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The Effect of Quality Control System on Audit Quality at Company X: Professional Skepticism as the Moderator Variable

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Abstract

The increasing frequency of disputes between the quality control team and operations analysts regarding audit findings at Company X has led to delays in audit reviews and risks of regulatory non-compliance. Despite existing quality control measures, a research gap remains regarding how specific Quality Control System (QCS) elements influence audit quality. This study aimed to investigate the effects of relevant ethical terms and independency on audit quality, and the moderating role of professional skepticism in these relationships. A quantitative, correlational design was employed, utilizing a questionnaire adapted from the reference journal to gather data from 102 QC specialists. The research framework hypothesized that relevant ethical terms and independency positively influence audit quality, with professional skepticism enhancing these effects. Data analysis involved Cronbach's Alpha for reliability and multiple linear regression for hypothesis testing. Results showed that both relevant ethical terms and independency had significant positive effects on audit quality, and that professional skepticism significantly strengthened the relationship between relevant ethical terms and audit quality. Based on these findings, a comprehensive Audit Quality Improvement Action Plan was proposed, recommending enhanced ethical training, stricter enforcement of auditor independence, and the institutionalization of professional skepticism workshops to reduce disputes, improve audit accuracy, and ensure regulatory compliance.

Keywords: Audit quality; quality control system; professional skepticism; relevant ethical terms; independency

1. Introduction

1.1. Background of the Study

Audit quality is defined by the ability to identify and report the financial statement with material misstatement by an auditor. The quality of audits within organizations, particularly in the banking sector, is critical to ensuring transparency, regulatory compliance, and client satisfaction (Financial Times, 2023). One of its determinants, Quality Control System (QCS) in the context of auditing, refers to a structured set of policies and procedures designed to ensure that audits are conducted consistently, ethically, and in accordance with professional standards. Key elements of an effective QCS include the implementation of relevant ethical terms, and the reinforcement of auditor independency, which protects audit judgments from external pressures (Alim et al., 2020; Shahibah et al., 2020). This study addressed a significant challenge identified through a needs assessment conducted by the researcher, a member of the QC team at Company X Philippines. The assessment revealed prolonged disputes between the QC team and operations analysts over audit findings, which have led to delays and compromised audit quality. If unresolved, this issue poses risks to operational efficiency, regulatory compliance, financial and overall stability of the firm (Chen et al., 2021).

At Company X Philippines, ongoing disputes between Quality Control (QC) teams and operations analysts regarding audit findings frequently lead to delays in the publication of audit reviews, affecting subsequent business operations and compliance with client and regulatory requirements. Data from the Company X showed that for every 20 audit findings by the QC team, at least two were contested for validity, causing delays that extend up to weeks in some cases. This delay hampers not only internal processes but also client service levels and poses the risk of regulatory breaches with these audits. To highlight, the critical importance of accuracy and integrity in financial reporting for even minor errors can lead to substantial penalties. Locally, it can be observed with the Bangko Sentral ng Pilipinas (BSP) Circular No. 410 mandating that external auditors must report to the BSP any potential losses aggregating to at least 1% of a bank's capital. Furthermore, BSP Circular No. 1125 outlines that banks can face monetary penalties of up to Php 1 million for each transactional violation, regardless of the error's magnitude.

