

INTERNAL AUDITOR INDEPENDENCE UNDER CONFLICTS OF INTEREST AND RELATIONAL PRESSURE: A PHENOMENOLOGICAL STUDY

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Abstract

This study aims to understand the experiences of internal auditors in maintaining independence in audit conflict of interest situations. The study uses a qualitative approach with a phenomenological method to explore the experiences of internal auditors when facing independence threats in the audit process. The research informants consisted of two internal auditors: an auditor who audited a colleague suspected of fraud and an auditor who faced audit pressure due to power relations within the organization. Data were collected through in-depth interviews and analyzed using Moustakas' phenomenological approach. The results show that auditor independence is not only interpreted as compliance with professional standards, but also as a moral responsibility and professional identity of the auditor. Threats to independence arise through relational closeness, social pressure, and power relations that give rise to internal conflicts in the audit process. Auditors strive to maintain objectivity through self-control, limiting personal interactions, and a commitment to professionalism and integrity. This study shows that auditor independence is a complex experience that simultaneously involves professional, emotional, social, and moral dimensions.

Keywords: auditor independence, internal auditor, conflict of interest, phenomenology.

INTRODUCTION

Auditor independence is a fundamental principle in the audit profession because it relates to the auditor's ability to provide objective assessments without being influenced by personal interests, interpersonal relationships, or pressure from other parties (Tepalagul & Lin, 2015). Independence is the main basis for maintaining the credibility of audit results and trust in the organization's oversight function. In the context of internal auditing, auditor independence presents a more complex challenge because the auditor is in the same organizational environment as the auditee, so that social interactions, work relationships, and power relations can affect the auditor's objectivity (Stewart & Subramaniam, 2010). Internal auditors play a critical role in ensuring the effectiveness of internal controls, regulatory compliance, and fraud prevention and detection within an organization. However, in practice, internal auditors often face dilemmas when conducting audits with parties with whom they have personal relationships or close relationships, or with parties with influence within the organization. This situation has the potential to threaten auditor independence and create conflicts of interest in the audit process.

Tepalagul and Lin (2015) explain that auditor independence is closely related to audit quality because independence affects the auditor's objectivity in evaluating audit evidence and making professional decisions. Auditors who are not independent risk biased audit judgments, which can decrease audit quality. In internal auditing, threats to independence arise not only from formal organizational pressure but also from interpersonal relationships, social pressure, and power relations within the organization. Stewart and Subramaniam (2010) explain that internal auditors face independence challenges due to close working relationships, role conflict, and organizational pressures. Internal auditors are in a unique position because, on the one hand, they are responsible for helping the organization achieve its goals, but on the other hand, they must also carry out their oversight function independently and objectively. Ahmad and Taylor (2009) add that role conflict and role ambiguity can impact internal auditors'

commitment to independence. The phenomenon of threats to auditor independence can arise in various forms. In this study, these experiences are illustrated through two distinct situations. The first informant is an internal auditor who experienced auditing a colleague suspected of fraud in the credit granting process. The close personal relationship as friends created a situation that potentially compromised the auditor's objectivity, particularly when the auditee attempted to take a personal approach to prevent the audit findings from being raised in the audit report.

Meanwhile, the second informant faced a different experience when the audit process involved a party perceived as a "trustee" of a particular authority within a government organization. This situation created psychological and professional pressure for the auditor due to the power relations that could potentially impact the auditor's independence in carrying out supervisory duties. Both experiences demonstrate that threats to auditor independence stem not only from interpersonal relationships but also from structural pressures and power relations within the organization. Fraud is an intentional act of deception for personal gain and can cause financial and non-financial harm to an organization. Internal auditors have a crucial responsibility to detect and uncover indications of fraud through the audit process and evaluation of the organization's internal controls. Alleyne and Howard (2005) explain that auditors have a professional responsibility to detect fraud and ensure the internal control system is operating effectively.

In facing complex audit situations, auditors are required to possess professional skepticism to evaluate audit evidence critically and objectively. Hurr (2010) explains that professional skepticism is an important characteristic of auditors in maintaining objectivity and independence throughout the audit process. Auditors with high levels of professional skepticism tend to be more cautious in evaluating information and are less easily influenced by personal relationships or organizational pressures. Nelson (2009) also explains that professional skepticism helps auditors identify indications of irregularities and maintain the quality of audit judgments. Furthermore, the quality of auditor judgment is also influenced by the auditor's professional commitment to maintaining objectivity when facing certain pressures (Kadous et al., 2003). Much research has been conducted on auditor independence, but most previous studies have used a quantitative approach and focused primarily on external auditors. Church et al. (2015) explain that research on auditor independence is still dominated by regulatory perspectives and formal measures of independence, while auditors' subjective experiences in dealing with independence pressures are relatively limited. However, understanding these experiences is crucial because auditor independence is not only related to compliance with professional standards but also relates to emotional experiences, internal conflicts, social pressures, and the auditor's moral reflection in carrying out supervisory duties.

