1	0.743	0.856	0.863	0.581
	AC2	0.763			
	AC3	0.740			
	AC4	0.766			
	AC5	0.732			
	AC6	0.827			
Auditor Ethics (AE)	AE1	0.790	0.911	0.919	0.696
	AE2	0.737			
	AE3	0.853			
	AE4	0.798			
	AE5	0.898			
	AE6	0.914			
Auditor Independence (AI)	AI1	0.823	0.911	0.912	0.651
	AI2	0.783			
	AI3	0.777			
	AI4	0.835			
	AI5	0.785			
	AI6	0.824			
	AI7	0.820			
Auditor Integrity (AIN)	AIN1	0.676	0.896	0.899	0.581
	AIN2	0.696			
	AIN3	0.746			
	AIN4	0.771			
	AIN5	0.738			
	AIN6	0.790			
	AIN7	0.843			
	AIN8	0.820			
Audit Quality (AQ)	AQ1	0.758	0.886	0.887	0.524
	AQ2	0.716			
	AQ3	0.723			
	AQ4	0.739			
	AQ5	0.661			
	AQ6	0.693			
	AQ7	0.756			
	AQ8	0.715			
	AQ9	0.746			

Notes: C.R.: Composite Reliability; AVE: Average Variance Extracted; CA: Cronbach's Alpha

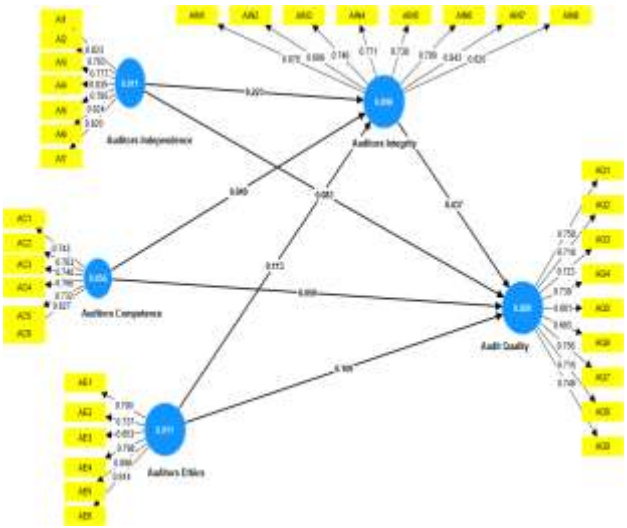

Fig. 2: Loading factor calculated and the AVE through PLS- Algorithm

In Table 5, the Fornell-Larcker criterion presents the square root of AVE on the diagonals, with correlations below. The top value sets the interpretation standard. Discriminant validity is evident as each diagonal's square root of AVE surpasses its corresponding correlations, confirming discriminant achievement.

Table 5. Discriminant Validity – Fornell and Larcker Criterion

Constructs	AC	AE	AI	AIN	AQ
AC	0.762				
AE	0.391	0.834			
AI	0.400	0.300	0.807		
AIN	0.457	0.471	0.553	0.762	
AQ	0.532	0.561	0.591	0.767	0.724

Table 6 uses a cross-loading matrix to evaluate discriminant validity by comparing item loadings with their own and other constructs. Validity is confirmed when an item's loading with its construct is at least 0.1 higher than its cross-loadings. The table clearly shows each item's strongest association with its own construct, with a consistent difference of at least 0.1 from other constructs, affirming discriminant validity.

Table 6. Outer/factor loading with cross-loadings

Items	AC	AE	AI	AIN	AQ
AC1	0.743				
AC2	0.763				
AC3	0.740				
AC4	0.766				
AC5	0.732				
AC6	0.827				
AE1		0.790			
AE2		0.737			
AE3		0.853			
AE4		0.798			
AE5		0.898			
AE6		0.914			
AI1			0.823		
AI2			0.783		
AI3			0.777		
AI4			0.835		
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AIN4				0.771	
AIN5				0.738	
AIN6				0.790	
AIN7				0.843	
AIN8				0.820	
AQ1					0.758
AQ2					0.716
AQ3					0.723
AQ4					0.739
AQ5					0.661
AQ6					0.693
AQ7					0.756
AQ8					0.715
AQ9					0.746

For discriminant validity, Heterotrait-Monotrait Ratio (HTMT) values should be under 0.90, [25]. Using PLS-SEM for HTMT-based validation, deemed better than Fornell-Larcker and cross-loading methods, Table 7 shows the peak HTMT value as 0.855, under the 0.90 limit. This underscores the study's discriminant validity, highlighting distinct constructs.

