

Competencies and Independence of Auditors on the Effectiveness of Internal Audit in Public Universities of Indonesia

Jusbair Baheri, Rosidi and Nurkholis
Universitas Brawijaya, Malang, Jawa Timur, Indonesia

Abstract: This study aims to examine and analyze the influence of auditor's competence and independence on the internal audit effectiveness. Achievement of the internal audit effectiveness is a form of application principles of accountability and transparency on the use of public funds by higher education institutions in Indonesia. The unit of analysis of this study is an internal auditor at public universities in Malang who participated in the internal audit process. Total population in this study are 37 respondents. This study uses as a turation sampling. The results of research the auditor's independence are not significant affect on the internal audit effectiveness while the auditor's competence significantly influence the internal audit effectiveness.

Key words: Effectiveness of internal audit, auditor's competency, auditor's independence, accountability, transparency

INTRODUCTION

Background: Public sector development in Indonesia is characterized by stronger demand for accountability and transparency towards stakeholders over the use of public funds by public sector institution/agencies (e.g., local government institutions agencies, healthcare, state local government-owned enterprises and universities). Following that demands, the effectiveness of internal control over public institutions should be realized. By realizing the effectiveness of internal control, the principle of accountability and transparency in financial management, state asset management, effectiveness and efficiency of operational and the compliance with applicable laws and regulation can be achieved. Thus, internal audit in a public university has a pivotal role in helping the university to realize a good management and encourage the university to become better in the future (Zakaria *et al.*, 2006). There was some observation done on the disclaimer opinion by BPK-RI on the financial statements of the Ministry of National Education in 2007 as well as the qualified opinions (WDP), respectively in 2008 and 2009 and disclaimer in 2010, coupled with the results of audit done by the audit board of the Republic of Indonesia (BPK-RI) concerning the budget fraud in 16 public university (state) and 3 directorate general in the Ministry of National Education (MoNE) in 2011.

Therefore, some researchers effectiveness of the internal audit (Chaveerug, 2011) stressed the need for future studies to examine the factors that influence the

effectiveness of the internal audit and the possible interactions between them (Saidin, 2013). One of the factors that might affect the effectiveness of internal audit is the competence of auditors (Ahmad *et al.*, 2009). The research results prove that internal audit department continues to face problems in terms of low ability of the technical staff and high staff turnover (Mihret and Yismaw, 2007). As a result, those problems impede the department to provide effective services to management. In line with that Unegbu and Kida (2011) state that internal auditors can effectively carry out their duties in public sector if there are sufficient numbers of internal auditors staff who possess the required competencies. Furthermore, state that there is significant positive relationship between the competence of auditors and the effectiveness of internal (Baharuddin *et al.*, 2014). Independence is a vital element for performing an audit (Zhang *et al.*, 2007). Auditor should be free from the management intervention and has the freedom to access records, check the assets (Jennings *et al.*, 2008) as well as to report the audit result (Rahmina and Agus, 2014) so, that auditor can show significant facts in the audit report (Pott *et al.*, 2009). Thus, independence is an important factor that should be owned by the auditor.

Literature review

Effectiveness of internal audit: Internal audit is an independent appraisal function within an organization to examine and evaluate the organization's activities (Suleiman and Dandago, 2014). The objective of internal

