

Effect Of Independence And Competence The Quality Of Internal Audit: Proposing A Research Framework

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Abstract: This study aimed to examine the effect of competence, independence, the quality of internal audit at the regional inspectorate officers. Common problems in this research are the findings of the audit were not detected by the apparatus inspectorate as an internal auditor, but was found by the external auditor, in this case the Supreme Audit Agency (BPK). Operationally variable of this research is reinforced by several indicators. Variable independence has three main indicators including independent organizational, individual objectivity and reporting. While variable competence of internal auditors will be strengthened into five indicators, namely knowledge, expertise, skills, education and experience. To improve the quality of internal audit can be done by increasing the independence of the internal auditor, internal auditor independence higher it will improve the quality of internal audit. Similarly, if a variable internal auditor competence of internal auditors is increasing the quality of internal audit at the regional inspectorate will also increase.

Keywords: Independence, Competence, The Quality of Internal Audit, Research Framework

Introduction

In knowing the broader internal audit, it can be understood in advance about the terms of quality and internal audit. Associated with quality means that the quality of a degree or level of excellence (quality is the degree or grade of excellence Hoque, 2003: 90), which has several dimensions are like performance, aesthetics, realibility and serviceability. Audit quality is one of the mechanisms used to advance the purposes of quality assurance, the which have been described in government publications as accountability and quality enhancement. In tests carried out carefully and be more critical of the internal audit in the financial statements were raised by experts including Arens (816: 2012) Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations , It helps and organization accomplish its objectives by bringing a systematic, disciplined approach to valuate and improve the effectiveness of risk management, control, and governance processes. Tugiman (2005) in Wuryan Andayani (2008: 02) states that internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization as such, the internal audit is an assessment independent on function of the organization, to examine and evaluate its activities as services rendered to the organization. Further development of the internal understanding of internal auditing is auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

While report of the committee on basic auditing concepts of the american accounting association in Boynton (2002: 05) gives the definition of auditing as "a systematic process to obtain and evaluate evidence objectively about assertions-assertions events and economic events, in order to determine the degree of conformity among the assertions with predetermined criteria and delivery of the results to the parties concerned. Some important features to note the auditing among other things, (a) a systematic process in the form of a series of rare or procedures are logical, structured, and organized. (b) obtain and evaluate evidence objectively means checking basic assertions and to evaluate the results of the examination without partiality and prejudice, either for or against individuals who make such assertions. (c) assertions about events and economic events of the representation made by individuals or entities, (d) degrees of suitability refers to the closeness in which the assertion can be identified and compared with predetermined criteria. (e) the criteria that have been set are standards that are used as a basis for assessing the assertions or statements (f) submission of the results obtained through a written report that shows the degree of correspondence between assertions and criteria that have been established, and (g) the parties concerned is those who use the findings of the auditor. Three types of audits generally indicate that the key characteristics included in the definition of auditing, first, audit of financial statements relating to the activities of obtaining and evaluating evidence about the reports of entities with the intention that can give an opinion whether these reports have been presented fairly in accordance with criteria established principles of public accounting in force (GAAP). Second, the Compliance Audit related to obtaining and examining evidence to determine whether or financial activities of an entity in accordance with reservations, conditions, or specific regulations. and third, related to the Operational Audit activity to obtain and evaluate evidence about the efficiency and effectiveness of the entity's operations in relation to the achievement of certain goals. American Accounting Association Committee in M. Guy (2002: 05) stated that the audit is a systematic process of objectively obtaining and evaluating evidence related to statements concerning economic actions or events to assess the level of concordance between the statement

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and the criteria that have been established and communicating the results to the parties concerned. Furthermore, internal audit is an internationally recognized profession guided by a shared commitment to improve governance, risk management, and process control (Anne Pitt: 2014). Similarly, that the internal audit is an assurance and consulting activity that is independent, objective designed to add value and improve an organization's operations. and this can help the organization achieve its objectives by means of a systematic, disciplined to evaluate and improve the effectiveness of risk management, control and governance processes (IIA, 2013). Similarly, that auditing by Sekar Barry (2013: 07) is a systematic process to obtain and assess the evidence objectively, with regard to assertions about actions and events of the economy to determine compatibility between assertions. The criteria that have been established and communicating the results to the parties concerned. Internal audits are often referred to as the eyes and ears of management, M. Guy (2003: 408). According to the internal auditor not only check the activities of accounting and finance, but also other types of programs in the entity. Internal auditors often focus on adherence to policies and regulations as well as efforts to improve operating efficiency. And internal auditor assigned by a particular entity to perform the audit as deemed necessary by the organization.

