ANALYSIS OF THE EFFECT OF INDEPENDENCE, PROFESSIONALISM, AND COMPETENCE ON THE QUALITY OF INTERNAL AUDIT RESULTS WITH AUDITOR ETHICS AS MODERATING VARIABLE

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Abstract: This study aims to evaluate the effect of independence, professionalism and competence on the quality of internal audit results with auditor ethics as a moderating variable in Inspectorate of Medan City. Based on the results of this study, showing that independence has a positive effect on the quality of internal audit results, professionalism has a positive effect on the quality of internal audit results, and competence does not affect the quality of internal audit results at the Medan City Inspectorate. Meanwhile, auditor ethics auditors are unable to moderate the relationship between independence and the quality of internal audit results, auditor ethics auditors are unable to moderate the relationship between professionalism and the quality of internal audit results, and auditor ethics are not able to moderate the relationship between competence and quality of internal audit results.

Keywords: Independence, professionalism, competence, auditor ethics, quality of internal audit results

1. INTRODUCTION

In 2015 and 2016 the local government was ranked as the most widely reported government agency to the Indonesian Ombudsman. If in 2015 there were 2,914 reports, this number increased to 3,638 reports in 2016 or 40% of the total reports. This high number reflects a lot of things related to governance in the regions, including their internal control function, which is conducted by the Inspectorate (Sindonews, 2017).

Weak internal controls in running the government cause ineffective effects that cause losses to the country and cause a lot of waste of local budgets. In internal control, executive management influences the value of independence and compliance of an auditor (Eulerich, Kremin & Wood, 2019). Audit is a way that can reduce agency costs due to selfish behavior by managers and information asymmetry (Ingmanson & Wallace, 1985).

Cameran and Pettinicchio (2011) who said in their research that competence and independence are important factors in affecting the quality of audit results. They define audit quality as a good probability market value (1) detect irregularities (auditor competence), (2) report irregularities (auditor independence). In addition to the independence factor, the results of the 2012 inspectorate capability mapping conducted by the Financial and Development Supervisory Agency (BPKP) show that inspectorate’s capacity and professionalism are still weak. Based on that mapping, 93.96 percent of inspectorates are still at level 1 of the five levels that are the basis of the assessment. That is, the inspectorate has not been able to provide...
guarantees that government programs or activities are in accordance with the rules. In 2017 it is not much different where the results of the the Financial and Development Supervisory Agency (BPKP) state that the capabilities of the regional government APIP are still at level 1 and 2 of the 5 basic assessment levels.

In general, auditor ethics is a moral principle and acts which are the basis of one's actions so that what they do is seen by the public as commendable and increases one's dignity and honor, including in improving the quality of audit results (Munawir, 2007). Good audit quality is determined by the compliance of an auditor following applicable standards, standards and guidelines on audit ethics greatly assist the auditor in setting principles on how to overcome ethical temptations (Jelic, 2012).

Representative Audit Board of North Sumatra Province said that the Audit Report of Indonesia Audit Board (LHP) of the Local Government Financial Statements for the 2015 to 2018 fiscal year the Medan City Government received a Qualified Opinion. The results of the internal audit quality affect the opinion issued by the external auditor, if the results of the internal audit quality produced by the Medan City Inspectorate are good, the opinion produced by the external auditor (Indonesia Audit Board) will be good and vice versa. Based on the Indonesia Audit Board’s audit report above, it shows that for four consecutive years the Medan city government has always received the results of a Qualified Opinion on the Local Government Financial Report. There are still items that do not fit SAP, there are some items that cannot be disclosed, and there are still a number of violations of the law that are the basis for judging the opinion of the Qualified Opinion from the Indonesia Audit Board. Based on the background above, this study will further investigate the effect of independence, professionalism, and competence on the quality of audit results with auditor ethics as a moderating variable.