One of the anchors of stability of an organization is its quality control. In line with this, several studies have highlighted the importance of quality control systems (QCS) in improving audit outcomes (Fauji, 2023; Ramadhani, 2020). Key components of these systems include relevant ethical terms, which govern auditors' adherence to professional standards, and independency, ensuring auditors remain unbiased. Additionally, professional skepticism, the attitude of questioning and critically assessing evidence, has been shown to reduce audit risks by enhancing the objectivity of audit findings (Malik, 2020). However, there remains a gap in literature concerning how professional skepticism is moderating the effects of QCS elements on audit quality, particularly in contexts like the Company X's operational environment. The study conducted by Jackson and Wiliams (2021) amongst the banking sector's internal auditors showed a strong positive correlation between QCS and improved audit quality, specifically ensuring compliance and transparency. Moreover, a mixed-method approach combining qualitative interviews with audit professional and quantitative surveys suggested that QCS is crucial, but does not guarantee alone the audit quality unless combined with strong ethical guidelines and training (Martinez et al., 2020). Thompson and Garcia (2022) also conducted a study which showed that QCS contributed positively to audit quality, however with minimal effect in the absence of professional skepticism and independency. While these studies agree on the direct effect of QCS on audit quality, they differ in magnitude. The inconsistencies can also be derived with Jackson and Williams (2021) claiming for a direct link of the QC system that effect on audit quality. Albeit, Thomson & Garcia (2022), along with Martinez et al. (2020) argues that added factors are necessary for attaining material improvement in audit quality.

Relevant ethical terms ensure that auditors operate under a strict ethical code, while independency prevents biases in reporting audit findings. This study is grounded in the quality, attitude, and behavior theory, which argues that the quality of audit outputs is effected by the attitudes and behaviors of auditors, shaped by systems of control such as QCS elements (Crosby, 2021). Professional skepticism, on the other hand, is expected to enhance auditors' ability to maintain a critical and unbiased stance, further improving audit quality (Shahibah et al., 2020). This framework guides the study’s hypotheses that professional skepticism moderates the relationship of QCS elements and audit quality. Morris et al. (2020) tested the moderation of professional skepticism and found to moderate the relationship between QC systems and audit quality, particularly in situations where QC practices were ambiguous or weak. This study is then strengthened by the claim of Clark and Peterson (2021) who found that professional skepticism significantly strengthened the effect of QCS on audit quality, especially in large financial institutions. On the other hand, using a qualitative case study approach, Patel et al. (2022) revealed that professional skepticism positively moderated the relationship between QC systems and audit quality by challenging assumptions and ensuring thorough reviews. While these findings are consistent, with the use of different methodologies, it suggests that how the professional skepticism acts as moderator varies.

To ensure high-quality audits, the implementation of a robust QCS is essential. In this study, the focus is on two specific elements of QCS: relevant ethical terms and independency, both of which are vital in controlling audit quality. Previous studies (Shahibah et al., 2020; Alim et al., 2020) have demonstrated the positive effect of these elements on audit quality, yet the role of professional skepticism—an auditor’s critical attitude toward assessing audit evidence—remains underexplored. This study seeks to fill this gap by analyzing the moderating role of professional skepticism in enhancing the effect of both ethical terms and independency on audit quality.

Roerts and Harrison (2021) found in their study that disputes and delays significantly negatively impacted audit quality, particularly when QC teams were involved in prolonged conflicts. In addition, Nelson & Grant (2020) examined audit teams in the banking sector, through statistical regression models, and found that delays due to team disputes decrease the quality of audits, especially in environments with high regulatory scrutiny. This is supported by Kim and Lee (2022) who found that prolonged disputes between team members directly compromised audit quality by delaying audit completion and increasing the likelihood of errors.

The study focused on resolving these disputes and delays by analyzing the effect of the Quality Control System on audit quality, with professional skepticism as a moderating variable. The literature selected is relevant to the banking sector, including recent studies on audit quality and regulatory compliance. This research supports SDG 16: Peace, Justice, and Strong Institutions by promoting transparency and accountability within institutional processes and SDG 8: Decent Work and Economic Growth by fostering operational efficiency and a stable financial environment that sustains economic growth (Aras et al., 2024).