Review of Literature

Quality of Internal Audit

In understanding the quality of audits that have been proposed by the experts that further definition of internal audit quality is very important to know in an organization to examine and evaluate the activities of the organization are implemented. Therefore the quality of the internal audit according to Moeller, (1999: 553) is an internal investigation conducted regularly, and in the same manner as the internal audit others, by members of the internal audit staff to assess the quality of the audit work performed, then the quality of internal audit with respect The same by Moeller (2005: 655) as well as the quality of the internal audit is the first step needed to begin an internal audit function that is qualified, while according to Hiro Tugiman (1997: 11) that the internal audit or internal inspection is a function independent assessment of an organization to test and evaluate the activities of the organization are implemented. Furthermore, internal audits are part of an organization that is an integral and perform its functions based on policy set by board of directors and a statement of purpose, responsibilities of internal audit section approved by senior management and accepted by the board or directors shall be consistent with codification such norms professional practice of internal audit, so that the inspection activities of internal auditing carried out in a variety of environments vary and organizations to have a purpose, provisions, and habits are not the same, it will affect implementation of internal examination in the respective environments. Internal Audit Quality also discusses aspects of the quality of a product, process or system according to Dennis R. Arter, 2003: 130. Thus also that the quality of audit can be designed specifically to determine whether the product meets the standards established by management, Louwers, 2008: 631, therefore the quality of Audit to carry out a

process of the extent to which audit and communicate the results to meet the expectations of consumers, Rick Hayes 2005: 51. The IIA defines internal auditing is an assurance and consulting activity that is independent and objective designed to add value to improve the organization's operations, Yass Alkafaji & Shakir Hussain, (2010: 27). While Karla M. John, (2014: 15) defines the quality of the audit can identify and a driver of audit quality as determined by the user of the financial reporting framework and the framework of Quality Audit. Internal audit according to Tugiman (2006) in Wuryan Andayani (2008: 04) states that internal audit can provide various kinds of services to organization. Namely to help evaluate the activity in the field, (1) accounting control internal, (2) prevention and detection of fraud, (3) financial audit, (4) Examination of Obedience, (5) operational checks, (6) Examination of management, (7) Examination of the Contract, (8) Examination of the information system, (9) Development of internal quality and (10) the relationship with entities outside the company. So the quality of the internal audit process and communicate the extent to which the audit results to meet expectations for the user.

Internal Auditor Independence

Independent is a viewpoint that is not biased and is composed of independent thought or fact and independence in appearance. Independent mind reflects the state of mind that allows the auditor to audit became impartiality. independent mind still reflects the old terms of the truth of independent members. Independent in appearance are the results of independent interpretation of others (Arens, (2012: 87). Further independent is an auditing standards are important because opinion independent accountants aims to increase the credibility of financial statements presented by management (Mautz and sharp, 1993: 246) . And the Independent is the freedom of significant interest that threaten objectivity. Robert Moeller, (2005: 274). And independent internal audit is a service appraisal impartial and objective in an organization, Spencer Pickett, 2003: 345. And independent were office workers accountants who conduct an examination of the procedures used in addition to recording the truth. Azhar Susanto (2013: 109). And Independence-The freedom from conditions that Threaten Objectivity or the appearance of Objectivity. Dawne Lamminmak, (2009: 05). Subsequently before we launch our first models, we need to outline the formal definition of internal auditing from the IIA: That the Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to Evaluate and improve the effectiveness of risk management, control, and governance processes, (Pickett, 2005: 03). Further explanation of the auditor independence proposed by Boynton (2002: 66) that independence is the basis of the auditing profession. It means that the auditor would be neutral over the entity, and therefore will be objective and public can trust audit function because the auditor is impartial and acknowledges the obligation to be fair. Although the entity is a client auditors, but the CPA still has a greater responsibility to the users of the auditor's report clearly known. Auditor should not position themselves. Independence, integrity, and

objectivity of the auditor encourage third parties to use the financial statements included in the auditor's report with confidence and trust completely. Furthermore Pickett (2010: 340) declared the independence of the internal auditor is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit to carry out internal audit responsibilities objectively. In line with the above statement Tugiman Hiro (2006: 13) states that the independence of the internal auditor is a state free from situations that threaten objectivity both individually and in carrying out their duties. Furthermore Mautz and Sharaf (1993: 205), proposed definition of independence is a mental attitude that is free of influence, not controlled by the other party, does not depend on others. Auditor independence means for honesty in the auditor in considering the facts and the consideration of objective impartiality within the auditor to formulate and express opinions. Similarly, an employee independent accounting firm to conduct examination of the procedures used in addition to the validity of registration, Azhar Susanto (2013: 109). From the definition of independence above it can be concluded that the independence of the internal auditor of a freedom of an interest in the objectivity of both individuals and the ability of the internal audit activity in carrying out their responsibilities in a way that is not biased, as well as in formulating and giving recommendations. According to Government Auditing Standards (2011) 3:03 paragraph Independence consists of:

1) Independence of Mind

Thought allow performance audits without being affected by the harmful effects of professional judgment, allowing an individual to act with integrity and objectivity and professional skepticism.

2) Independence in Appearance

Not the state which would cause a third party to have knowledge of the relevant information which is sufficient to conclude that the integrity, objectivity or professional skepticism audit organization or member of the audit team had been compromised. Auditing Standards 1100 (IIA, 2012), set the attitude of independence and objectivity of internal auditors in which the activity of internal auditors must be independent, and internal auditors should be objective in carrying out the inspection work, further Pickett (2005: 61) says If independence or Objectivity is impaired in fact or appearance, the details of the impairment should be Disclosed to Appropriate parties. The nature of the disclosure will depend upon the impairment. Similarly previously According to the IIA (2009), the values of independence and objectivity to form the pillars of the internal audit profession. Objectivity is the ability to distinguish between beliefs, perceptions and facts. The auditor must be qualified to understand the criteria used and must have an independent mental attitude, Arens et al (2014), and Messier et. al (2006) found independence avoid relationships that might interfere with the internal auditor objectivity. Similar disclosed by Arens et.al (2014: 135) auditor independence includes two aspects:

- 1) Independence of mind Reflects the auditor's state of mind that permits the audit to be performed with an Unbiased attitude. Independence of mind

Reflects a long-standing requirement that members be independent in fact.

- 2) Independence in appearance is the result of others Interpretations of this independence. Mautz and Sharaf (1993: 204) Independence means the mental attitude of honesty within the auditor in considering the facts and the consideration of objective impartiality within the auditor in expressing his opinion. Independence of appearances means the public impression that the auditors act independently so that the auditor should avoid the factors that can lead people to doubt his freedom. Associated with the appearance of independence of the public perception of independence. Pickett (2010: 345) says that the internal auditor should perform their duties freely and objectively. Internal auditors must be independent privately in behavioral attitudes reality and appearance, then according SPAI (2004), the internal auditor is not allowed to conduct examination or evaluation of activities in which the internal auditors play a role as implementers of these activities. According to Sawyer and Dittenhofer (1996) for the professional independence of public accountants can be used by internal auditors.

According to Pickett (2010: 346-347), independence of the Internal Auditor in carrying out its activities include:

- 1) Programming independence
independent auditor to determine how the selected areas to be audited and what procedures will be applied.
- 2) Reporting independence.
The right to report the full facts is seen as an important aspect of independence.
- 3) Examining independence

Pickett (2010: 340) says that the independence of internal auditors include the independence of the organization and the objectivity of the individual. In line with Pickett (2010: 340) IIA (2011) in the International Standards for the Professional Practice of Internal Auditing, the independence of the internal auditor consists of independent organizations and the objectivity of the individual and Hiro Tugiman (2006:20-26), stated that the independence of the internal auditor can provide an impartial assessment and without prejudice, it can be obtained through organizational status and objectivity of internal auditors. Sawyer (2005: 35), suggests the dimensions and indicators of the independence of the internal auditor, include; the independence of the audit program, consisting of indicator, independent of managerial intervention on the audit program. free of any intervention on the audit procedures, free of any requirements for audit assignments other than those required for an audit process. Independent audits in indicator- indicator there are several very important to understand as an indicator namely:

- 1) Independence in verification/investigation, consisting of indicator:
 - a) Free to access all records, check the assets and employees that are relevant to the audit performed

- b) Can cooperate actively with the employee/client management during the verification audit
 - c) Free from all managerial effort seeking to limit or restrict the activities examined in obtaining audit evidence.
 - d) Free of personal interests that impede verification audit.
- 2) Independence in reporting, consisting of indicator:
- a) Free of personal desire as well as the influence of other parties to modify the effect of material evidence during the audit activity.
 - b) Free from any side pressure in the reported findings that are material
 - c) Avoid the use of words that mislead either intentionally or unintentionally in reporting the facts, opinions, and recommendations in the interpretation of the auditor.
 - d) Free to use judgment about the facts in the audit report.

