

Independence and Competency of Internal Auditors at SOES in Bandung City

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Abstract

Description of the condition of the independence and competence of internal auditors working in SOEs in Bandung is the purpose of this study, considering the occurrence of several cases of irregularities in these SOEs. Internal audit can function properly depending on the performance of the auditor. Auditors who always improve their performance work independently and competently are believed to be able to provide accurate recommendations for management. The impact of the lack of independence and competence of the internal auditors, among others, is the delay in providing recommendations from the implementation of the internal audit and even the lack of quality in the implementation of the audit. The management will not have complete knowledge of the conditions that occur in the company and this will slow down decision making to take corrective actions for problems that occur in the company. This study is a descriptive study with a sample of 89 internal auditors from nine state-owned enterprises in Bandung. The results of descriptive statistics show that the internal auditors who work in SOEs in the city of Bandung have a good degree of independence and excellent competence.

Keywords

Independence competence, internal auditor

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Introduction

Internal auditors are management partners in managing the company. Internal auditors as internal audit performers must always try to improve their performance, given that internal audit is an activity designed to add value and improve the organization's operations (Alqooti, 2020). The value possessed by a company will develop in accordance with the development of the business world, therefore there is no reason for internal auditors not to develop their capabilities. Studies conducted in the field of internal audit prioritize the need to improve the quality of the internal audit function to achieve its effectiveness (Mihret, James, & Mula, 2010). The effectiveness of the audit function can be achieved by increasing the competence and independence of internal audit (Abbott, Daugherty, Parker, and Peters (2016); Al-Matari, Al-Swidi, and Fadzil (2014)). Many researches on competence and independence have been carried out, including Jachi and Yona (2019), who found that competence can affect transparency and accountability, while research by Abbott et al. (2016) found that competence and independence together are necessary antecedents for the effective monitoring of financial reporting of the internal audit function. Research conducted in Indonesia, among others, Madura (2020) obtain evidence that competence and independence can affect the performance of the Government Internal Audit Apparatus. Nevertheless, the role of the internal audit function in the financial reporting process is not yet fully understood and empirical evidence regarding the quality impact of the internal audit function is minimal (Abbott et al., 2016). This study is intended to describe the condition of the independence of internal auditors in several state-owned companies in the city of Bandung which shows a tendency for poor internal control.

Literature Review

Independency

Independence or impartiality in the audit is known as the mental attitude of an auditor who is not influenced by other parties in carrying out their responsibilities. An auditor must always work objectively based on facts. Independence enables internal auditors to provide impartial and unbiased critical judgments for the proper conduct of engagements. Auditor independence is the building block of the audit profession, independence is the basis for the public to believe in a fair and correct position of an organization's financial statements (Caswell & Allen, 2001). Independent can also be said as a wise attitude to always avoid situations that cause non-objectivity (Carey & Doherty, 1966). Independence is a quality audit function factor. Audit quality, is the probability that violations found are reported and corrected in a timely manner to ensure that the reported financial statements represent a true and fair view of the company's financial position (DeAngelo, 1981). The audit must be carried out by the auditor independently in accordance with the SKPN (2007) standard which states that in all matters relating to audit work, the auditor must have a mental attitude and appearance that is free from personal disturbances, external parties, and organizations that can affect his independence. Auditors must not only be independent in fact, but also must be independent in appearance (Arens, Elder, & Mark, 2012). This can be obtained through status in the organization and the objectivity of the internal auditors (Alzeban, 2015). Auditors who are not independent will be a threat to continuity of the accounting profession as a whole. Therefore, auditors must maintain their independence and ensure that they provide high quality audits to ensure the credibility of financial information. Auditors must realize that in addition to reducing fraud that occurs in companies, they must also maintain the survival of the profession and its development.

Competency

Professional competence refers to the possession of the skills and knowledge required to perform specifically specified tasks (Abbott et al., 2016), which is achieved through training and experience (Badara & Saidin, 2013; Lenz & Hahn, 2015). In line with this, Alzeban (2015) said that an internal auditor who has competence means that he must have the knowledge, abilities, and various disciplines needed to carry out an appropriate and appropriate examination. Internal auditors are also required to have the ability to evaluate and contribute to improving broad

organizational governance, risk management and control processes (Alqooti, 2020). Internal auditors must continuously improve their competencies which include knowledge, skills, expertise, personal values and attitudes (Alqooti, 2020). The head of the internal audit department should facilitate his subordinates to take the internal audit certification exam, so that the internal auditor has the skills, knowledge and attitudes in carrying out his work in order to maintain his competence. An internal audit task can be considered complete when errors in the organization have been corrected, leaving sufficient assurance that such conditions will be maintained, if not improved (Sawyer, 1995). This condition can only be achieved through adequate management support for the existence of the function and the subsequent implementation of the function. It is necessary to create an environment that supports efforts to build a high quality and capacity internal audit function that has a positive impact on corporate governance practices (Cohen & Sayag, 2010; Mebratu, 2015). The head of the audit department has an important role in determining the role of the audit section and its auditors through aligning the activities of the internal audit function with the strategic objectives of the organization, as well as optimizing the resources and skills possessed (Hoos, Kochetova-Kozloski, & d'Arcy, 2015; Rittenberg & Anderson, 2006). The overall competent nature of the internal audit function is determined by the skills and qualifications of the head of the audit department (Mihret et al., 2010).

Research Method

Elements or members of the population are all internal auditors who work in several SOEs in the city of Bandung as many as 100 auditors. Purposive sampling method was used to determine the number of sample subjects, namely the auditor who returned the questionnaire. The samples obtained were 89 internal auditors. This research is descriptive research with data processing using descriptive statistics. The independence variable was measured using a questionnaire developed by Alzeban (2015) consisting of two dimensions, namely organizational status and objectivity with six Likert scale questions, while the competent variable was measured using a questionnaire in the research of Cheng, Engstrom, and Kattelus (2002) consisting of four dimensions, namely: education, skills, expertise and behaviour with 15 questions also on a Likert scale.

Results and Discussion

The gender of the respondents is dominated by men as much as 74% like most other professional workers in Indonesia, 72% are between 20 and 40 years old, meaning that they are in the productive age range, 80% have a bachelor's degree and 45% have worked in the range of 5 years. Testing the validity and reliability of the instrument shows that both the independence instrument and the competency instrument are valid and reliable.

The descriptive mean value is explained by using the following classification.

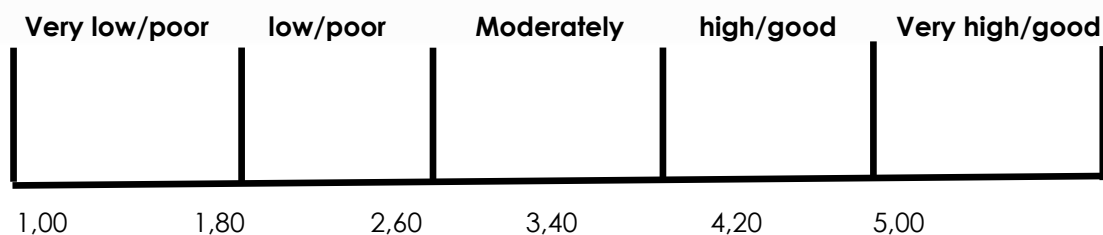


Figure 1. Continuum line

The following is a description of each variable studied, namely independence and competence.

Table 1

Recapitulation of Respondents' Responses Regarding Independence

No	Indicator	Average	Category
1	Organisation status	4,33	Very high
2	Objectivity	4,01	High
Average		4,17	High

Source: Results of questionnaire processing

Table 1 shows that internal auditors who work in several SOEs in the city of Bandung have a high independent attitude, especially when viewed from their position in the organization showing a very high classification meaning that other parts of the organization are not able to influence the auditors in carrying out their functions. Internal auditors themselves also have high objectivity so that the audits carried out have good quality. From the question items in the questionnaire regarding: in conducting audits, the internal auditors in this company received support from top management, showing the highest score.

Table 2

Recapitulation of Respondents' Responses Regarding Independence

No	Indicator	Average	Category
1	Education	4,03	Good
2	Skills	4,30	Very good
3	Expertise	4,28	Very good
4	Behaviour	4,31	Very good
Average		4,23	Very good

Source: Results of questionnaire processing

Table 2 illustrates that the internal auditors who work in several BUMNs in the city of Bandung have very good competencies, namely in terms of skills, expertise and behavior, but their education is still dominated by strata one. When viewed from the question items regarding education, participating in continuing professional education has the lowest score.

Discussion

The results showed that the internal auditors who worked in several SOEs in the city of Bandung had high independence, with the lowest answer score being management support. The total independence score is still only at a good level and not very good. This is of course related to the implementation of the audit function that is less than optimal because management support has not been optimal in carrying out the audit function. It is possible that managers still do not understand that internal auditors are managers' partners in carrying out their responsibilities. This result is in line with the statement of [Cohen and Sayag \(2010\)](#); [Mebratu \(2015\)](#) namely the need for management support to build an environment that can create a quality internal audit function. Internal audit must be given a relatively high position so that it is not easily influenced by other parts so that it can increase independence, tangible recognition, and ease of communication with top management. Some experts support that internal auditors are most likely to be effective in carrying out their functions and promoting good governance if their functions are properly placed and given a relatively high status in the organizational structure, and are supported by management ([Pearson & Sutherland, 2017](#); [Steinbauer, Renn, Taylor, & Njoroge, 2014](#)).

The results of this study also found that the degree of competence of the internal auditors was very good. Question items regarding continuing professional education have the lowest score. There is a possibility that not many internal auditors have certification because 45% of the total internal auditor respondents have only worked in the range of 5 years. Lack of technical qualifications of internal auditors, and affiliation with the Institute of Internal Auditors are the main weaknesses that will affect the competence of internal auditors. This is in line with the statement by [Abbott et al. \(2016\)](#) that professional competence is the level of ownership of the skills and knowledge needed to perform a task that is specifically determined. This competence can be achieved through training and experience ([Badara & Saidin, 2013](#); [Lenz & Hahn, 2015](#)). This competency can be seen from the ownership of certificates and the amount of training, in Indonesia known as continuing professional education that must be followed by auditors, so that they are able to perform quality audit functions.

Conclusions and Suggestions

The results of the study found that internal auditors who worked in several BUMNs in the city of Bandung had high independence, although there was still no support from top managers. It was also found that the internal auditors have very good competence, although they are still lacking

in terms of attending continuing education to get certificates. Given this, it can be suggested that managers should improve their understanding of the internal audit function, because the internal audit function is not just a compliance audit or assessing, managing and reporting internal control weaknesses, but with the development of control self-assessment (CSA) or control risk self-assessment. assessment internal auditor serves as a facilitator who can provide direction in the workshop if the organization does not understand the key risks and find solutions. Awareness of managers to facilitate internal auditors to participate in continuing professional education is very necessary. Although the findings regarding independence and competence are high and very good, in reality there is still poor audit quality, therefore it is better for internal auditors to improve their honesty and integrity. Independent and competent alone do not guarantee a quality audit.

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