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ETHICAL LEADERSHIP FOR INTERNAL AUDITOR: AN EXAMINATION OF SOCIAL COGNITIVE THEORY

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Abstract

This study aims to empirically examine the influence of subjective norms, behavioral control, and intention on the attitude of internal auditors to report fraud with ethical leadership as a moderating variable. This study used a scenario-based survey of internal auditors working in state-owned and mid-level private companies. The sample was chosen by the non-random method because the sample was taken from the participants of the SNIA (National Internal Auditor Symposium) and in total, 117 respondents were gathered as valid samples. Data were analyzed using Warp PLS 4.0. This study proves that subjective norms and behavioral control have a positive effect on the attitude of internal auditors to report fraud, while intention has a negative influence on the attitude. Ethical leadership strengthens the positive influence of subjective norms and behavioral control on the attitude of the internal auditors. It also reinforces the negative influence of intention on the internal auditors' attitude. This research supports a model of integration between Theory of Planned Behavior and Social Cognitive Theory, which states that the environment, in this case ethical leadership, influences the internal auditor's cognition in making ethical decisions. However, this study cannot prove that ethical leadership can reduce the negative influence of intention on the attitude of internal auditors to report fraud.

Keywords: *Internal Auditors, Ethical Leadership, Social Cognitive Theory, Whistleblowers, Fraudulence*

Abstrak

Penelitian ini bertujuan menguji secara empiris pengaruh norma subjektif, kontrol berperilaku, dan niat terhadap sikap auditor internal untuk melaporkan kecurangan dengan kepemimpinan beretika sebagai variabel pemoderasi. Penelitian ini menggunakan survei berbasis skenario kepada auditor internal yang bekerja di perusahaan milik negara dan perusahaan swasta menengah ke atas. Sampel dipilih dengan metode penyampelan non-random karena sampel diambil dari peserta SNIA (Simposium Nasional Internal Auditor). Terdapat 117 responden sebagai sampel yang valid. Analisis data menggunakan Warp PLS 4.0. Hasil penelitian membuktikan bahwa norma subjektif dan kontrol berperilaku berpengaruh positif terhadap sikap auditor internal untuk melaporkan kecurangan, sedangkan niat berpengaruh negatif terhadap sikap auditor internal untuk melaporkan kecurangan. Kepemimpinan yang beretika memperkuat pengaruh

positif norma subjektif dan kontrol berperilaku terhadap sikap auditor internal untuk melaporkan kecurangan. Kepemimpinan yang beretika memperkuat pengaruh negatif niat terhadap sikap auditor internal untuk melaporkan kecurangan. Penelitian ini mendukung model integrasi teori perilaku terencana dan teori kognitif sosial yang menyatakan bahwa lingkungan, dalam hal ini adalah kepemimpinan yang beretika, berpengaruh terhadap kognisi auditor internal dalam membuat keputusan etis. Akan tetapi penelitian ini tidak berhasil membuktikan bahwa kepemimpinan yang beretika dapat mengurangi pengaruh negatif niat terhadap sikap auditor internal untuk melaporkan kecurangan

Kata Kunci: Auditor Internal, Kepemimpinan yang Beretika, Teori Kognitif Sosial, *Whistleblower*, Kecurangan

BACKGROUND

Accounting violations that occurred in the last ten years indicate that corporate governance has not been running effectively. To respond to this, the United States issued the Sarbanes-Oxley Act (SOX) and was followed by Japan which issued the J-SOX (Enomoto and Yamaguchi 2017). In contrast to US-SOX, J-SOX includes one measure of good governance, namely collaboration between the audit committee and internal auditors, implying that internal auditors are considered to play an important role in creating good organizational governance.

The function of internal audit is to provide assurance and direction to enhance organization's value and operation through a systematic approach by evaluating and increasing the effectiveness of risk management, control, and governance. In implementing good governance, internal auditors must provide reports on audit findings to the executive (management) and board of directors. This means that internal auditors can act as reporters of fraud to the executive and the board of directors if they find such a case (Tugiman 2006). In addition, these auditors also report findings to the audit committee, which subsequently forward them to the board of commissioners. For the executive (management) and board of directors, the findings and recommendations will be used as an evaluation and basis for corrective action. Hereinafter, the authors label the

executive (management) and board of directors as *top management*.