2. LITERATURE REVIEW

2.1. Agency Theory

Agency theory (Jensen & Meckling, 1976) defines agency theory as the relationship between an agent (management of a business) and principal (business owner). In an agency relationship, there is a contract where one person or principal tells another person (agent) to perform a service on behalf of the principal and authorizes the agent to make the best decision for the principal. The management of local government has an agency relationship (agency theory) between the community as the principal and the government as the agent. Problems related to the quality of financial statements are often caused by conflicting interests of management (government) with the interests of stakeholders (the public), but management often cheats to maximize their welfare and secure their position regardless of the danger posed to stakeholders both

2.2. Attribution Theory

Attribution theory is a theory developed by Heider (1958) that a person’s behavior is determined by a combination of internal forces ie factors that originate from within a person such as ability or effort, and external forces ie factors that originate from outside such as difficulties in work. This theory is a reaction of a
person’s actions or a behavioral motive in a particular event. The cause of a person’s behavior is influenced by 2 factors, namely internal factors that are causes that are within that person, while external factors can be influenced by environmental factors outside of oneself in every act of human behavior that is strongly influenced by both factors. In this study, researchers wanted to see a number of internal attribution factors that could affect auditor behavior in carrying out audit tasks. This theory is used in this study to determine the auditor’s behavior in giving auditor opinion. It is said in the theory of attribution of a person’s behavior is determined by a combination of internal strengths that is the strength from within himself and strength from outside the factors that come from outside that can affect the person personally. The quality of audit results is strongly influenced by the behavior that the auditor causes in the audit process. The auditor’s behavior in carrying out the task will probably be determined by internal causes in the form of independence, professionalism, and competence.

2.3. Quality of Audit Results
The quality of audit results is reporting on internal control weaknesses and compliance with regulations, responses from responsible officials, distribution of audit reports and follow-up on auditor recommendations in accordance with statutory regulations or based on standards set by Carolita (2012). Meanwhile according to Siagian (2017) the quality of internal audit results is reporting on weaknesses of internal control and compliance with regulations, responses from responsible officials, keeping disclosure of prohibited information, distributing audit reports and following up on auditor recommendations in accordance with statutory regulations. The indicators of the quality of internal audit results are weaknesses in internal control, deviations from legislation, distribution of audit reports, confidentiality of information, and follow-up on recommendations. In a study conducted by Erlina and Muda (2018) stated that the low audit quality is influenced by self-efficacy and professional development so that in the study that ultimately has an impact on the performance of local governments.

2.4. Independence
Auditor independence is a basic principle of good practice making financial statements more credible Eilifsen et al. (2013). The auditor obtains and evaluates evidence of economic actions and events and compares the evidence with statements made by management which are proven in the financial statements of Hayes, Wallage, and Gortemaker (2014). Furthermore Izedonmi (2000) states that auditor independence means the auditor’s ability to conduct audits in accordance with his assessment, free from undue influence, independence is the most important attribute for the auditor and it is an attitude whose mind is marked by integrity and objectivity.

2.5. Professionalism
Professionalism is reliability in carrying out tasks so that they are carried out with high quality, right time, careful, and with procedures that are easily understood and followed by Siagian customers (2000). Kalbers and Fogarty (1995)
developed a study conducted by Hall (1968) theorized five elements of individual professionalism, namely: (1) Believe their work has an interest, (2) Commit to public goods services, (3) The need for autonomy on the requirements of workers, (4) Support self-regulation for their work, (5) Affiliation with members of his profession. In his research he also explained that there is a reciprocal relationship between attitude and behavior, namely professionalism behavior is a reflection of professionalism and vice versa. Kalbers and Fogarty (1995) who examined the five elements of professionalism developed by Hall (1968) associated with work performance, job satisfaction, organizational commitment, and desire to speak get results that professionalism influences performance, organizational commitment and job satisfaction, whereas for desires not influenced by professionalism.

2.6. Competence

Competence is knowledge, skills and abilities related to work, as well as abilities needed for non-routine jobs Mayangsari (2003). The definition of competence in the field of auditing is often measured by experience. To improve skills development, companies need to provide courses to help develop competencies in the context of developing service quality to customers and the effectiveness of relationships between clients and auditors in the Alberton (2002) audit.

Research conducted by Zahmatkesh and Rezazadeh (2017) which states that competence affects the quality of audit results. From the results of the above research we can conclude that competency is a variable that is very influential on the quality of the results of audits conducted by auditors.