In the rules of conduct on ethical code number. 101 on independence states that a CPA who practiced public must be independent in carrying out professional services as required by official standards promulgated by agencies appointed by the council. It contained some elements of the independence of the interpretation which includes the effect of (a) financial interest, prohibition against the financial interest is very explicit. (b) a business relationship, a CPA is not allowed to provide serve in the capacity as a member of management or as employees of clients, because it can weaken independence. (c) The meaning of the phrase CPA, did not include families that are already independent and interpretation states that the independence of the CPA or public accountant's office can be weakened because of the financial and business relationships of the family. (d) other services for clients, often CPA provide other services in addition to the attestation services to clients. CPA is not allowed to have other relationships such as financial interest which can weaken objectivity, and clien must take full responsibility for its financial statements and the CPA should work according to professional standards in carrying out gluing attestation. (e) litigation, involving the CPA and the client who questioned the independence. In general, the independence will be weakened if the presence or potential threat of litigation has changed significantly, or the expected relationship between the client and the CPA will change materially, Boynton (2002: 106).

Internal Auditor competence

According to Arens et.al (2014: 313), the definition of competence is as follows: Competence is the knowledge and skills Necessary to Accomplish tasks that define an individual's job., Cheng et.al further stated that competency is a person who has knowledge (education, expertise and experience) and attitudes of ethical behavior in work. Furthermore, with other competencies described by Arens (2014: 131) that competence is the knowledge and skills necessary to accomplish tasks that define the work of individuals. Spencer (1993: 09) states that competence is an underlying characteristic of individuals with regard to the criteria for effective performance in a job or situation. Yet another case of competence according to Azhar Susanto

(2007: 105) that the competency means employees have the knowledge and expertise to perform their duties, as well as Sukrisno Agoes et al (2009) say competence means the skill and ability to perform a job or profession. A competent person means a person who can do his job with the quality of the good results, further said in the broad sense of competence includes the mastery of science/knowledge (knowledge) and skills (skills) are insufficient, and have attitudes and behavior (attitude) that fit in carrying out the work/profession. Pickett (2005: 217) competence reflects the knowledge and skills necessary to perform a given task. Competence means having the intelligence, education, and training to be able to add value through performance, Andrew D. Bailey (2003: 233). Competence is the knowledge and skills that are very large is in conducting the audit, including the competence of the audit evidence that the data underlying the accounting and information contained in the standard aspects of field work. Reliability notes accounting directly related to the effectiveness of the internal control structure of the client. Strong internal controls will improve the accuracy and reliability or the reliability of financial records, internal controls are weak often can not prevent or detect errors and irregularities in the accounting process. Boynton (2002: 207). Definition of the competence of auditors by I Gusti Agung Rai (2008: 63) is the qualifications required by the auditors to conduct the audit properly. The competence needed by an auditor different from the performance of the financial auditor and the auditor's performance particularly for education and training required for the performance of auditors, known as continuing professional education. In addition to a competent auditor, audit success is also influenced by an adequate audit management. Audit management includes planning, organizing, implementing, and performance auditing control at the level of audit institutions. Furthermore, the auditors must have the quality of personal well in carrying out its duties such as, (1) curiosity, (2) broad-minded, (3) be able to handle uncertainty, (4) is able to accept that there is no easy solution (5) realize that some findings may be subjective and (6) able to cooperate in the items. Besides, the auditor also must have high integrity and are required to have good communication skills, because in many audits conducted interviews and inquiries from the auditee to obtain data. The same thing by Samson (1993) In I Gusti Agung Rai mention some quality other personal that should be owned by an auditor, as cleverness, communication skills, good behavior, commitment and the ability of a good imagination to create an attitude of creative and full innovation.