It has been shown that the function of internal auditors has not been fulfilled effectively. This triggers two questions: (1) why internal auditors' function is less effective, and (2) what factors influence the ineffectiveness. Sarens (2009) states that the quality of the internal audit function is determined by two components: (1) function characteristics and (2) individual characteristics. Function characteristics are related to the effectiveness of the relationship between the board of directors and the audit committee, while individual characteristics relate to auditors' educational background, previous work experience, professional certification, development and training programs, skills, behavior, technical skills, and competencies. Sarens (2009) did not provide further details about the more fundamental issues concerning internal auditors' characteristics.

This research is important to conduct in Indonesia because most companies in this country are dominated by family-controlled companies. One of the characteristics of these companies is the ineffectiveness of corporate governance (Klein et al. 2005). They found that the presence of an independent director in a family company have not been able to improve companies' performance. The study implies that there are certain conditions and characteristics that cause ineffectiveness in the governance and operation of family companies. In addition, corporate culture, namely the power distance

between superiors and subordinates, is also one of the causes (Basuki et al. 2010). Therefore, the role of the internal auditors becomes highly strategic in family companies so that the company can improve their governance effectiveness. On the other hand, from an individual perspective, in order for internal auditors to work effectively in a corporate environment (especially family companies), they must be highly professional and independent. However, this is difficult to realize in Indonesia because the people are known to have high solidarity attitude, especially among friends or colleagues. This might affect the internal auditors' moral judgment.

Previous research has found that auditors' behavior in reporting fraud (whistle-blowing) can be explained by the Fraud Triangle (Brown et al. 2016; Latan et al. 2018). In addition, Theory of Planned Behavior (TPB hereinafter) and Fraud Triangle can explain auditors' intention in Indonesia in reporting fraud (Latan et al. 2018; Anggraini and Siswanto 2016). However, Anggraini and Siswanto (2016) found that TPB cannot fully explain such behavior. The results of their study indicate that attitude has a negative effect on intention to reporting fraud. This finding contradicts the TPB, which states that, if someone has the attitude that reporting fraud is a noble act, he or she will have the intention to report it.

The results of Anggraini and Siswanto's (2016) research have motivated us to identify factors that cause negative attitude towards reporting fraud; and what factors can influence the relationship so that when someone has the attitude that reporting fraud is a noble act, he or she will intend to report it. Previous research has provided evidence that Social Cognitive Theory, or SCT hereinafter, can be used to explain the effect of environmental factors on the external auditors' cognitive processes. The auditors' concern about being given professional sanction has driven them to try to maintain

their independence (Anggraini et al. 2017). SCT states that human behavior is strongly influenced by external environment as well as cognition and other personal factors (Wood and Bandura 1989). Behavior, cognition, and other personal factors, as well as environmental factors will influence each other in driving the next behavior.

This research integrates TPB and SCT by including the role of ethical leadership as the environmental factor presumed to influence one's cognitive development. In this case, ethical leadership is presumed to moderate the influence of subjective norms on the intention of internal auditors to report fraud, the effect of behavioral control on the intention of internal auditors to report fraud, and the effect of internal auditors' attitude on such action to their intention to report fraud. Ethical leadership is one of the leadership models often reflected in the figure of a leader who shows great concern for his or her subordinates and other stakeholders. This means that the social environment shown by the role of ethical leadership will influence internal auditors' cognition to report fraud.

LITERATURE REVIEW AND HYPOTHESES FORMULATION

Internal Auditor Function

Internal auditor unit plays a key function for the company. This function provides a solution for irregularities discovered during the internal audit in the company. Because of the importance of its function, internal auditors are one of the four pillars of corporate governance in addition to external auditors, audit committees, and management (Gramling et al. 2004). This indicates that internal auditors play an important role in attempts to improve corporate governance. Internal auditor function also supports the effectiveness of corporate governance and provides recommendations in the form of problem solving to top management.