auditor is not only for internal purpose but it has been modified in such a way so that the modern internal auditor now give more emphasis on the value added in all things related to risk (Sarens and Beelde, 2006) governance and control (Cohen and Sayag, 2010). Effectiveness of achieving the objectives defined (Dittenhofer, 2001). So that, the effectiveness of internal audit is focused on the internal audit's ability to make a plan to implement and provide an objective information on the findings that may be useful for the organization (Spraaakman, 1997). To adequately measure the effectiveness of auditing then evaluation should not only be conducted solely on the audit results to the predetermined objectives but also on the audit process (planning, implementation and follow-up) (Beckmerhagen *et al.*, 2004) and resources related to the independence and competence of auditors (Arena and Azzone, 2009). The effectiveness of internal audit is determined by subjective evaluation function assigned by management. Others expressed the opinion that in order to achieve the purpose of internal audit, must meet three basic conditions, namely independence; status of the organization and objectivity (Yee *et al.*, 2008). Moreover, studies of the dominant factors that influence the effectiveness of internal audit in the public sector of Saudi Arabia revealed that the competence and independence of auditors is positively related to the effectiveness of the internal audit (Alzeban and Gwilliam, 2014). The existence of an independent audit report will certainly reduce the asymmetry in the use of information (Sun *et al.*, 2012).

Auditor's competence: Competence is related to adequate education and experience possessed by the public accountants in the field of auditing and accounting (Power and Terziovski, 2007). In performing an audit, the public accountant should act as an expert in the field of accounting and auditing (Peecher *et al.*, 2007). To achieve such expertise one should begin with formal education which further explore through experience in auditing practices. In addition, public accountants should undergo adequate technical training that covers both technical aspects and general education (Samagaio and Rodrigues, 2016). On the other hand, a junior audit assistant must gain his/her professional experience through adequate supervision and review of his/her work from his/her superior in order to achieve such competence. Competence is a sufficient skill that can be used to perform an audit objectively (Lee and Stone, 1995).

Auditor's independence: The perspective of independence includes the independence of the audit program, the independence of the audit process and independence in reporting (Sawyer, 2003). Independence in the audit program involving freedom auditor of

managerial intervention in the audit program, the freedom of intervention on the audit procedures as well as the assignment of audit requirements in addition to those required for the audit process (Mautz and Sharaf, 1993). Independence in verification which means that the auditor has the freedom to access all records and check the assets. In addition, the auditor should be free from all the managerial effort that tries to put a restriction on the activities being investigated and the acquisition of evidence as well as from any personal interests that may impede the verification audit (Sarwoko and Agus, 2014). Independence in reporting which means that the auditor is free from the obligation to modify the impact or significance from the facts reported, free from the pressure to not report things that are significant in the audit report, avoid the choice of words that create misunderstanding either intentionally or unintentionally in reporting the facts and recommendation in the auditor's interpretation and free from any attempt to diminish the auditor's judgment about certain facts in internal audit report (Schneider *et al.*, 2006).

MATERIALS AND METHODS

The analytical method used in this study was multiple linear regression which used to answer hypotheses one to three. In addition, multiple regression in this study used to measure the intensity of two variables, namely independent and dependent variable as well as giving the predicted value of dependent variable (Y) based on the value of the independent variable (X).

Population and sample: The population in this study was all the internal auditors at Public University in Malang who participated in the inspection as many as 37 people. The public universities chosen as the place to conduct this study were Brawijaya University, State University of Malang, Maulana Malik Ibrahim State Islamic University, State Polytechnic of Malang and Malang Health Polytechnic of Malang). The number of questionnaires distributed to the respondents was 37 questionnaires and was distributed using the purposive sampling technique. Since, the number of respondents was <100 respondents, census method was used to select the sample. The questionnaires were distributed to all populations that had the classification as internal auditor.

RESULTS AND DISCUSSION

The auditor's competence affect the effectiveness of internal audit: The results of data analysis showed that the competence of auditors (X_1) had a positive and significant effect on the effectiveness of internal audit (Y).

