Competency and Objectivity of Internal Auditor on Audit Quality at Banking Companies

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Abstract—This study aims to analyze the competency of internal auditors affect the quality of audits and objectivity of internal auditors affect the quality of audits in banking companies in Padang. Type of research is causative research to test hypothesis by using survey method. Population in this research is internal auditor at banking companies in Padang. The Sampling method is Non-probability with sampling technique in the form of purposive sampling. The sample is bank employee who work as internal auditor at the time of questionnaires distributed with the number of samples obtained by 43 respondents. Previous studies only investigate the topic in one firm. This study uses several firms which are have internal audit departm in Padang. The results of this study indicate that competency has no significant effect on audit quality and objectivity has significant effect on audit quality. R square value is 0.488, this indicates that the contribution of independent variable to the dependent variable is 48.8% while 51.2% is determined by other factors not examined in this research.

Keywords—competency; objectivity; audit quality; and internal auditor

I. INTRODUCTION

The development of the banking industry, along with more additional departments, sections, or units, which operate each function according to its procedures, require a company to have a better management system. This condition has led the company's management to face a limitation in its ability to supervise and control the company's operations. In order to achieve a better management system, an Internal Control Unit is required in the form of the internal audit so that the management will rely on the role of an internal auditor to overcome its limitations [1].

Internal audit is a consultative activity managed independently and objectively, and it is designed as a value-added activity to improve the company's operational activities. The internal auditor ideally provides the manager with information he needs to carry out his responsibilities. Independent assessments are conducted by internal auditors to assess the company’s operational activities through measuring and evaluating the adequacy of controls as well as the effectiveness and efficiency of the company's performance [2]. Therefore, internal auditors are expected to deliver a good quality audit to meet the needs of management in their decision-making process, so it could improve the company’s performance.

Government Accountability Office (GAO), defines the audit quality as a highly considered compliance to the professional standards and to the terms of the agreement [3]. In Indonesia, the Consortium of Organizations of Internal Auditor Profession as per May 12, 2004, has issued the Internal Audit Professional Standard (SPAI), which set the standard attribute that defines good internal audit should be performed [4]. The book stated that an internal auditor must have Independence (standard attribute 1100) and Objectivity (standard attribute 1120). Christiawan stated that the audit quality is determined by two things: independence and competence [5]. Based on the two opinions of these experts, in this study, the authors tried to accommodate the opinions by finding out how the competence, objectivity, and independence affect the audit quality of the internal auditors.

Competence is the ability of the auditors to apply their knowledge and experience in conducting audits, so that they can conduct the audits carefully, accurately and objectively. In relation to objectivity, the internal auditor must have an objective, neutral mental attitude and avoiding the chance for the conflict of interest. According to Mulyadi, independence can be defined as a mental attitude which is liberated from influence, is not controlled by others, and is not reliant on others [6].

The banking companies are the kind of business that implements the role of internal auditor as part of their organizational structure, since the banks are companies which run their business based on the trust from their customers in return for managing the customer’s money, so the banks need to ensure that every part of the company are running according to the procedure. These banks also agreed to conduct research on independent external auditors and few conducted research on internal auditors at various banks who were employees of the companies they audited. And other reasons for the need to do this research in banks, because banks as institutions that collect and channel public funds, it is necessary to ensure that banks must work according to existing regulations, to ensure the banking process will avoid mistakes and fraud will happen [7]. In accordance with the background to the problems described above, this research aims to analyze: 1) The competency of internal auditors affect the quality of...
Competence of employed.

To conduct the Functional, it was 9,056 which consist of the competence (Constant) and objectivity. Objectivity, and independence have a significant effect on the audit quality. To conduct the F-test ANOVA analysis was used by using software of SPSS version 24 as presented in the following table:

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|-------|----------------|----|-------------|---|------|
| Regression | 8,231 | 2 | 4,115 | 19,056 | 0.00b |
| Residual | 8,638 | 40 | 216 | | |
| Total | 16,869 | 42 | | | |

A. F-Test

F-test was performed to determine whether competence, objectivity, and independence have a significant effect on the audit quality. To conduct the F-test ANOVA analysis was used by using software of SPSS version 24 as presented in the following table:

TABLE II. ANOVA*

From the table 2 of the F-test results above, the F-value obtained is 19,056 with the sig. value of 0.000 <0.05, which means that F-test conducted to prove the mutual effect of the independent variables (competence and objectivity) on the dependent variable (quality audit) shows a significant influence.