Theoretical Framework

Independent according to Mautz and sharf, (1993: 246) that independently is an important auditing standards for independent accountants opinion aims to add to the credibility of the financial statements presented by management. Independent and is free of significant interest that threaten objectivity. Robert Moeller, (2005: 274). And independent internal audit service is impartial and objective assessment in an organization, Spencer Picket, 2003: 345. Is an employee and independent accounting firm conduct an examination of the procedures used in addition to recording the truth Azhar Susanto (2013: 109). The theory is supported by research showing that the

independence and competence significantly affect audit quality (Alim, et al, 2007), further research shows that the most important attribute in assessing audit quality is competence. In line with research conducted by Dityatama (2015) The results Showed that the competency and independency of the internal auditor's have a positive influence to the internal auditor's due professional care. Furthermore, both the internal auditor's competency, independence, and due professional care have a positive influence on the internal audit quality. In other words, the internal auditor's due professional care mediate the relationship between internal auditor's competency and independency to the internal audit quality. To increase of the internal auditor's due professional care in order to improve the internal audit quality, can be done by increasing the internal auditor's competency and independency and also supported with more adequate quality control (eg supervision, peer review, etc). Research conducted by Torbjörn Tagesson with the title of auditor rotation Does Quality audit influence: the contested hypotheses tested on Swedish data results show that the independent auditor is considered as a key factor to ensure audit quality. The same is stated by Yass Alkafaji (2010) with the theme of Characteristics of an Internal Audit Activity that examine the internal audit activities provide an understanding of what is expected of internal auditors and internal audit highlighted the importance of the main characteristics such as independence, objectivity, and abilities. Furthermore Yass Alkafaji (2010) adds that the Independence and Objectivity requires that the internal audit activity "must be independent, and internal auditors must be objective in performing Reviews their work. Dawne Lamminmaki (2009: 05) Internal Audit is something independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Another study of Deis and Groux (1992 explains that the probability of finding a violation depending on the technical capabilities of auditors and the probability of reporting a violation depending on auditor independence. Competence according to Arens (2014: 131) that competence is the knowledge and skills necessary to accomplish tasks that define the work of individuals. Spencer (1993: 09) states that competence is an underlying characteristic of individuals with regard to the criteria for effective performance in a job or situation. Similarly, it is by Azhar Susanto (2007: 105) that the competency means employees have the knowledge and expertise to carry out their duties. Pickett (2005: 217) Competence reflects the knowledge and skills necessary to perform a given task. And competence means having the intelligence, education, and training to be able to add value through performance, Andrew D. Bailey (2003: 233). Study done by Susan Switzer (2007) on the Internal Audit Reports Post Sarbanes-Oxley, that in order to conduct an audit of internal control over financial reporting, the auditor must have competence in the subject of internal control over financial reporting. Similarly Dityatama (2015) in his study entitled The Influence of Internal Auditor's Competency and independency to the Internal Auditor's Due Professional Care and the Implication to the Internal Audit

Hypothesis

The hypothesis in this study are:

- 1) The increasing independence of the internal auditor, the increasing quality of the internal audit.
- 2) The increased competence of the internal auditor also increase the quality of internal audit

Conclusion

Organization independence of internal auditors through independent, Individual objectivity and independence reporting positive effect on the quality of internal audit. The higher the independence of internal auditors will improve the quality of internal audit as disclosed by Torbjörn Tagesson that the independent auditor is considered as a key factor to ensure audit quality. Dityatama (2015) states that independence has an influence on the quality of internal audit. And some theories by experts including Spencer Pickett, 2003: 345 that independent internal audit service is impartial and objective assessment in an organization . Is an employee and independent accounting firm conduct an examination of the procedures used in addition to the validity of registration, Azhar Susanto (2013: 109). Study done by Susan Switzer (2007) which states that in order to conduct an audit of internal control over financial reporting, the auditor must have competence in the subject of internal control over financial reporting. Similarly Dityatama (2015) in his research that competence has an influence on the quality of internal audit. Thus the internal auditor competence through knowledge, expertise, skills, education and experience needed in the implementation of internal audit services positively affects the quality of internal audit. The higher the competence of internal auditors, the internal audit quality will increase as well. In line with the theory of experts including Pickett (2005: 217) states that the competencies reflect the knowledge and skills necessary to perform a given task. And competence means having the intelligence, education, and training to be able to add value through performance, Andrew D. Bailey (2003: 233). matching it by Azhar Susanto (2007: 105) that the competency means employees have the knowledge and expertise to carry out their duties.

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