This was shown by the results of t-test at the confidence level of 0.95 or significance level $\alpha = 0.05$, where $t_{\text{calc}} = 3.499 > t_{\text{table}}$ was 2.034 with probability value = $0.001 < 0.05$. Thus, the second hypothesis could be accepted. It meant that the competence of auditors (X_1) had positive and significant impact on the effectiveness of internal audit (Y). Thus, the first hypothesis which stated that the competence of auditor had positive effect on the effectiveness of internal audit was accepted. These results support ongoing research (Baharudd *et al.*, 2014) which revealed a significant positive relationship between competence on the effectiveness of internal audit. These results can be understood that in order to improve the effectiveness of internal audit, an auditor is very dependent on the level of competence (Unegbu and Kida, 2011; Ahmad *et al.*, 2009; Mihret and Yismaw, 2007; Cohen and Sayag, 2010). From this result, it could be concluded that in order to improve the effectiveness of internal audit, it depended on the level of competence of auditors. If the auditors had a good competence, they would likely to perform their task easily and vice versa. These results also strengthen the research conducted (Bonner, 1990) about the influence of the experience and expertise of auditors in improving the performance and as a decision-making process and can detect the risk of fraud against the case against him (Bernardi, 1994; Pincus, 1994; Spatacean, 2012; Cohen and Hanno, 2000). Thus, competencies are extremely helpful in realizing good governance within the organization (Gramling *et al.*, 2004; Goodwin-Stewart and Kent, 2006; Barac and van Staden, 2009; Cassell *et al.*, 2012). This study also provides evidence that the competency of auditors is of added value within the organization in perspective the quality of reporting in the form of audit findings and recommendations are given (Barac *et al.*, 2009).

The auditor's independence affect the effectiveness of internal audit: The results of data analysis showed that the independence of auditors (X_2) had positive and not significant effect on the effectiveness of internal audit (Y). This was shown by the results of t-test at the confidence level of 0.95 or significance level $\alpha = 0.05$ where $t_{\text{calc}} 1.829 < t_{\text{table}}$ was 2.034 with $p = 0.076 > 0.05$. Thus the second hypothesis was rejected. This finding confirmed that the independence of auditor in SPI tended to not support the effectiveness of the auditor's performance. Based on this fact, it could be said that the independence in making report and planning a program were the most dominant factor that made the internal auditor performance became ineffective. There was rector intervention in determining, eliminating and modifying certain parts in the programming process and in the

auditor's finding that showed the auditor's inability to play their part independently. Besides that the auditors had inferior position since they were appointed and could be dismissed by the rector. It meant that auditors had a "burden" in performing their task that would affect the quality of the performance and in turn affected the effectiveness of internal auditor in the public university concerned. In addition, job satisfaction of the auditors most likely to be one of the factors that might reduce the independence of the auditor in performing its role.

CONCLUSION

The results of this study illustrate the shape of the independence of internal auditors in performing their duties which is faced with the problem of independence in appearance (Zhang, 2003; Bartlett, 1993). The results also support the research (Ahmad *et al.*, 2009) which revealed the independence of internal audit not significant effect on the effectiveness of internal audit. Although, the impact of the lack of independence of course greatly influenced by management support to the internal audit department to perform tasks (Nur Barizah and Ahmad, 2009).

LIMITATIONS

The limitation of this study was in the number of samples that was relatively small, 37 respondents out of five public universities in Malang. Thus, the result of this study could not be used to generalize the conditions of universities in other cities. This study was only focused on public universities with the status of BLU (public service agency) in Malang, thus the result of this study could not be used to make a generalization. Future research could be conducted in other universities both public and private university. This study used survey data or perception that presented a relationship analysis in one period (cross section), so that for analysis at different periods of time it would be greatly influenced by the changes in conditions, competence of auditors and the independence of the auditors on the effectiveness of internal audit. Therefore, to identify the changes as well as to test the consistency of the relationship between variables examined in this study further study should be conducted.

IMPLICATIONS

The findings from this study proved that the competence of auditors directly affected the effectiveness of internal audit. It meant that the skill or ability

possessed by the internal auditors would help them in completing their tasks effectively. The level of internal auditor's competence was reflected in the experience and skills possessed by the auditors in executing their role. This study also proved that the independence of auditors indirectly affect the effectiveness of internal audit. It meant that the independence of SPI auditors had not been able to encourage them in performing an effective audit.

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