Table 7. Results of HTMT Ratio

Constructs	AC	AE	AI	AIN
Auditor Competence (A.C.)				
Auditor Ethics (A.E.)	0.432			
Auditor Independence (A.I.)	0.446	0.328		
Auditor Integrity (AIN)	0.510	0.515	0.607	
Audit Quality (A.Q.)	0.603	0.622	0.653	0.855

4.1 Direct Impact of Auditor Factors on Audit Quality

In Smart-PLS, the path coefficient mirrors the standardisation in multiple regression analysis. It is advised for bootstrapping to gauge t statistics and confidence intervals, given PLS's flexibility with data normality, [37]. Within our study, each hypothetical path was assessed using the regression coefficient. The structural model was examined to validate the proposed hypotheses. Per, [36] a model's specific effect should have a path coefficient of at least 0.1.

Table 8 details the path coefficient results for four direct hypotheses related to audit quality, all of which were supported. A hypothesis is deemed supported if it has the expected sign direction, a p-value < 0.05, a beta value ≥ 0.1, and a t-value > 1.96. For H1 (auditor independence (A.I.) and audit quality (A.Q.)), results were statistically significant with a p-value of 0.002, a t-value of 3.133, and a positive beta (β) of 0.197. H2 (auditor competency (A.C.) and A.Q.) showed a significant relationship with a p-value of 0.016, a t-value of 2.426, and a positive beta (β) of 0.146. H3, linking auditor ethics (A.E.) to A.Q., had a p-value of 0.001, a t-value of 3.392, and a positive beta (β) of 0.213, indicating significance. Lastly, H4 (auditor integrity (AIN) and A.Q.) was statistically significant with a p-value of 0.000, a t-value of 5.657, and a notably positive beta (β) of 0.491. These findings are illustrated in Table 8 and Figure 3.

Table 8. Direct effect (path coefficient)

Hypothesis	Beta	(S.M)	STDEV	T Values	P Values	Decision
H 1 : AI -> AQ	0.197	0.200	0.063	3.133	0.002	Significant
H 2 : AC -> AQ	0.146	0.154	0.060	2.426	0.016	Significant
H 3 : AE -> AQ	0.213	0.217	0.063	3.392	0.001	Significant
H4 : AIN -> AQ	0.491	0.476	0.087	5.657	0.000	Significant

OS=Original sample = Bea / Sample mean (S.M)/ Standard deviation (STDEV) / T statistics (|O/STDEV|)

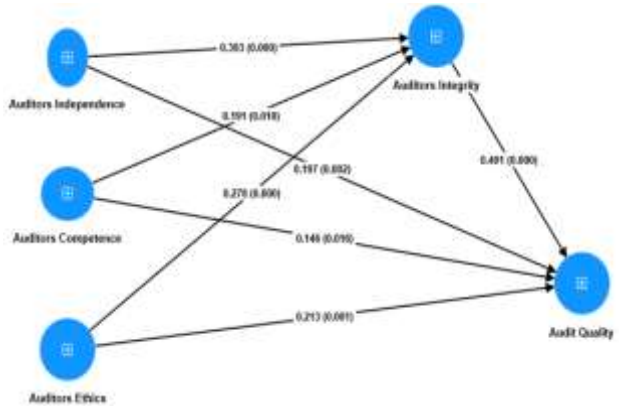

Fig. 3: Structural model with path coefficient and p-values from Bootstrapping test

4.2 Indirect Impact of the Mediator (Auditor Integrity) on Audit Quality

The analysis of the indirect impact through a mediator (auditor integrity) on audit quality was conducted using the bootstrapping method, as recommended, [36]. Bootstrapping is a reliable nonparametric resampling procedure widely used for examining mediation effects. Table 8 presents

the results of the bootstrapping analysis for the indirect impact, demonstrating the successful identification of the mediation effect of AIN. The analysis showed the effect of the independent variables on the dependent variable through AIN, and the mediation effect was found to be statistically significant. The findings of the mediation study are summarised in Table 9, where all three mediation relationships were found to be statistically significant.