Internal auditors conduct audits with the prevailing auditing standards. Internal auditors are expected to find irregularities that can hinder the achievement of company goals. However, there are times when internal auditors cannot detect irregularities in the form of fraudulence (Dezoort and Harrison 2018). Fraud detection is a follow-up responsibility of the main responsibility for carrying out due care, risk management, and assignment objectives. Nevertheless, internal auditors must have the ability to analyze and communicate (Abdolmohammadi 2012; Arel et al. 2012), and must be courageous to reveal any weaknesses in companies' internal control (Lin et al. 2011).

Theory of Planned Behavior

Theory of Planned Behavior (TPB hereinafter) was first introduced by Ajzen (1991) and used to explain human behavior. This theory has been widely used to explain consumer behavior related to the use of environmentally friendly products (Kautish et al. 2019) and the ethical behavior of auditors (among others: Buchan 2005; Park and Blenkinsopp 2009; Anggraini and Siswanto 2016). TPB posits that a person's behavior is determined by one's intention to do so and that intention is influenced by attitude towards the behavior, subjective norms, and behavioral control. Subjective norms relate to perceived social pressure to do or not to do particular actions (Yoon 2011; Kautish et al. 2019) and are determined by perceptions of social incentives or normative beliefs about the acceptance of the behavior (Brown et al. 2016). Attitude toward behavior is defined as good or bad judgment of the given behavior (Yoon 2011). Attitude indicates the extent to which an individual positively or negatively assess the behavior (Kautish et al. 2019). Attitude is related to one's assessment of behavior determined based on beliefs in the consequences of performing the actions (Brown et al. 2016). Perceived behavioral control reflects a person's perception of the

ease or difficulty of taking an action (Yoon 2011). Behavioral control indicates whether a person can easily carry out certain behaviors and have greater control or the opposite (Kautish et al. 2019). It is determined by beliefs in the opportunities and resources available to take action (Brown et al. 2016). In general, TPB states that someone will intend to take an action if they are pressured or supported by their environment, they consider that the action is good, and they believe that they will be able to do it.

Social Cognitive Theory

Social Cognitive Theory (SCT hereinafter) is a theory which combines psychology and sociology. SCT states that environmental or social, cognitive, and other personal factors greatly influence a person's behavior (Wood and Bandura 1989). SCT emphasizes the importance of individual cognition, self-reflection, self-regulation, and how cognition is generated from the social environment through the process of social attention and learning of others as a model (Zhu et al. 2016). According to the SCT, cognitive learning processes take place in accordance with one's experience in a particular environment. This learning process then forms a model in one's mindset to modify the work system so that they can carry out their work.

In the context of research on ethics, SCT explains how moral reasoning and other psychosocial factors influence moral behavior (Domino et al. 2015). Studies on the function and role of internal auditors as reporters of fraud indicate that the role has not been optimally played (Lin et al. 2011; Stefaniak et al. 2012). This is caused by a lack of competence and the nature and scope of the assignment (Lin et al. 2011), and a close relationship with the management level (Stefaniak et al. 2012). Burton et al.

(2012) found that managers' trust in internal auditors' recommendations was influenced by initial management preferences such as management expectation of discovering irregularities and finding the right solution to advance the company. In addition, Burton et al. (2012) also found that managers' trust in the recommendations depends on the type of reporting (qualitative or quantitative) and the type of internal auditor employment status (contract or permanent employees). Recommendations that are inconsistent with the initial preferences of management have an influence on the willingness of management to change the initial decision. By using an experimental method, Arel et al. (2012) found that the function of internal auditors would be effective if supported by the managerial ethical leadership. Managers who exhibit ethical behavior will embrace the findings as well as the solutions to improve company performance.

Ethical Leadership

Ethical leadership can be seen from leaders' genuine concerns towards their subordinates and other stakeholders, such as customers or business partners. Ethical leadership will be reflected in the ability to make fair and principled decisions. Leaders engage in and encourage prosocial behavior, observe, prevent, and correct unethical behavior in themselves and others (Zhu et al. 2016). Enderle (1987) states that there are two goals to achieve in ethical leadership for managers, namely (1) to clarify and realize the ethical dimension in every management decision and (2) to formulate and justify ethical principles, namely principles that are important for accountable leadership. He further mentions that the clarification and manifestation of the ethical dimension is difficult because an individual must have moral reasoning in solving problems and understanding the problem itself.