Therefore, this study uses a qualitative approach with a phenomenological method to understand the experiences of internal auditors in dealing with independence threats in the audit process. The phenomenological approach was chosen because it can explore the lived experiences of auditors in depth, including how auditors interpret professionalism, objectivity, independence, and the relational and structural pressures they face during the audit process (Moustakas, 1994; Creswell, 2013). This research is expected to provide theoretical contributions to the development of internal auditor independence literature through a phenomenological perspective as well as provide practical contributions to organizations in strengthening the supervisory system, maintaining internal auditor independence, and minimizing conflicts of interest in the audit process.

LITERATURE REVIEW

Internal Auditor Independence

Independence is a key principle in the auditing profession, requiring auditors to be objective and free from the influence of others in carrying out audit duties. Independence is not only related to compliance with professional standards but also reflects the auditor's moral integrity in producing objective and reliable audit assessments. Tepalagul and Lin (2015) explain that auditor independence has a significant relationship with audit quality because independence affects the auditor's ability to evaluate audit evidence objectively and professionally. In the context of internal auditing, independence presents more complex challenges than external auditors. Internal auditors operate within the same organizational environment as the auditee, so interpersonal relationships, organizational culture, and structural pressures can impact auditor objectivity. Stewart and Subramaniam (2010) explain that internal auditor independence is often affected by role conflicts, organizational relationships, and managerial pressures that arise during the audit process. Ahmad and Taylor (2009) added that internal auditors' commitment to independence can be influenced by role conflict and role ambiguity. Role conflict arises when auditors face conflicting demands between professional responsibilities and organizational pressures, while role ambiguity occurs when auditors lack clear role boundaries in carrying out their oversight functions. These conditions can reduce auditor objectivity and affect the quality of audit decision-making.

Church et al.'s (2015) research also explains that auditor independence is not only understood as a formal condition stipulated in professional standards, but also as a practical experience influenced by the social environment, organizational pressures, and power relations. Therefore, auditor independence needs to be understood not only technically, but also through the auditor's subjective experiences in facing various pressures during the audit process.

Fraud and Auditor Responsibility

Fraud is an act of deliberate deception committed for personal or group gain, resulting in losses for the organization. Fraud can occur in various forms, such as financial statement manipulation, asset misappropriation, and deviations from organizational operational procedures. Within organizations, internal auditors play a crucial role in detecting and uncovering indications of fraud through audits and internal control evaluations. Alleyne and Howard (2005) explain that auditors have a professional responsibility to detect fraud and ensure the internal control system is operating effectively. Auditors are required to identify indications of irregularities and objectively evaluate audit evidence to determine the existence of fraud within the organization. However, in practice, the process of disclosing fraud is not always straightforward. Auditors often face social pressure, interpersonal relationships, and vested interests that can influence their objectivity in disclosing audit findings. This situation becomes more complex when the party suspected of fraud has a close relationship with the auditor or wields influence within the organization. Therefore, auditor independence is a crucial factor in maintaining the quality of the audit process and disclosing fraud.

Auditor Professional Skepticism

Professional skepticism is the auditor's critical attitude in objectively evaluating audit evidence and resisting the temptation to accept information without adequate verification. Professional skepticism is a crucial element in maintaining audit quality because it helps auditors identify indications of irregularities and maintain objectivity throughout the audit process. Hurtt (2010) explains that professional skepticism is an individual characteristic of an auditor that reflects a questioning mind, alertness to potential deviations, and the ability to critically evaluate audit evidence. Auditors with high levels of professional skepticism tend to be more cautious in making audit decisions and are less easily influenced by environmental pressures or personal relationships.

Nelson (2009) explains that professional skepticism is influenced by individual auditor factors, audit experience, organizational situations, and work environment pressures. Auditors facing certain social or interpersonal pressures require strong professional skepticism to maintain independence and objectivity throughout the audit process. Furthermore, Kadous et al. (2003) explain that the quality of an auditor's judgment is also influenced by the auditor's commitment to professional objectives and auditing standards. Auditors with a strong professional commitment tend to be more consistent in maintaining objectivity despite facing organizational pressures and personal relationships with auditees.