The findings of this study will be of significant value to Company X Philippines as it would propose improvements that can be implemented to streamline dispute resolution, enhance audit quality, and reduce delays. The study introduces a novel approach by examining the moderating role of professional skepticism in the relationship between ethical standards, independency, and audit quality, a perspective that has received limited attention in existing literature. This research is essential, as it not only identifies specific factors influencing audit quality in the banking sector in the Philippines, but also offers actionable recommendations for resolving disputes and improving efficiency. Furthermore, the study’s framework and methods have the potential to be replicated across other industries, providing valuable insights into audit practices and their impact on operational effectiveness in diverse organizational contexts. In addition, this research contributes to the broader body of knowledge on audit quality in the banking industry, highlighting the critical interplay of ethical standards, independence, and professional skepticism in achieving improved audit outcomes, which can also inform policy and procedural reforms in financial institutions facing similar challenges.

1.2. Research Framework

This study is anchored in the framework developed by Shahibah et al. (2020), which investigates the effect of Quality Control System (QCS) elements, specifically independency and relevant ethical terms, with audit quality. The research also explores the moderating role of professional skepticism in strengthening the relationship between these elements and audit quality. Shahibah et al. (2020) conducted their study in Indonesia, utilizing a sample of auditors from their ten biggest public accounting firms. The method involved the use of Partial Least Squares Structural Equation Modeling (PLS-SEM) to analyze data collected through a questionnaire.

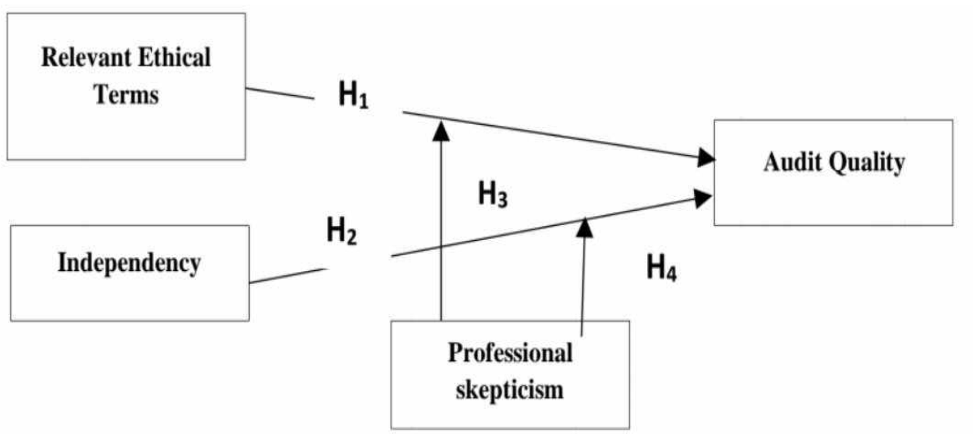

Figure 1. Conceptual Framework

Source: The effect of quality control system on audit quality. (Shahibah et al, 2020)

From the results of the study made by Shahibah et al. (2020), relevant ethical terms and independency has positive effect on audit quality. In addition, professional skepticism strengthens the effect of independency on audit quality but has no moderating effect on the relationship between ethical terms and audit quality.

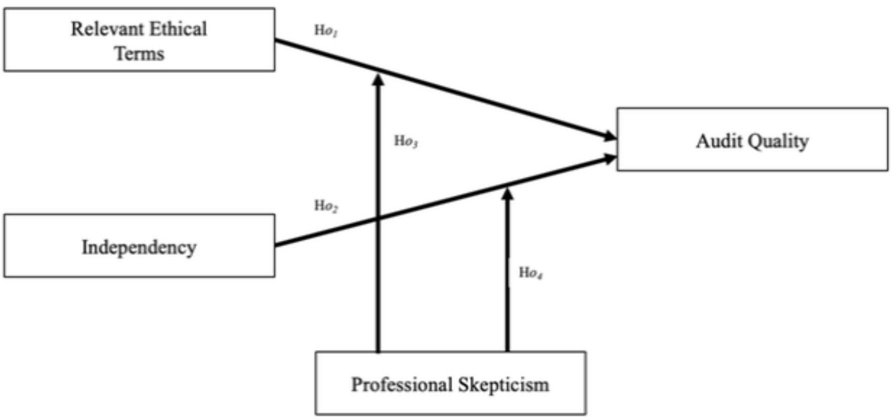

*Figure 2***.** Operational Framework

This research is guided by the operational framework stated in Figure 2. It is aligned with the conceptual model from Shahibah et al. (2020), focusing on the effects of QCS elements, relevant ethical terms and independency, on audit quality, with professional skepticism as a moderating variable.