The ethical leadership of a leader is related to the moral identity and moral concern of his or her subordinates (Mayer et al. 2012; Zhu et al. 2016) and mediates the influence of the leader's moral identity on the subordinates' moral identity. Schaubroeck et al. (2012) found that ethical leadership would foster ethical culture within an organization and in turn would influence the subordinates' cognition and ethical behavior. Their results indicate that ethical leadership from superiors will encourage subordinates to take ethical actions as leaders can have a strong influence on their subordinates by communicating meaning (verbally and non-verbally) in various situations. For example, the use of ethical language by ethical leaders in various situations will promote and activate the subordinates' moral identity and awareness (Zhu et al. 2016). Ethical leadership encourages individuals in organizations to have the motivation to take ethical action. Ethical leadership from superiors can encourage subordinates to report to them if subordinates detect any fraud in the organization (Bhal and Dadhich 2011). Courage to report to superiors will improve executive and internal audit function (Arel et al. 2012).

Ethical leadership from superiors encourages companies to care about social problems faced by both their employees and the surrounding community (Wu et al. 2015). Efforts to implement ethical culture in organizations will in turn increase organizational involvement and identification of ethical issues (Demirtas and Akdogan 2015; Demirtas et al. 2017). Attitude to take action formed by top managers and commissioners are influenced by ethics and leadership culture (Carpenter et al. 2011). Attitude toward an ethical action will affect the successful implementation of ethical culture. A person may act unethically if the consequences of his or her action are not punishment but appreciation or reward (Carpenter et al. 2011). The same situation occurs in the attitude of internal auditors who intend to

become reporters of fraud when they are valued for their role. Thus, ethical leadership will encourage individuals who have particular attitude towards ethical behavior to take ethical actions.

Hypotheses Formulation

This study aims to examine the SCT role in explaining the behavior of internal auditors when they detect fraud. As stated earlier, reporting fraud is a follow-up duty that must be performed by the auditors to the audit committee. On the other hand, internal auditors are company employees who have an emotional attachment to coworkers, which might create a dilemma whether they should or should not report the fraud.

TPB states that the intention to act ethically is influenced by attitude, control, and subjective norms. Suryono and Chariri (2016) found that subjective norms had a positive effect on the attitude and intention of civil servants to report fraud, but attitude showed no effect on intention to report fraud. However, Anggraini and Siswanto (2016) found that attitude actually had a negative effect on intention to report fraud. This means that TPB cannot fully explain the ethical behavior of internal auditors and it is presumed that there are other factors that influence intention to report fraud.

Subjective Norms, Attitude toward Behavior, and Ethical Leadership

Previous studies have shown that TPB cannot explain the behavior of internal auditors in reporting fraud (Anggraini and Siswanto 2016; Suryono and Chariri 2016). Both studies found that subjective norms influence attitude, but attitude is not positively related to intention to report fraud. The results indicate that there may be other factors that moderate the influence of subjective norms, behavioral control, and attitude towards intention to report fraud.

Based on SCT, a person's cognitive is influenced by their environment when

making a decision. Ethical leadership is one way for employees to instill morale because ethical leaders can set an example in carrying out ethical actions and subsequently these actions will be imitated by their subordinates (Mayer et al. 2012; Zhu et al. 2016). Leaders' behavior will be an example for subordinates. If subordinates have experience on reporting fraud in the organization and the leader appreciates such action, they will have the desire to repeat the same action if fraud is detected (Mesmer-Magnus and Viswesvaran 2005).

Therefore, if top management displays an attitude that they disapprove of fraud within the company, internal auditors will have the intention to report if they find one (Near and Miceli 1986 in Mesmer-Magnus and Viswesvaran 2005). Ethical leadership from top management will provide an opportunity for internal auditors to submit findings based on data they gather on the fraud. If top management tends to cover certain parts or areas and does not allow the auditors to audit the parts, the work of the internal auditors becomes ineffective.