Hypothesis H5, H6 and H7 were supported to be statistically significant based on their p-values being less than 0.05 and t-values exceeding 1.95. Furthermore, the beta shows the positive as the result indicator as beat in all hypotheses more than (0.1) (β), which means the values confirm a significant mediation effect.

Table 9. Analysis of Mediation result

Hypotheses	Beta	(S -M)	(STDEV)	T -S	P values	Decision
H 5 : AI -> AIN -> AQ	0.193	0.188	0.048	4.023	0.000	Significant
H 6 : AC -> AIN -> AQ	0.094	0.092	0.036	2.570	0.011	Significant
H 7 : AE -> AIN -> AQ	0.137	0.134	0.037	3.683	0.000	Significant

The results demonstrate that auditor independence, competence, and ethics when mediated by integrity, have a significant impact on audit quality.

4.3 Summary Result of the Hypotheses Testing

Table 10 below shows a summary of all the seven hypotheses that are accepted.

Table 10. Summary result of the hypotheses

No.	Hypotheses	Results
H1	The independence of auditors has a significant impact on Audit Quality	Accepted
H2	Competency of auditors has a significant impact on Audit Quality	Accepted
H3	The ethics of auditors has a significant impact on Audit Quality	Accepted
H4	Integrity of auditors has a significant impact on Audit Quality	Accepted
H5	Integrity of auditors has a significant in mediating the relationship between Auditors' Independence and Audit Quality.	Accepted
H6	The integrity of auditors is significant in mediating the relationship between Auditors' Competency and Audit Quality.	Accepted
H7	The integrity of auditors is significant in mediating the relationship between Auditors' Ethics and Audit Quality.	Accepted

5 Conclusion

This study is designed to examine the auditor's attributes of independence, ethics, and competence in audit quality, using integrity as a mediator. The results reveal a significant relationship between these factors and audit quality, highlighting some significant matters. The result confirms the impact of auditor independence, ethics, and competence on audit quality. As highlighted by many researchers, even foreign auditors hold on to these values and enhance their work quality.

Additionally, the research demonstrated that the integrity of auditors serves as a crucial mediator in the connection between auditor characteristics and audit quality. These findings imply that integrity forms the foundation for other positive qualities that impact the overall quality of audits. Consequently, the study emphasises the importance of auditor integrity in upholding the values and principles that auditors adhere to, ultimately enhancing the reliability and credibility of audit outcomes.

However, this study is also subject to certain limitations that must be highlighted. It focuses exclusively on three factors: auditor independence, competency, and ethics, with integrity acting as a mediator. Consequently, this study did not examine other factors that may influence audit outcomes. Additionally, the findings may not be easily generalised beyond the specific context of the Sultanate of Oman, as different factors could influence them in other geographical regions, cultural settings, regulatory frameworks, and organisational contexts. Furthermore, the study's emphasis on the private sector overlooks the potential variations in the factors affecting audit quality in the public sector or non-profit organisations, limiting the comprehensive understanding of this topic across diverse domains.

For future research, it is recommended to incorporate variables such as experience and accountability as independent variables, mediators, or moderators to gain a more comprehensive understanding of their impact on audit quality. These factors significantly shape auditors' behaviour and decision-making processes; thus, their inclusion would contribute to a more thorough analysis. Additionally, utilising a mixed-method approach that combines interviews and questionnaires would offer a holistic perspective, enabling the capture of insights from both qualitative and quantitative data. This integrated approach would provide a more nuanced understanding of the research topic, enhancing the validity and reliability of the findings by including diverse perspectives.

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