Phenomenological Approach in Audit Research

This study uses a phenomenological approach to understand the experiences of internal auditors in dealing with threats to independence during the audit process. Phenomenology is a qualitative research approach that focuses on an individual's lived experience of a particular phenomenon. This approach aims to deeply explore the subjective meaning of human experience. Moustakas (1994) explains that phenomenology seeks to understand the essence of individual experience through reflection on a person's conscious experiences. In phenomenological research, researchers seek to understand how individuals interpret the experiences, emotions, conflicts, and awareness that arise in a particular situation.

Creswell (2013) explains that a phenomenological approach is used to explore individual experiences of a phenomenon in depth through interviews and participant reflections. This approach is relevant for use in auditor independence research because auditors' experiences relate not only to technical audit procedures but also involve emotional experiences, moral conflicts, social pressures, and the auditor's inner struggle to maintain professionalism. In this study, a phenomenological approach is used to understand how internal auditors interpret independence when faced with interpersonal relationships and power pressures in the audit process. Through this approach, the research is expected to delve deeper into auditors' subjective experiences, thereby providing a more comprehensive understanding of internal auditor independence in organizational practice.

METHODOLOGY

This study uses a qualitative approach with a phenomenological method to understand the experiences of internal auditors in maintaining independence in audit conflict-of-interest situations. The phenomenological approach was used because the research focuses on the lived experiences of auditors in dealing with relational pressures and conflicts of interest during the audit process (Moustakas, 1994; Creswell, 2013). Research informants were selected using purposive sampling techniques, namely internal auditors who have experience facing independence threats in the audit process. This study involved two informants: an internal auditor who had audited a colleague suspected of fraud and an internal auditor who faced audit pressure due to power relations within the organization.

Research data was collected through in-depth interviews using a semi-structured interview guide. The interviews focused on auditors' experiences in dealing with conflicts of interest, maintaining objectivity, making audit decisions, and understanding auditor independence. Data analysis was conducted using Moustakas' (1994) phenomenological approach, including identifying key statements, grouping themes, compiling descriptions of informants' experiences, and discovering the essence of auditors' experiences related to independence. Data validity was achieved through source triangulation and member checking to ensure interpretations aligned with informants' experiences.

RESULTS AND DISCUSSION

This study aims to understand the experiences of internal auditors in maintaining independence in audit conflict-of-interest situations. Based on in-depth interviews with two informants, it was found that threats to auditor independence arise in two main forms: relational pressure and power pressure within the organization. The first informant experienced a situation where he had to audit a colleague and long-time friend who was suspected of fraud, while the second informant faced independence pressure because the auditee was close to the organization's leadership. Through a phenomenological approach, this study found that auditor independence is not merely compliance with professional standards, but is an inner experience involving moral conflict, emotional pressure, social relations, and the auditor's professional struggle in carrying out supervisory duties.

Professionalism as the Moral Foundation of Auditors

The research results show that both informants view professionalism as a primary principle in carrying out audit duties. Professionalism is understood not only as adherence to work procedures, but also as a form of auditor moral responsibility to the organization and their profession.

The first informant confirmed:

" If it's wrong, it's wrong, if it's right, it's right ."

This statement indicates that auditors view professionalism as the courage to uphold the truth despite personal relationships with auditees. The first informant attempted to separate friendships from professional responsibilities during the audit process.

Meanwhile, the second informant viewed professionalism as an effort to maintain auditor principles amidst organizational pressures. The informant stated:

" I want to maintain my independence and principles as an auditor. Independence and integrity reflect professionalism ."

However, the experiences of the two informants demonstrate differences in the contexts in which they practice professionalism. The first informant was relatively able to maintain their independence when faced with relational pressure from their peers. In contrast, the second informant struggled to maintain professionalism due to structural pressures and intervention from organizational leaders. These findings indicate that auditor professionalism is influenced not only by technical competence but also by the organizational conditions and power relations in which the auditor works. This finding aligns with Stewart and Subramaniam (2010), who explained that internal auditor independence is strongly influenced by organizational relationships and work environment pressures.

Threats to Independence: Relational Closeness and Power Pressure

This study found that threats to auditor independence emerged in different forms for each informant. The first informant faced threats to independence through an interpersonal relationship with an auditee, a school friend. This closeness gave rise to an emotional approach during the audit process.

The first informant said:

" Bro, please don't pick up things like that ."

This approach demonstrates that social relationships can be a means of negotiation in the audit process. Relational closeness creates interpersonal pressure that can potentially impact auditor objectivity.

However, unlike the first informant, the second informant faced pressures for independence stemming from power relations within the organization. The informant explained:

" The highest regional leader directed the internal auditor to oversee the results of the BPK audit and mitigate the auditee's findings which were actually wrong for the benefit of his superiors ."

This experience demonstrates that government internal auditors face structural pressures that are more complex than interpersonal ones. In such situations, auditors are not only confronted with auditees, but also with the interests of the organization and higher-ranking leaders.

The second informant also said:

" Independence turns out to be difficult to apply in situations like this ."

This statement demonstrates that auditor independence in organizational practice is not always achieved ideally, as per professional standards. Organizational pressures and power relations can create conflicts of interest that influence audit decisions.

This finding supports Ahmad and Taylor (2009) who explained that role conflict and organizational pressure can influence internal auditors' commitment to independence.

Independence as an Auditor's Inner Struggle

The research results show that the experience of maintaining independence creates an internal struggle within auditors. Independence is understood not only as a professional rule, but also as an emotional experience involving auditors' moral reflection on their work.

The first informant indicated that auditors remain aware of potential conflicts of interest. The informant stated:

" If there were indeed different emotional feelings at the beginning, it would have been better for me not to take the path of conducting the audit ."

This statement shows the auditor's self-reflection on the possibility of audit objectivity being disturbed due to certain emotional relationships.

Meanwhile, the second informant experienced stronger internal conflict due to pressure from the organization's leadership. The informant stated:

" Mental pressure because I really want to uphold my ideals as an auditor but have to follow my superior's orders ."

In addition, the second informant also felt disappointed with the audit conditions he experienced:

" Disappointed because internal auditors are only used as a buffer to be responsible for how to minimize BPK findings ."

This experience demonstrates that auditors face a clash between professional ideals and organizational realities. Auditors understand the principle of independence normatively, but in practice, auditors still have to contend with organizational interests and power pressures.

From a phenomenological perspective, this experience shows that auditor independence is an existential experience that involves a struggle between personal moral values, professional responsibilities, and organizational realities.

This finding is in line with Hurtt (2010) and Nelson (2009) who explained that auditors' professional skepticism is greatly influenced by psychological conditions, audit experience, and work environment pressure.

Auditor Objectivity and Organizational Reality

This study found that auditors strive to maintain objectivity through various self-control strategies. The first informant maintained objectivity by limiting personal interactions with auditees during the audit process.

" As much as possible during the examination process, I minimize interaction with the person concerned ."

This strategy indicates that the auditor attempts to maintain emotional distance to maintain audit objectivity.

Meanwhile, the second informant faced a more challenging situation because audit decisions were influenced by organizational structure and leadership authority. The informant explained:

" It doesn't actually affect objectivity in the audit process, but it does affect the final decision ."

This statement indicates that auditors are still capable of detecting irregularities professionally, but the final audit results are not completely free from organizational interference. This situation illustrates the difference between the auditor's technical objectivity and the organization's judgment regarding the audit results.

The second informant also said that he finally followed the decision of the team and the organization's leadership:

" With a heavy heart, we must follow the wishes of the leadership and joint decisions ."

This experience shows that internal auditors do not have complete freedom in determining audit decisions because auditors are within the organization's bureaucratic structure.

These findings demonstrate that internal auditor independence is complex because auditors must perform oversight functions amidst organizational power relations. These findings align with Tepalagul and Lin (2015), who explain that auditor independence is influenced by various external factors, including organizational pressure and management interests.

What It Means to Be an Auditor: Maintaining Integrity Under Pressure

The research findings show that experiences with conflicts of interest and pressure during the audit process shape how auditors interpret their profession. For both informants, being an auditor involves more than simply carrying out audit procedures, but also fulfilling a moral responsibility to maintain the integrity of the organization and trust in the auditing profession.

The first informant believes that auditors have a responsibility to ensure that the organization operates effectively and in accordance with the principle of prudence. The informant stated:

" This is actually to help the company achieve its goals better and more prudently ."

This statement demonstrates that auditors view their profession as a form of professional service to maintain the effectiveness and integrity of an organization. Auditors' role is not only to uncover errors but also to ensure the organization operates healthily and accountably.

In addition, the first informant also emphasized the importance of carrying out the audit profession in accordance with the applicable code of ethics.

" Be an auditor in accordance with what is stated in the code of ethics and professional ethics ."

This statement shows that the code of ethics is understood as a moral guideline for auditors in facing various relational pressures during the audit process.

Meanwhile, the second informant defined the audit profession as one that demands moral courage amidst the pressures of organizational power. The informant stated:

" Ultimately, the essence of the auditor profession is maintaining trust ."

This statement demonstrates that auditors recognize the significant responsibility their profession places on maintaining organizational accountability and public trust. Experience with organizational pressures has taught auditors that integrity is the primary foundation for carrying out their oversight function.

However, the second informant's experience also shows that maintaining auditor integrity within organizational practices is not easy. Pressure from powerful parties places auditors in a dilemma between upholding professional ideals and following organizational decisions.

From a phenomenological perspective, the experiences of both informants demonstrate that being an auditor means navigating a moral struggle amidst social relations and organizational power structures. Auditor independence is not only related to formal professional standards but also relates to the auditor's ability to maintain personal integrity amid interpersonal and structural pressures. Thus, the meaning of being an auditor for both informants is maintaining trust through integrity, objectivity, and moral responsibility toward the profession and organization.

Independence as Auditor's Reflective Awareness

The research results show that the experience of facing conflicts of interest in the audit process shapes auditors' reflective awareness of the importance of maintaining professional integrity and independence. This experience is not only understood as part of their job duties but also serves as a moral learning process that influences how auditors interpret their profession in the future.

The first informant viewed the experience of auditing a friend as providing an important lesson regarding the value of auditor professionalism. The informant stated:

" The most important lesson is to create value for yourself as an auditor ."

This statement indicates that experiences facing relational pressure shape auditors' awareness of the importance of developing moral values and a professional identity in carrying out audit duties. Informants recognize that auditor independence will determine how auditors are viewed within their organization and within their own profession.

Furthermore, this experience also strengthened the first informant's belief in the importance of upholding the auditor's professional code of ethics. The auditor viewed objectivity and professionalism as core values that must be maintained even in difficult relational situations.

Meanwhile, the second informant also demonstrated in-depth reflection on her experience of facing organizational pressure and power relations during the audit process. The informant stated:

“ In the future, I must be more careful and maintain my principles as an auditor even when the situation is difficult .”

This statement shows that the experience of facing organizational intervention shapes the auditor's awareness of the importance of caution and moral courage in carrying out the supervisory function.

In addition, the second informant emphasized:

" Ultimately, auditors must maintain their integrity because that is what makes this profession trusted ."

This statement demonstrates that auditors view integrity as the primary foundation of trust in the auditing profession. Experience with organizational pressures has made auditors realize that independence is not only a formal principle of the profession but also a form of moral responsibility to the public and the organization.

From a phenomenological perspective, the experiences of the two informants demonstrate that threats to independence not only generate professional pressure but also shape the auditor's awareness of the meaning of integrity, objectivity, and professional responsibility. This experience becomes a self-reflective process that strengthens the auditor's understanding that maintaining independence means upholding the moral values of the auditing profession itself.

CONCLUSION

This study aims to understand the experiences of internal auditors in maintaining independence in audit conflict-of-interest situations. The results revealed that auditor independence is not only defined as adherence to professional standards, but also as a complex moral and emotional experience in carrying out audit duties. The experiences of the two informants indicate that threats to auditor independence arise through two main forms: relational pressure and power pressure. The first informant faced threats to independence through a friendship with an auditee suspected of fraud, while the second faced structural pressure due to intervention by powerful parties within the organization. Both experiences demonstrate that internal auditors are vulnerable to conflicts of interest because they work within an organizational environment characterized by specific social relations and power structures.

The research also shows that professionalism and integrity are the primary foundations for auditors in maintaining audit objectivity. Auditors strive to maintain independence through self-control, limiting personal interactions, and a commitment to a professional code of ethics. However, the study also found that auditor independence in organizational practice is not always achieved optimally due to social pressures, organizational interests, and power relations that influence the audit decision-making process. Phenomenologically, this study demonstrates that auditor independence is a moral struggle between professional responsibility, human relationships, and organizational realities. Therefore, auditor independence is understood not only as a technical principle of the profession, but also as a struggle to maintain integrity and trust amid relational and structural pressures within the organization.

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