The findings of Anggraini and Siswanto (2016) show that subjective norms have a positive effect on the attitude of internal auditors to report fraud. The ethical leadership shown by top management will further enhance the internal auditors' confidence in reporting fraud. Based on the statement above, the hypothesis can be formulated as follows:

H₁: Ethical leadership reinforces the positive influence of subjective norms on the attitude of internal auditors to report fraud

Attitude, Behavioral Control, Ethical Leadership, and Intention to Report Fraud

Ethical leadership is shown by the attitude of protecting subordinates from unfair actions. This attitude is shown by showing to all subordinates that the leader does not

favor a particular person' interests (Zhu et al. 2016). Ethical leadership also appears in the attitude of superiors who respect ethical principles, primarily related to the principle of accountability. It is an environmental factor that can shape a person's mentality to be able to act ethically and will encourage subordinates to act ethically (Zhu et al. 2016; Schaubroeck et al. 2012).

Ethical leadership encourages individuals to report fraud (Bhal and Dadhich 2011) and increases the effectiveness of internal auditor function (Arel et al. 2012). For internal auditors, if top management exhibits the above characteristics, when they find irregularities within the company, they will have the courage to report because they believe they have the opportunity and space to audit optimally. In addition, they will have the courage to report fraud because they believe that what they report will have the support of their superiors. This means that managerial ethical leadership will influence the ethical attitude and intention of internal auditors to report fraud to management. Therefore, the proposed hypothesis is:

H2: Ethical leadership has a positive effect on internal auditors' intention to report fraud

Previous research has shown that internal auditors consider that the attitude of reporting fraud is noble but such attitude is often not followed by intention to do so (Anggraini and Siswanto 2016). If top management disapproves of fraud in the company and supports subordinates to report fraud, internal auditors will be courageous to take such action. Thus, the proposed hypothesis is:

H3: Ethical leadership strengthens (weakens) the positive (negative) effect of attitude on internal auditors' intention to report fraud

Previous studies on the role of ethical leadership in organizations show that ethical leadership influences the development of ethical culture (Wu et al. 2015), the courage to report fraud (Bhal and Dadhich 2011), and the effectiveness of internal auditor function (Arel et al. 2012). Wu et al. (2015) found that CEO ethical leadership would influence the ethical culture of the organization. Brown et al. (2016) found that subjective norms affect the intention of accountants to report fraud. This suggests that when internal auditors feel that more people are giving support to reporting fraud and full support is obtained from top management to audit the fraud and their safety is guaranteed if they are threatened by those who feel harmed by their reporting, internal auditors are more willing to report the fraud. Therefore, the proposed hypothesis is:

H4: Ethical leadership strengthens the effect of behavioral control on internal auditors' intention to report fraud

METHOD

Type

This research is a quantitative study. Data was collected using scenario-based surveys. The scenario given was a case of ethical violation by accountant, who reported accrual costs unsupported by evidence (false reporting). This false or fake accrual costs results in the company's profits being lower than they really are. However, this action makes reported earnings close to predicted earnings.

The subjects of this study were internal auditors working in state-owned and private medium-sized companies who attended the national internal audit symposium (Simposium Nasional Internal Audit, or SNIA). Of the total 125 internal auditors who were present at the time, only 117 respondents answered all the given questions. Therefore, in total there were 117 valid data for testing.

Table 1
Respondents' Demography

Age	<25 Years	26-35 Years	36-45 Years	46-55 Years	>55 Years	Total Respondents
Gender						
Male	1	12	24	50	12	99
Female	0	3	5	6	1	15
Total	1	15	29	56	13	114
Training¹						
1-2 times	0	1	0	3	0	4
3-4 times	1	12	22	30	8	73
5-6 times	0	2	1	0	0	3
>6 times	0	0	6	23	5	34
Total	1	15	29	56	13	114
Duration of job position²						
<1 Year	0	3	2	9	1	15
1-2 Years	2	0	7	21	6	32
3-5 Years	0	7	9	16	5	37
>5 Years	0	5	11	10	4	30
Total	2	15	29	56	13	114
Type of companies						
Private	1	6	10	10	4	31
State-owned	0	7	14	44	8	73
Government	0	2	5	2	1	10
Total	1	15	29	56	13	114

Notes: ¹ average number of training attended in 1 year

² job position as internal auditor

Model

This study examined two models. Model 1 was used to test hypothesis 1 and model 2 to test hypotheses 2, 3, and 4.