2.7. Auditor Ethics

In the Indonesian Dictionary, the notion of ethics is a collection of principles or values with regard to morals, values regarding right and wrong held by a group or society. So that ethics can be interpreted as follows:

a. Knowledge of what is good and what is bad and about moral rights and obligations
b. Collection of principles related to morals
c. Values regarding the right and wrong of the group or society.

Research conducted by Chrisdinawidanty, Tugiman, and Qia (2016) states that to maintain and uphold the auditor's ethical values, the auditor will produce quality audits as well. Both in terms of the inspection process or the results of the examination later. In this study also shows that where the higher the professional ethics upheld by the auditor, the audit quality will also be better. By upholding professional ethics, it is expected that fraud does not occur among the auditors, so that they can provide audit opinions that are truly in line with what the company expects.

2.8. Conceptual Framework

Conceptual framework is made to see the effect of independence, professionalism and competence on audit results with audit ethics as a moderating
variable. Then this research framework model can be conveyed in the picture as follows:

![Figure 1. Conceptual Framework](image)

2.9. Hypothesis

From the explanation above can be drawn as follows:

H1: Independence has a positive effect on the quality of internal audit results

H2: Professionalism has a positive effect on the quality of internal audit results

H3: Competence has a positive effect on the quality of internal audit results

H4: Auditor’s ethics is able to moderate the relationship between independence and the quality of internal audit results

H5: Auditor ethics is able to moderate the relationship between professionalism and the quality of internal audit results

H6: Auditor ethics are able to moderate the relationship between competence and the quality of internal audit results

3. METHOD

The type of data used in this study is primary data. The data collection method is carried out using a survey method. The survey method is a primary data collection method by giving questionnaires to individual respondents Erlina (2011). Questionnaires on the variables of independence, competence, and quality of internal audit results from Sukriah, Akram, and Inapta (2009), professionalism variables were taken from Siagian (2017), and auditor's ethical variables were taken from Dewi, Ajeng (2016). In this study questionnaires will be given to all internal auditors of the Medan City Inspectorate. As for the internal stage, the distribution and collection of the questionnaire consisted of two stages: the first stage was distributing the questionnaire to the internal auditors of the Medan City Inspectorate, amounting to 69 respondents. The second step is taking the questionnaire that was filled in by the respondent to process the data from the questionnaire.

4. RESULTS AND DISCUSSION

4.1. Overview of Research Objects

This study uses primary data obtained from a questionnaire distributed to respondents in 69 (sixty nine) auditors and P2UPD functional officials in the
Inspectorate of Medan City consisting of: 5 Intermediate Auditors, 17 Junior Auditors, 12 First Auditors, 1 First Auditor Advanced Implementing Auditors, 1 Supervisor Auditor, 24 Middle Government Oversight Administrators, 7 Junior Government Oversight Administrators, and 2 First Government Oversight Administrators.

a. Convergent Validity Test Results
   A loading factor value above 0.7 is stated as an ideal or valid measure as an indicator in measuring constructs, values 0.5 to 0.6 can still be accepted, while values below 0.5 must be excluded from the Ghozali model (2008).

   ![Diagram showing convergent validity test results]

   It can be seen that the entire Loading Factor value in the variable has been greater than 0.5, which means the indicator is declared valid so that it is feasible to use in this study.

b. Reliability Test Results
   Composite reliability measures the true value of a construct’s reliability, the rule of thumb used to assess the reliability of the construct is that the composite reliability value must be greater than 0.7 for confirmatory research Ghozali and Latan (2015).