B. T-test

The t-test was performed to find out whether the hypothesis made by the author is acceptable or not acceptable in regard to the significance value as shown in the table of multiple linear regression, which can be seen in Table 1 above. The t-test results of each independent variable effect on the dependent variable can be seen as follows:

- From the processed data, it was obtained that the competence variable (X1) has no significant effect on the quality of audit (Y) of the internal auditor of banks in Padang. Based on Table 1, it shows that the sig. value is 0.066 > 0.05. This means that Ha is not accepted and Ho is accepted. Thus, it is concluded that there is no significant effect of competence on the audit quality.

- From the processed data, it was obtained that the objectivity variable (X2) has a significant effect on the quality of audit (Y) of the internal auditor of banks in Padang. Based on Table 1, it shows that the sig. value is 0.00 > 0.05. This means that Ho is not accepted and Ha is accepted. Thus, there is a significant effect of objectivity on the audit quality.

C. Coefficient of Determination

To find out the mutual effect of independent variables, which consist of the competence and objectivity, on the audit...
quality of internal auditor of banks in Padang, the value of R-square is presented in the table below.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|---|----------|-------------------|---------------------------|
|       | 0.699 | 0.488 | 0.462 | 0.46472 |

From the Table 3 above, the R-square value is 0.488, which indicates that the contribution of independent variables to the dependent variable is 48.8%, while the rest 51.2% is determined by other factors not assessed in this study.

IV. Discussion

A. First Hypothesis (Competence has a positive effect on audit quality)

Lee and Mary define the competence as an adequate skill which explicitly could be used to perform the audit objectively [9]. The competence of an auditor is seen in his ability in performing the tasks easily, promptly, and never or very rarely make mistakes, and he is supported with sufficient knowledge and skills, so it is possible to increase the quality of audit resulted.

Based on the results of t-test in Table 1, it was found that the significance value for the competence variable is 0.066, which means that it is higher than the level of significance of 0.05 with regression coefficient 0.281. Therefore, the first hypothesis of this study that the competence variable has a significant effect on audit quality is not acceptable; This is probably due to the fact that prior to being selected as an internal auditor, the selected employees already have the required competence to enter the job as an auditor; however, the result showed that it has a positive effect. This indicates that although theoretically, the competence of an auditor will improve the quality of the audit; however, in this study, the competencies of internal auditors of the banks do not affect the quality of their work. In addition, in conducting the audit work, the auditor performs his work based on the audit SOP that has been set by the company, so that the standard result of audit work can be achieved.

The results of this hypothesis test are not in line with the study of Alim et al. which states that competence has a significant effect on the audit quality [10]. However, it is in line with the study Marieta et al. which states that competence has no significant effect on the result of assessment quality, due to the lack of knowledge of the auditors in comprehending the audited entity, and their lack of ability in analyzing the problem [11].

B. Second Hypothesis (Objectivity has a positive effect on audit quality)

Objectivity is an independent mental attitude that must be maintained by the internal auditor in performing his duties. Objectivity obliges the internal auditor to perform the assignment in such a way that the auditors should believe in the results of their work and do not compromise on the quality of the significant work [12].

Based on the results of data processing, the sig. value of the effect of objectivity on the audit quality is 0.246. Since the value of sig. 0.00 > 0.05, it is concluded that the second hypothesis is accepted. This means that in performing their professional responsibilities to produce good quality of audit results, the objectivity of internal auditors is highly demanded. An auditor should not be affected by the client interests or influenced by the pressure of the client in performing his duty, which will not help the auditor to achieve a good quality of the audit. Internal auditors should be able to ensure that the positions of internal audit are separated from other departments and that there is no interference from the management in the audit activities. In conducting internal audits, auditors already have the SOP that regulate and direct their audit activities. The results in this study are not in line with the research which stated that the objectivity has no significant effect on audit quality [13-15].

V. Conclusion

The objective of this study is to find out the effect of competence, objectivity, and independence on the audit quality of banks in Padang. The respondents of this study amounted to 43 internal auditors. Based on the collected data and test results obtained using multiple linear regression model, the study concluded the competence has a positive and insignificant effect on the audit quality of banks in Padang and the objectivity has a positive and significant effect on the audit quality of banks in Padang. The research implication is to provide suggestion to banks to provide training to their internal auditors in order to increase the ability of internal auditors to conduct internal audits. The limitation of the research is the author does not meet directly with the respondents of the study, so there is a possibility that the respondent did not answer the questionnaire as expected.

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