This framework will be applied to analyze the audit practices at Company X, in particular, its quality control team. It integrates variables pertinent to ethical compliance, independency, and professional skepticism to enhance the reliability and validity of audits. This study leverages survey data from 102 quality control specialists, ensuring alignment between conceptual constructs and practical application. Through this framework, the study aims to provide actionable insights for minimizing audit disputes, improving regulatory compliance, and fostering operational efficiency.

1.3. Objectives of the Study

In general, the study aimed to determine the effect of various quality control elements on audit quality at Company X Philippines. Specifically, it seeks to achieve the following:

1. To determine if relevant ethical terms, and independency significantly effect audit quality at Company X.
2. To examine the moderating effect of professional skepticism on the relationship between relevant ethical terms and audit quality.
3. To examine moderating effect of professional skepticism on the relationship between independency and audit quality; and
4. To develop and propose an Audit Quality Improvement Action Plan based on the findings to enhance ethical conduct, reinforce independence, and institutionalize professional skepticism in Company X.

1.4. Hypotheses

To address the need of the study, the following hypotheses were tested:
H01: Relevant ethical terms have no significant effect on audit quality.
H02: Independency has no significant effect on audit quality.
H03: Professional skepticism does not moderate the effect on the relationship between relevant ethical terms and audit quality.
H04: Professional skepticism does not moderate the effect on the relationship between independency and audit quality

2. Methods

2.1. Research Design

This study employs a descriptive and inferential quantitative research design to explore the relationship between QCS elements, relevant ethical terms and independency, on audit quality. Additionally, the moderating effect of professional skepticism on these relationships is examined. The design allows for the systematic collection and analysis of data to identify patterns, relationships, and the strength of the variables under investigation. This approach ensures that findings are both reliable and actionable within the context of Company X's operational environment.

2.2. Locale of the Study

The study will be conducted at Company X Philippines, specifically within its Quality Control (QC) Team. The chosen locale provides a controlled environment to analyze the application of QCS elements in banking audit scenarios. Company X's organizational structure and processes serve as a representative context for understanding the dynamics of quality control in audit practices, particularly in the banking sector.

2.3. Respondents of the Study

The target population consists of 102 quality control specialists, a total enumeration, employed by Company X Philippines. These specialists are actively involved in the audit process, making them the ideal respondents to provide insights into the study's variables. Their roles span various levels of responsibility within the QC team, ensuring a comprehensive perspective on the effects of ethical terms, independency, and professional skepticism on audit quality.

2.4. Sampling Design

Given the manageable size of the target population, the study employs non-probability purposive sampling. This method is appropriate as it ensures the selection of respondents who are directly involved in quality control activities and are knowledgeable about the audit processes. By focusing on a specific group, the study achieves a higher level of relevance and accuracy in its findings.

2.5. Research Tools and Instruments

The primary data collection tool is a structured questionnaire adapted from Shahibah et al. (2020). The instrument comprises Likert-scale items designed to measure key constructs:

Variable	Description
Relevant Ethical Terms	Assesses the implementation of ethical policies, independence confirmations, and the avoidance of close client relationships.
Independency	Evaluates respondents' ability to maintain neutrality, manage conflicts of interest, and make unbiased decisions.
Professional Skepticism	Assesses questioning attitudes, the ability to detect potential fraud, and critical evaluation of audit evidence.
Audit Quality	Measures the accuracy and thoroughness of detecting misstatements, audit planning, and process documentation.

The questionnaire was administered through a printed survey to ensure accessibility and convenience. It took four-week data collection period for respondents to complete the survey.