   ![Diagram showing reliability test results]

   Based on the PLS test results that have been done it can be seen that the composite reliability value of each construct is 0.916 for independence, 0.937 for professionalism, 0.949 for competence, 0.943 for auditor ethics, and 0.950 for the
quality of internal audit results above 0.70 so it can be stated that the indicators used in this study has fulfilled good reliability (reliable).

c. Value of Average Variance Extracted (AVE)

Provisions regarding measurement parameters (rule of thumb) of the measurement model (outer model) that AVE is considered to have met the convergent validity if AVE is greater than 0.50 Ghozali and Latan (2015). In this study it can be seen that the value of AVE independence is 0.916, professionalism is 0.937, competence is 0.949, auditor ethics is 0.943, and the quality of internal audit results is 0.950. Then based on the AVE value that has been tested by PLS, it can be seen that the AVE value of each construct is valid. So the construct has met the convergent validity.

d. Cronbach Alpha Values

The PLS results showed that the Cronbach’s Alpha value of each variable was above the threshold of 0.700 with the breakdown of independence value of 0.916, professionalism of 0.937, competence of 0.949, auditor ethics of 0.943, and the quality of internal audit results of 0.950. So it can be said that all instruments of each variable are reliable, which means consistency if used by other researchers.

4.2. Hypothesis Test

Hypothesis testing is done by looking at the t-statistic value generated from the bootstrapping process. The hypothesis is accepted (supported) if the t-statistic value is greater than 1.96 with a significant level of 5% (two tailed). The results of the smart PLS program bootstrapping process can be seen in table 1 as follows:

<table>
<thead>
<tr>
<th>Exogenous</th>
<th>→</th>
<th>Endogen</th>
<th>Path Analysis</th>
<th>T Statistics</th>
<th>P Value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence (X1)</td>
<td>→</td>
<td>Audit Quality (Y)</td>
<td>0.231</td>
<td>1.994</td>
<td>0.047</td>
<td>Accepted</td>
</tr>
<tr>
<td>Professionalism (X2)</td>
<td>→</td>
<td>Audit Quality (Y)</td>
<td>0.599</td>
<td>5.091</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Competence (X3)</td>
<td>→</td>
<td>Audit Quality (Y)</td>
<td>-0.020</td>
<td>0.184</td>
<td>0.854</td>
<td>Rejected</td>
</tr>
<tr>
<td>Auditor Ethics *Independency</td>
<td>→</td>
<td>Audit Quality (Y)</td>
<td>0.048</td>
<td>0.403</td>
<td>0.687</td>
<td>Rejected</td>
</tr>
<tr>
<td>Auditor Ethics *Professionalism</td>
<td>→</td>
<td>Audit Quality (Y)</td>
<td>-0.028</td>
<td>0.220</td>
<td>0.826</td>
<td>Rejected</td>
</tr>
<tr>
<td>Auditor Ethics *Competence</td>
<td>→</td>
<td>Audit Quality (Y)</td>
<td>0.081</td>
<td>0.734</td>
<td>0.463</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

Based on the results of hypothesis testing shows that independence affects the quality of internal audit results in Inspectorate of Medan City. This means that the higher level of independence possessed by an auditor will improve the quality of internal audit results. The effect of independence on the quality of internal audit results shows the perception of respondents who agree that independence greatly influences audit quality. So it can be understood that the attitude of freedom from
intervention in providing objective consideration, impartiality and the absence of
kinship will affect the quality of the resulting audit. That is, auditors who have
freedom from intervention from any party are needed to produce high quality audits.
It cannot be denied that independence is inherent in the auditor, so such
independence has become an absolute requirement that must be possessed by all
auditors. This is in line with research conducted by Singgih and Bawono (2010)
stating that independence significantly affects the quality of audit results and
independence is the dominant variable influencing audit quality, the same is also
stated in the research conducted by (Alim, Hapsari, and Purwanti 2007), Fauziah
(2017), and Siagian (2017) from their research results stated that independence
influenced the quality of audit results.

Professionalism affects the quality of internal audit results at the Medan City
Inspectorate. This means that the higher level of professionalism an auditor has will
improve the quality of internal audit results. The independence indicator explains
that the auditors at the Medan City Inspectorate have a fairly good independence in
deciding an own decision in the audit situation, in this study we can also know that
the independence indicator has the highest value among the other indicators. In
research Morrow, P and J, F (1988) independence is a view that a professionalism
must be able to make their own decisions without pressure from other parties. This
study is in line with research conducted by Marita and Gultom (2018) that
professionalism has a positive effect on internal audit performance and is also in
line with research conducted by Safaroh and Susilawati (2016) that professionalism
has a significant effect on audit quality while in research conducted by Futri and
Juliasa (2014) there were differences which in his research stated that
professionalism had no effect on the quality of audit results.