1. Hypothesis testing 1

Model 1 was used to test hypothesis 1. Hypothesis 1 is supported if the β_2 coefficient is positive and significant.

$$STP_i = \beta_0 + \beta_1 NS_i + \beta_2 KE_i + \beta_3 NS_i * KE_i + \varepsilon \quad (1)$$

Where:

STP_i = Attitude towards the behavior of subject i

NS_i = Subjective Norms of subject i

KE_i = Subject i perception of ethical leadership from superiors

ε = Confounding factor

2. Hypothesis testing 2, 3 and 4

$$NBM_i = \beta_0 + \beta_1 STP_i + \beta_2 KKP_i + \beta_3 KE_i + \beta_4 STP_i * KE_i + \beta_5 KKP_i * KE_i + \varepsilon \quad (2)$$

Where:

NBM_i = Moral intent from subject i

STP_i = Attitude towards the behavior of subject i

KKP_i = Perceived Behavioral Control of subject i

KE_i = Subject i perception of ethical leadership from superiors

ε = Confounding factor

Research Model 2 was used to test hypotheses 2, 3, and 4. Hypothesis 2 is supported if the β_3 coefficient is significant, hypothesis 3 is supported if the β_4 is positive and significant, and hypothesis 4 is supported if the β_5 is positive and significant.

Variable Measurement

1. Subjective Norms of subject *i* (NS_{*i*})
Subjective norms were measured by four measurement items as used by Yoon (2011). Question items for measuring subjective norm variables are questions 1, 2, 3, and 4 in the questionnaire presented in Appendix 1.
2. Attitude towards behavior (STP)
Attitude towards behavior was measured by four measurement items as used by Yoon (2011). The question items to measure the attitude variable towards the rules are questions 5, 6, 7, and 8 in the questionnaire presented in Appendix 1.
3. Perceived Behavioral Control (KKP)
This variable was measured by four measurement items as used by Yoon (2011). The perceived behavioral control measurement items are questions 9, 10, 11, and 12 in the questionnaire presented in Appendix 1.
4. Subject *i* perception of ethical leadership from superiors (KE)
Ethical leadership is a model of leadership that is shown by the behavior of superiors with high moral identity. Superiors who exhibit this leadership model will apply punishment to subordinates with unethical behavior. This variable was measured using 10 question items as used by Mayer et al. (2012). The ethical leadership measurement item is questions 16 to 25 on the questionnaire presented in Appendix 1. presented in appendix 1.
5. Moral Intent (NBM)
The intention to act ethically indicates how hard people try and how much effort they are willing to spend to carry out a particular action (Buchan 2015), which in this case is reporting fraud. This variable was measured using three question items as used by Yoon (2011). The items measuring moral intent are questions 13, 14, and 15 on the questionnaire presented in Appendix 1.

Analysis

Data were analyzed using Warp PLS 4.0 because variable testing in the model was carried out simultaneously. PLS (Partial Least Square) is a robust method for building models with many variables and indicators (Gozali and Lathan 2014).

RESULTS AND DISCUSSIONS

Outer Model Evaluation

An outer model evaluation was carried out to test the validity and reliability of all items or indicators used to measure the research construct or variables. Evaluation of the measurement model or outer model was done by finding the values of *indicator reliability* and *composite reliability*.

Table 2 shows that the Adjusted R-squared coefficients of the two models were 36.1% and 57.5%, respectively. This shows that the model is moderate because no more than 70% of the variation of the independent variables explains the variation of the dependent variable. Table 2 also shows that the Composite reliability coefficients were more than 0.7, which meets the internal consistency reliability. AVE values greater than 0.5 (except for the KE * NS and KE * KKP variables) indicate that the construct meets the convergent validity criteria. The value of full collinearity VIFs for each construct was less than 3.3, which means that there is no collinearity problem in the model. Finally, the Q-squared value generated by each variable is endogenous > 0, implying that the model has predictive relevance.

Structural Model Evaluation

This testing was carried out to predict the relationship between latent variables to see how much variance can be explained and to determine the significance of the *p* value. The test results showed that the APC (Average Path Coefficient) was 0.262 (*p* < 0.001), ARS (Average R-squared) was 0.435

Table 2
Outer Model Testing

	NS _i	KKP _i	KE _i	STP _i	NBM _i	NS _i *KE _i	STP _i *KE _i	KKP _i *KE _i
R-squared coefficients				0.372	0.593			
Adjusted R-squared coefficients				0.361	0.575			
Composite reliability coefficients	0.885	0.827	0.937	0.894	0.823	0.944	0.941	0.960
Cronbach's alpha coefficients	0.826	0.684	0.922	0.822	0.570	0.939	0.934	0.956
Average variances extracted	0.658	0.684	0.922	0.822	0.570	0.939	0.934	0.956
Full collinearity VIFs	1.836	2.267	1.332	1.844	2.169	1.589	1.154	1.576
Q-squared coefficients				0.374	0.590			

Table 3
Hypotheses Testing Results

		β	p -value	Conclusion
Model 1	NS _i	0.62	<0.01	H ₁ is supported
	NS _i *KE _i	0.14	0.3	
Model 2	STP _i	-0.36	<0.01	H ₂ is not supported H ₃ is not supported H ₄ is supported
	KKP _i	0.36	<0.01	
	KE _i	0.04	0.3	
	STP _i *KE _i	0.15	0.02	
	KKP _i *KE _i	0.17	<0.01	

($p < 0.001$), and the AARS (Average Adjusted R-Squared) was 0.417 ($p < 0.001$). The results of this testing show that the model is fit.

Hypotheses Testing

The results of models 1 and 2 testing are presented in table 1 and figure 1 below. The results of testing model 1 show the β_1 and β_2 coefficient values were positive and significant, which means that H₁ is supported. This means that subjective norms have a positive influence on attitude toward the intention to report fraud, and ethical leadership reinforces the influence.

The results of Model 2 testing show that the β_2 , β_4 , and β_5 coefficients were positive and significant, the β_1 coefficient was negative and significant, while the β_3

coefficient is not significant. This means that H₂ is not supported, but H₃ and H₄ are supported. The testing results show that behavioral control has a positive effect on the intention of internal auditors to report fraud, and ethical leadership is a moderating factor in the relationship between behavioral control and intention. The β_3 coefficient was not significant so H₂ is not supported. This means that the ethical leadership of superiors does not directly influence the internal auditors' intention to report fraud. A positive and significant β_4 and a negative β_1 indicate that H₃ is not supported because ethical leadership moderates the negative influence of attitude on the intention to report fraud. This means that ethical leadership reinforces the negative influence of the attitude that reporting fraud is a noble act against the

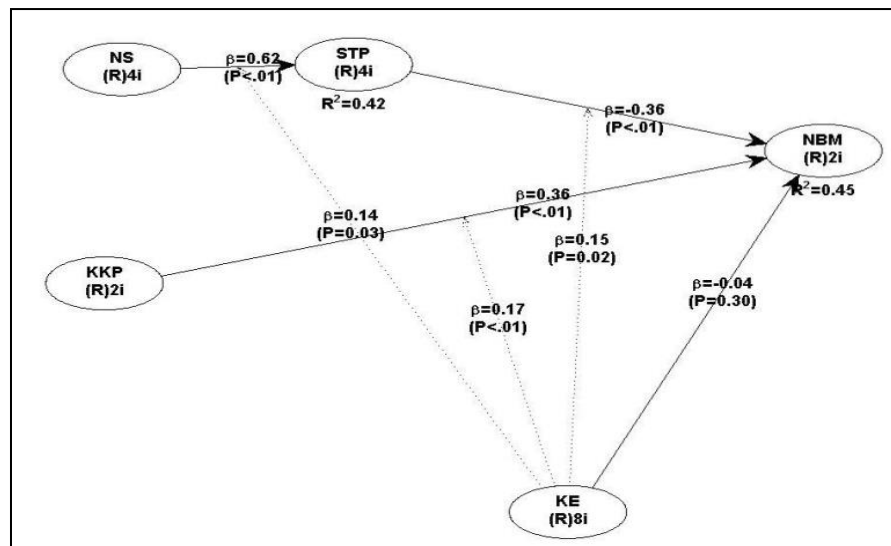


Figure 1
Testing Results for Models 1 and 2 with Warp PLS 4.0

intention to report the fraud. The β_5 coefficient was positive and significant, indicating that H₄ is supported. This means that ethical leadership of superiors moderates the relationship between behavioral control and intention and behavior to report fraud.

Discussion

In general, the results of the study indicate that the ethical leadership of superiors does not directly influence the internal auditors' intention to report fraud but this factor moderates the influence of attitude, subjective norms, and behavioral control over the internal auditors' intention to report fraud. This kind of leadership also reinforces the positive influence of subjective norms on internal auditors' intention to report fraud. Subjective norms possessed by internal auditors indicate social pressure or normative beliefs that they must report to superiors if they find fraud. This will develop the internal auditors' attitude that reporting fraud is ethical. An environment with a strong ethical culture, which is demonstrated by ethical leadership, makes internal auditors more confident in their behavior that reporting fraud is ethical (noble).

Ethical leadership reinforces the positive influence of behavioral control on internal auditors' intention to report fraud. The behavioral control shows how easily they take a particular action. If there is an opportunity and ability to take an action, they will do it. Environmental support will influence behavioral control. This research has proven that superiors' ethical leadership reinforces the internal auditors' perception that they are able to control their own behavior if they report fraud and thus will have the intention to actually do it.

The results of this study extend the research of Anggraini and Siswanto (2016) and Suryono and Chariri (2016) by providing evidence of the role of superiors' ethical leadership as a contextual factor that can influence antecedent factors, namely subjective norms and behavioral control, on reporting fraud. Ethical leadership will strengthen internal auditors' intention to report when they detect and find fraud in the company. However, this study cannot prove that the negative influence of attitude to the behavior on the intention to report fraud, as shown by the results of Anggraini and Siswanto's (2016) research, can be minimized by ethical leadership. Therefore, the

hypothesis that ethical leadership can reduce the negative influence of the internal auditor's attitude to reporting fraud on the intention to report fraud is not supported.

This study supports the SCT, namely that contextual factor, in this case ethical leadership, is a factor driving the effectiveness of reporting fraud by internal auditors. The results of this study also show that TPB can be integrated with SCT. However, the attitude shown by internal auditors that reporting fraud is noble behavior still does not motivate them to report the fraud even though they are working under ethical leadership. Although the leadership supports the reporting, internal auditors still do not develop the intention to report. It should be noted that this research sample is less heterogeneous because most respondents (73%) were internal auditors working in SOEs, so that organizational culture in SOEs will be different from private companies (31%) and government agencies (10%).

CONCLUSION

This research successfully supports Social Cognitive Theory by showing that ethical leadership plays an important role in shaping the internal auditor's cognition to conduct ethical actions, namely reporting fraud found within the company. A leader who cares for his or her subordinates and always makes fair and morally principled decisions will strengthen the internal auditors' attitude towards reporting fraud behavior.

This study implies the need for testing of other factors that shape organizational culture that influence the development of internal auditors' cognition in the organization because ethical leadership does not fully encourage it to report fraud. The results of this study indicate that ethical leadership does not always encourage internal auditors to report fraud because they trust the support of colleagues and their confidence. Ethical

leadership functions more as an amplifier of auditor confidence to report fraud. The results of this study support Wu et al. (2015), Bhal and Dadhich (2011), and Arel et al. (2012) and broaden the results of research by Latan et al. (2018) and Brown et al. (2016) by showing evidence that the integration of TBP and SCT can be used to explain auditor behavior in reporting fraud in the company.

The limitations of this study include the non-random sampling method because the survey was conducted only on auditors attending a specific seminar, so the results of this study cannot be generalized to provide general conclusions about the behavior of internal auditors in Indonesia. Because most respondents work for SOEs, the results of this study only illustrate the conditions that occur in SOEs, not private companies or other types of companies.

Therefore, further studies need to use random sampling techniques to be able to provide a more general picture of the behavior of internal auditors in Indonesia. They can also focus on internal auditors working in certain companies or agencies to obtain samples with more homogeneous characteristics so that the results of the study will be able to explain the behavior of internal auditors in particular work environments.

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