Table 1. Questionnaire Specification

Part	Variable	No of items
I.	Relevant Ethical Terms	1 to 3
	Independency	4 to 6
	Professional Skepticism	7 to 9
	Audit Quality	10 to 12

For Reliability Testing, Cronbach's Alpha was used to assess the internal consistency of the questionnaire items. Cronbach's Alpha reliability coefficient typically ranges between 0 and 1.00, with values closer to 1.00 indicating greater internal consistency among the items within the scale. According to George & Malory (2023, as cited by Goel & Srivastava, 2016), the following benchmarks apply: a) >0.90 = Excellent; b) 0.80–0.89 = Good; c) 0.70–0.79 = Acceptable; d) 0.60–0.69 = Questionable; e) 0.50–0.59 = Poor; and f) <0.50 = Unacceptable.

From the pilot testing conducted, the reliability analysis revealed that Cronbach's Alpha for relevant ethical terms was 0.902, falling within the excellent range, while independency scored 0.87, categorized as good. Additionally, the reliability of the audit quality construct was measured at 0.824, indicating good internal consistency. For professional skepticism, the coefficient was 0.957, reflecting an excellent level of reliability. These results suggest that the instrument is reliable and suitable for assessing the effect of QCS elements on audit quality, with professional skepticism moderating the relationship between independency and audit quality.

2.6. Data Analysis and Interpretation

Data analysis involved several statistical techniques to ensure robust findings. The study utilized Descriptive Statistics, Mean, to summarize respondent demographics and responses. Also, for Inferential Analysis, Multiple linear regression will examine the relationships between QCS elements and audit quality. The moderating effect of professional skepticism will also be analyzed to determine its effect on these relationships.

The following table was utilized for the verbal interpretation.

Table 2. Verbal Interpretation of Responses

Mean Ranges	Response Category	Verbal Interpretation
6.50-7.00	Strongly Agree	Very High
5.50-6.49	Agree	High
4.50-5.49	Slightly Agree	Moderate High
3.50-4.49	Neutral	Neutral
2.50-3.49	Slightly Disagree	Moderately low
1.50-2.49	Disagree	Low
1.00-1.49	Strongly Disagree	Very Low

Table 2 presents the interpretation of the responses of each scale level. The scale started with 7 which means "Strongly Agree" and is interpreted as "Very High" and ended at 1 which means "Strongly Disagree" and is interpreted as "Very Low".

2.7. Ethical Considerations

In conducting a study on "The Effect of Quality Control System on Audit Quality at Company X: Professional Skepticism as the Moderator Variable", the researcher adhered to key ethical considerations. This entailed procuring explicit authorization, guaranteeing privacy and confidentiality, and sustaining transparency and accountability. The researchers ensured that participants fully understood the study, obtained informed consent, and respected their rights throughout their participation. They also protected participants' personal and financial information by anonymizing or de-identifying data to prevent the identification of individual participants.

The researchers followed the Lasallian ethical framework, which emphasized respect for the dignity of the human person, a commitment to social justice, and a concern for the poor and marginalized. Additionally, they adhered to the guidelines set forth in the Data Privacy Act of 2012, which outlined strict requirements for the collection, use, and protection of personal information. Lastly, the study's purpose, methods, and outcomes were clearly communicated, with procedures in place to address concerns and ensure responsible dissemination of findings.

3. Results and Discussion

This section presents the statistical findings aligned with the research objectives. The analysis includes descriptive statistics, regression analysis, and tests of interaction effects to examine the moderating role of professional skepticism. Statistical tools such as Statistical Package for the Social Sciences (SPSS) were utilized to compute regression coefficients, assess significance levels, and interpret interaction effects.

3.1. Descriptive Statistics

Table 3 summarizes the descriptive statistics for each variable included in the model. The mean scores for all variables are close to 7 on a 7-point Likert scale, indicating a very high perceived level of audit quality, professional skepticism, ethical standards, and independence among respondents at Company X. Additionally, the relatively low standard deviations suggest a strong consensus among participants.

Table 3. Descriptive Statistics of the Variables

Variable	Mean	Std. Deviation	Interpretation
Relevant Ethical Terms	6.91	0.328	Very High
Independency	6.77	0.524	Very High
Professional Skepticism	6.89	0.346	Very High
Audit Quality	6.85	0.452	Very High

Relevant ethical terms among auditors and employees in banks has garnered increasing attention, especially following the global financial crises. Dellaportas et al. (2024) reported that ethics training and strict codes of conduct are more rigorously implemented in financial institutions, leading to higher perceived ethical standards among banking professionals. In relation to this industry, maintaining independence is a fundamental pillar of auditing, particularly in banks where conflicts of interest can have systemic effects. According to DeFond and Zhang (2024), regulators like the Federal Reserve and Basel Committee strongly emphasize auditor independence to protect the financial system's integrity.

In establishing its integrity, high perceived audit quality enhances the credibility of financial reporting and fosters trust among stakeholders. With that, Ghosh and Tang (2024) emphasized that in heavily regulated industries like banking, stakeholders demand superior audit quality, often associating it with auditor competence, objectivity, and rigorous audit procedures. Similarly, Francis (2021) stated that banks, because of their systemic importance, require heightened audit scrutiny to mitigate financial reporting risks, leading to a higher perceived level of audit quality among employees and auditors working within the sector. This is supported by the study of Harding and Trotman (2022) which demonstrated that auditors in the banking industry showed elevated levels of skepticism during engagements involving complex estimates like loan loss provisions and fair value measurements, reinforcing their role in safeguarding audit quality.

H01: Relevant ethical terms have no significant effect on audit quality.
H02: Independency has no significant effect on audit quality.

Table 4 presents the regression results for the effect of ethical terms, independency, and professional skepticism on audit quality. The regression model shows that all three independent variables have a statistically significant effect on audit quality.

Table 4. Regression Results – Effect on Audit Quality

	Unstandardized Coefficients B	Standardized Coefficients Beta	p-value	Interpretation
(Constant)	1.919		0.022	
Relevant Ethical Terms	0.641	0.466	0.000	Significant
Independency	0.074	0.086	0.390	Not Significant

$R^2 = 0.265$ F-value = 17.808 P-value = <.001[b]
Dependent Variable: Audit Quality

These results suggest that auditors' understanding and application of ethical principles, their independence, and their exercise of professional skepticism significantly enhance audit quality at Company X. This is further supported by the study conducted by Glover and Prawitt (2023) wherein it was found that strong ethical climates within organizations typically yield higher mean scores on auditors' ethical behavior and independence measures. Their study, using similar 7-point Likert scales, observed that auditors perceiving higher organizational ethical standards demonstrated enhanced audit quality and professional skepticism.

In addition, Bazerman, Loewenstein, and Moore (2022) discussed that ethical culture in financial services, particularly banks, heavily influences auditors' objectivity and independence, both of which are crucial for quality assurance.

Hurtt (2022) where professional skepticism was evaluated using scales, finding high mean values associated with stronger audit judgment quality. Similarly, Nelson (2021) emphasized that consistent perceptions among auditors contribute to improved audit reliability and reduced misstatements.

The very high mean scores in this study align with the findings of Hurtt (2022) and Glover & Prawitt (2023), reinforcing the notion that ethical standards, independency, and professional skepticism are crucial to high-quality auditing practices. The low standard deviations further validate that Company X fosters a uniform culture emphasizing these attributes.

H03: Professional skepticism does not moderate the effect on the relationship between relevant ethical terms and audit quality.

To test this hypothesis, an interaction term (Relevant Ethical Terms × Professional Skepticism) was added to the regression model. The interaction was found to be statistically significant, suggesting a moderating effect.

Table 5. Moderation Analysis

Model		Unstandardized Coefficients B	Standardized Coefficients Beta	t	p-value	Interpretation
1	(Constant)	1.919		2.319	0.022	
	Relevant Ethical Terms	0.641	0.466	4.680	0.000	Significant
	Independency	0.074	0.086	0.863	0.390	Not Significant
2	(Constant)	-0.798		-0.984	0.328	
	Relevant Ethical Terms	0.402	0.292	3.322	0.001	Significant
	Independency	0.043	0.050	0.591	0.556	Not Significant
	Professional Skepticism	0.665	0.509	6.494	0.000	Significant
3	(Constant)	-29.733		-4.247	0.000	
	Relevant Ethical Terms	2.240	1.628	2.524	0.013	Significant
	Independency	2.684	3.110	2.464	0.016	Significant
	Professional Skepticism	5.147	3.938	4.767	0.000	Significant
	Interaction term (RET x PS)	-0.315	-2.531	-2.216	0.029	Significant
	Interaction term (ID x PS)	-0.375	-3.843	-2.373	0.020	Significant

a. Dependent Variable: Audit Quality
b. Predictors: (Constant), Independency, Relevant Ethical Terms
c. Predictors: (Constant), Independency, Relevant Ethical Terms, Professional Skepticism
d. Predictors: (Constant), Independency, Relevant Ethical Terms, Professional Skepticism, Interaction term (RETxPS), Interaction term (IDxPS)

Model 1 $R^2 = 0.265$ F-value = 17.808 P-value = <.001[b]
Model 2 $R^2 = 0.486$ F-value = 30.868 P-value = <.001[c]

The regression results (Model 1) show that Relevant Ethical Terms had a positive and significant effect on audit quality (B = 0.641, β = 0.466, p = 0.000). This indicates that when QC analysts adhere strongly to ethical guidelines, the perceived quality of QC analysts improves substantially. In contrast, Independency did not significantly affect audit quality (B = 0.074, β = 0.086, p = 0.390). These findings align with Sweeney (2022), who emphasized that strong ethical commitment among auditors is a critical determinant of audit credibility, while independence alone, without strong ethical anchoring, may not fully ensure audit effectiveness.

The model accounted for 26.5% of the variance in audit quality ($R^2 = 0.265$), suggesting that other factors also play a significant role in shaping audit outcomes.

H04: Professional skepticism does not moderate the effect on the relationship between independency and audit quality

Adding Professional Skepticism into the model (Model 2) significantly improved the R^2 (0.486). Professional skepticism itself exhibited a strong positive impact on audit quality (B = 0.665, β = 0.509, p = 0.000). This result is consistent with the findings of Hurtt et al. (2023), who demonstrated that auditors with a higher level of skepticism are more adept at detecting anomalies and avoiding audit failures. Moreover, Griffith, Hammersley, and Kadous (2024) emphasized that professional skepticism allows auditors to better assess complex estimates and management judgments, leading to improved audit quality.

Professional skepticism, the auditor's questioning mind and critical assessment of audit evidence—is especially vital in banking audits. Knechel et al. (2023) found that professional skepticism is more pronounced among auditors serving banks due to the high risk of misstatements and regulatory penalties.

Moreover, the coefficient for Relevant Ethical Terms decreased slightly but remained significant (B = 0.402, p = 0.001), suggesting that both ethics and skepticism independently contribute to audit quality.

In Model 3, the interaction terms were added. The interaction between Relevant Ethical Terms and Professional Skepticism (RET × PS) was significant (B = -0.315, β = -2.531, p = 0.029). Also, the interaction between Independency and Professional Skepticism (ID × PS) was also significant (B = -0.375, β = -3.843, p = 0.020).

Interestingly, the negative sign of the interaction coefficient suggests that at very high levels of professional skepticism, the direct positive effect of ethical terms or independency slightly weakens. This complex relationship supports earlier work by Quadackers, Groot, and Wright (2024), who argued that excessive skepticism can sometimes create cognitive biases or lead to over-auditing, slightly offsetting the benefits of ethical conduct. Also, Knechel et al. (2023) argued that while skepticism is crucial, an overly defensive audit approach can impair auditor-client communication, potentially leading to inefficiencies or misinterpretations.

This model also showed a substantial improvement in model fit (R^2 = 0.565), demonstrating that professional skepticism significantly moderates the relationships between ethical standards, independence, and audit quality.

4. Conclusion and Recommendations

The study confirms that relevant ethical terms, independency, and professional skepticism significantly influence audit quality. Among these, relevant ethical terms had the strongest direct effect on audit quality, while professional skepticism was shown to significantly moderate the relationships between both ethical standards and independence with audit outcomes. Based on the results of the moderation analysis, found specifically in Model 3 of Table 4, it is evident that the interaction between professional skepticism and quality control system (QCS) elements is crucial in strengthening audit performance.

In conclusion, the study rejected null hypotheses Ho1, Ho3, and Ho4, indicating that ethical terms significantly affect audit quality, and that professional skepticism moderates the effect of both ethical terms and independence. However, it failed to reject Ho2, suggesting that independency, by itself, did not have a statistically significant direct effect on audit quality within the context of Company X Philippines.

In response to these findings, a pilot initiative titled "Project PEARL: Precision Ethics and Audit Reliability Leveraged at Company X" is proposed. The project is designed to operationalize the study's theoretical and empirical insights through targeted, practical interventions. All activities included in this project are newly developed and not yet existing within Company X's current operations.

Project PEARL outlines the following core components:

- Reinforcement of Ethical Frameworks: Revision of the existing Code of Ethics and inclusion of real-case audit dilemmas for applied ethics learning.
- Independence Workshops: Conduct of mandatory refresher courses on independence principles and conflict-of-interest mitigation. This includes emphasizing compliance with the declaration of personal account dealing and background checking.
- Professional Skepticism Enhancement Program: Rollout of critical thinking modules, fraud-detection case simulations, and peer-based reflection sessions.
- Quality Control System Review: Systematic evaluation and upgrading of internal quality control mechanisms, audit process documentation, and review protocols.
- Continuous Monitoring and Evaluation: Implementation of key performance indicators (KPIs) and audit quality dashboards to track improvements and promote cultural alignment.

This project aligns with Sustainable Development Goals (SDGs) 8 and 16, supporting both operational excellence and institutional transparency. Project PEARL is expected to reduce audit disputes, improve the timeliness and reliability of audit reports, and elevate compliance with internal and external regulatory frameworks.

It is recommended that Company X's leadership allocate the necessary resources, oversight, and cross-functional collaboration to support the pilot implementation of Project PEARL. Future expansion and scaling across other business units may be considered, depending on the success and measured outcomes of this initial rollout.

4.1. Limitations of the Study

The study focused only on auditors from Company X, which limits the generalizability of the findings. Future research may explore comparative studies across industries or geographic regions and include more qualitative data to enhance interpretation. Moreover, the study concentrated on quality control system elements only. Future research may consider a wider range of constructs or mediating factors, such as organizational culture or regulatory pressure.

4.2. CAPSTONE

The proposed program is a capstone project designed to assess and improve internal audit quality within the banking operations sector through targeted quality control initiatives. By integrating the reinforcement of ethical frameworks, mandatory independence workshops, critical thinking modules, and structured continuous quality control monitoring systems, the project aims to enhance audit reliability, reduce process-driven team disputes, and mitigate potential regulatory risks. It seeks to provide data-driven insights and practical recommendations that can assist management and operations leadership in shaping more responsive, objective, and legally compliant workplace audit strategies. Through continuous tracking of key performance indicators (KPIs), specialized simulations, and an interactive audit quality dashboard, the initiative ensures that the proposed improvements are grounded in real-time, objective operational metrics. Ultimately, this project contributes to the development of sustainable, transparent institutional policies that align with both organizational goals and rigorous regulatory expectations in an evolving financial compliance environment.

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