Competence has no effect on the quality of internal audit results at the
Medan City Inspectorate. This means that in this study the effect of competence
which can be interpreted competency does not have an important role in improving
the quality of audit results in the Inspectorate of Medan City.

This was confirmed by the Audit Report (LHP) conducted by the Indonesia
Audit Board (BPK) from 2014 to 2018 where there were several items that did not
meet the provisions, such as:

a. In Audit Report of 2014 clarification of budgeting and spending
realization amounting to Rp 20,357,551,453.63 did not refer to the
Government Accounting Standards (GAS).
b. In Audit Report of 2015 the presentation of other regional own-source
receivables and the presentation of the realization of spending on goods
and services for medicines at Regional Public Hospital dr. Piradiadi
2014 in the amount of Rp. 71,366,461,836.00 is not in accordance with
Government Accounting Standards (GAS).
c. In Audit Report of 2016, errors in budgeting and depreciation of fixed
assets were not in accordance with Government Accounting Standards
(GAS).
d. In Audit Report of 2017 the realization of the deficit recorded was not
in accordance with occurrence and still not in accordance with
Government Accounting Standards (GAS), other than that the
occurrence was less reliable in the presentation of capital expenditure on the Statement of Budget Realization.

e. In Audit Report of 2018, the presentation of employee expenditure, value of capital expenditure and goods and services expenditure on the Statement of Budget Realization is still lacking.

The report on the results of supervision conducted by Finance and Development Supervision Agency stated that the capability of Government Internal Supervisory Apparatus (APIP) in Medan City Government received level 2 from 5 basic levels of assessment. Capability means the same thing as competence, which is ability. However, the meaning of capabilities is not limited to having skills but more than that, which is more understanding in detail so that they truly master their abilities from the point of weakness to how to overcome them. The Audit Board also states that the Government Internal Control System maturity level is at level 1, which maturity is a measure of the quality of an organization's internal control system.

This study is in line with research conducted by Harsanti and Whetyningtyas (2014) Safitri et al. (2014) Turangan et al. (2017) in his research said that competence does not affect the quality of audit results. Research conducted by (Irawati 2011) states that competence does not affect the quality of audit results and has a negative direction, meaning that the competence of an auditor does not greatly affect the decline in audit quality.

Moderating testing results show that auditor ethics cannot moderate the relationship between independence and the quality of internal audit results, auditor ethics cannot moderate the relationship between professionalism and the quality of internal audit results, and auditor ethics are not able to moderate the relationship between competence and the quality of internal audit results in the Inspectorate of Medan City. This can be observed based on the respondents' answers, there are still some respondents who do not agree with the adjusted questions of the auditor’s ethical indicators. Attribution theory provides an explanation of how to determine a person’s causes or motives. The cause of a person’s behavior is influenced by two factors, namely internal factors that are causes that are within that person, while external factors can be influenced by environmental factors outside of oneself in every act of human behavior that is strongly influenced by both factors. Auditor ethics is an act of behavior in a person in carrying out an action, in this study auditor ethics as an internal factor is not able to moderate the relationship between independence and the quality of internal audit results at the Medan City Inspectorate.

5. CONCLUSIONS AND SUGGESTIONS

The conclusion in this study is the independence has a significant positive effect on the quality of internal audit results, professionalism has a significant positive effect on the quality of internal audit results, competence has no effect on the quality of internal audit results, auditor ethics cannot moderate the relationship between independence on the quality of internal audit results, auditor ethics does not can moderate the relationship between professionalism and the quality of
internal audit results, and auditor ethics cannot moderate the relationship between competence and quality of internal audit results in the Inspectorate of Medan City.

Suggestions for further researchers this researcher has a moderating variable that cannot affect the relationship of variables with the quality of audit results. Researchers should then look for moderating variables that are able to moderate the relationship of variables with the quality of the results of the audit and to collect research data more fully and validly it is expected that a two-way communication relationship with providing information is by direct interview method, so that weaknesses / weaknesses are found by using questionnaires can be overcome.

References:


