

Factors affecting internal audit function effectivity (internal auditor competence and objectivity, management support and organisation culture) at local government

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Abstract: Internal audit function is important at the central and local government, but is still weak, and it needs to be improved. Therefore, this research aims to examine the effect of the internal auditor competence and objectivity, management support and organisation culture on the effectiveness of the internal audit function. This research uses survey method with description verification approach, and it is conducted on local government in Lampung Province, Indonesia. Primary data are statistically tested by using SEM partial least square (PLS). This research has shown that the internal auditor competence and objectivity, and organisation culture has significant influence to the effectiveness of internal audit function, but management support does not.

Keywords: internal auditor competence; objectivity; management support; organisation culture; internal audit function effectivity.

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Biographical notes: Rindu Rika Gamayuni is a Lecturer in the Economic and Business Faculty, Lampung University, Indonesia. She has been teaching public sector accounting, accounting theory, cost accounting, etc., since 2001. Her research interest includes public sector accounting, management accounting, and financial accounting. She received her PhD in Accounting from the Padjadjaran University, West Java, Indonesia. She has published articles in reputed national as well as international journals and presented papers in national and international conferences.

1 Introduction

There are a number of weaknesses of the internal control system and non-compliance with the law and rule in the examination of local government financial report in 2010–2015, resulting in an indication of loss, potential loss and the shortfall (The Indonesian Supreme Audit Agency/BPK-RI, 2015). This phenomenon indicates that internal audit function still needs to improve. Institute of Internal Auditors (2012) stated that the internal audit competences that are well organised with staff trained could do more effective internal audit. This is supported by the results of previous research which had shown that the competence and objectivity of the internal auditors affect the effectiveness of the internal audit function (Messier and Schneider, 1988; Maletta, 1993; Krishnamoorthy, 2002; Desai et al., 2006; Soh and Bennie, 2010). This study provides four dimensions for internal competence: the knowledge, skills, expertise and behaviour (Pickett, 2010; The IIA Research Foundation's Common Body of Knowledge/CBOK Study, 2010; Cheng et al., 2002). Internal auditor objectivity in this study used three dimensions as follows:

- impartial attitude
- unbiased attitude
- avoid any conflict of interest (Pickett, 2010; IIA, 2012; Brandon, 2010).

According to Mihret and Yismaw (2007), the effectiveness of the internal audit function is measured from the internal auditor's ability to present findings and recommendations. On the basis of data of The Indonesian Supreme Audit Agency (BPK-RI)'s inspection results in year 2010–2015 in Indonesia, most of the cases have not been followed up by government, meaning that these cases have less support and commitment from the government (The Indonesian Supreme Audit Agency, 2015). The management commitment to follow up the audit recommendations and management support to strengthen the internal audit is very important for the effectiveness of the internal audit (Sawyer, 1995). The management support for the internal audit function is provision of resources (people, equipment/technology, budget), follow-up the findings or audit recommendations (Mathis and Jackson, 2003; Cohen and Sayag, 2010; Mihret and Yismau, 2007). Organisational effectiveness can be improved by creating a strong culture, which can be used to achieve organisational goals (Robbins, 1996). On the basis of the phenomenon, theory and previous research that have been described, the authors are interested in researching whether the competence and objectivity of the internal auditors, management support and organisational culture can affect the effectiveness of the internal audit function.

2 Literature review

Competence is defined as the ability to adequately perform a task, duty or role, which integrates knowledge, behavioural skills and technical skills, capabilities, personal values and attitudes (The IIA Research Foundation's Common Body of Knowledge/CBOK Study, 2010). According to Pickett (2010, p.387) internal auditor must possess the knowledge, skill and other competencies needed to perform their individual

responsibilities. Cheng et al. (2002) suggested that the competence of auditors is composed of two factors, namely knowledge and behaviour. Public accounting firms need to prepare their auditors with good negotiation skills when dealing with the management (Angela and Husnatarina, 2015). According to Arens and Loebbecke (1997, p.796) independence is achieved through:

- the status of the organisation
- internal auditor objectivity.

Objectivity is an unbiased mental attitude that allows internal auditors to perform the assignment in a way that they believe the results of their work and believe there is no compromise (Pickett, 2010, p.340; Institute of Internal Auditors (IIA), 2012). Objectivity is the mental attitude of internal auditors in carrying out the inspection, so that they will truly believe the results of its work and will make quality result (Colbert, 1993). Objectivity has three dimensions as follows:

- impartial
- unbiased attitude
- avoid any conflict of interest (Pickett, 2010, p.387; Institute of Internal Auditors (IIA), 2012; Brandon, 2010).

Management support is what is given and determined by the company to support the work processes, among others: training and development, performance standards, equipment and technology (Mathis and Jackson, 2003, p.114). According to Cohen and Sayag (2010), top management support includes the provision of support required by the internal audit, the good ratio between the number of internal auditors and audit work that has been planned and should be completed, the budget given to the internal audit department, which is sufficient to support the training and development for internal audit staff. Management support for the internal audit includes: responses to audit findings, the commitment to strengthen the internal audit and resources for the internal audit department (Alzeban and Gwilliam, 2012; Mihret and Yismau, 2007). This study measures management support by indicator such as resources provided by management, management's commitment to use the audit recommendations and to strengthen the internal audit (Mathis and Jackson, 2003; Cohen and Sayag, 2010; Mihret and Yismaw, 2007).

Organisational culture consists of comprehension and principal assumptions of an organisation. This study measures organisational cultures referring to McShane and Von Glinow (2015, p.419), Robbins and Coulter (2013, p.80) and Robbins and Judge (2013, p.552) are as follows:

- Innovation and risk taking, indicate how many employees are encouraged to be innovative and to take or risk. The characteristics dimensions of innovation and risk taking consist of experiment, opportunity seeking and risk taking.
- Aggressiveness, indicates how many employees are aggressive and competitive. The characteristic dimension of aggressiveness consists of competitive, low emphasis on social responsibility.

- Stability, the dimensions of organisational culture that shows how many organisation activities that emphasise the maintenance of the status quo as opposed to the emphasis on growth. The characteristic dimension of stability consists of predictability, security and the rule oriented.
- Attention to detail, indicates the analysis accuracy of employee and the organisation's attention. The characteristics of this dimension consists of precise and analytical.
- Outcome orientation, indicates how many man focusing on results (outcomes) rather than on the techniques and processes used to achieve the objectives, the characteristics dimensions that are action oriented, high expectation and result oriented.
- People oriented, indicates how many management decisions that incorporate considerations influence the results (outcomes) of the employees in the organisation. Characteristic of this dimension consists of fairness and tolerance,
- Team oriented, shows how many work activities organised in teams rather than individual. The characteristic dimension is collaboration.

The internal audit function will be effective if it can achieve the desired objectives (Cohen and Sayag, 2010), whether the internal audit objective is to improve the efficiency and effectiveness of the organisation (Eden and Moriah, 1996). Moeller (2005, p.269) and the Institute of Internal Auditors (IIA) (2012) both are saying that effective internal audit function has the following six dimensions:

- planning
- communication and approval
- management resources
- policies and procedures
- coordination
- reporting to the board and senior management.

Furthermore, the Indonesian Governmental Internal Controlling Apparatus Code of Ethics (2008) adds two dimensions for an effective internal audit function, namely

- quality control and development program
- public complaints follow up.

3 Hypothesis development

Moeller (2009, p.294) states that the internal auditor must have competences in performing job duties in order to be an effective internal audit function. The internal auditor will be effective if they are competent and well trained (Arens and Loebbecke, 1997, p.788). Maletta (1993) and Krishnamoorthy (2002) found that the importance of these three factors (objectivity, performance and competence of internal auditors) is

varied in determining the strength of the internal audit function. The research results of Soh and Bennie (2010) proved that it is important to have the skills which appropriate in carrying out the internal audit function. From the description, *Hypothesis 1* can be developed:

H1: Internal auditor competence affects the internal audit function effectivity.

Presenting findings objectively and in a timely manner by the internal auditor will achieve an effective internal audit function (Dittenhofer, 2001). Soh and Bennie (2010) explains that factors such as the independence, objectivity has been used as an indicator of the quality of the internal audit function by some researchers (such as Messier and Schneider, 1988; Krishnamoorthy, 2002; Suwaidan and Qasim, 2010). From the description, *Hypothesis 2* can be developed:

H2: Internal auditor objectivity affects the internal audit function effectivity.

Sawyer (2003) states that: "Management support for the internal audit function has long been seen as critical to the success of that function". This statement is reinforced by Hung and Han (1995), which explains that one of the factors that influences the effectiveness the internal audit function is management behaviour, namely management support. Some research states that management support is a determinant key for internal audit function effectivity (Cohen and Sayag, 2010; Hung and Han, 1995; Albrecht, 1988). From the description, *Hypothesis 3* can be developed:

H3: Management support affects the internal audit function effectivity.

Organisational effectiveness can be improved by creating a strong culture, which can be used to achieve the organisation goal (Robbins, 1996). Kinicki and Kreitner (2007) suggest that organisational culture is means to further enhance the quality of employees in order to achieve the objectives of the company or organisation. Previous studies have shown the influence of organisational culture to the effectiveness of the organisation (Ostroff and Schmitt, 1993). From the description, *Hypothesis 4* can be developed:

H4: Organisational culture affects the internal audit function effectivity.

4 Research method

This study uses primary data obtained through a questionnaire of 80 items. Questionnaires were distributed to the analysis unit of this study that is local government inspector working unit of the province/city/regency in Lampung, Indonesia. The data were collected in year 2016 with cross-sectional study. The method used in this research is survey research methods, with structural equation modelling (SEM) partial least square (PLS) as analysis method. The dimension and indicator measurement showed in Table 1.

The target population in this study was all of local government inspectorate agencies of the province/city/regency in Lampung, Indonesia. Lampung consists of 1 province and 15 cities/regencies. There were 15 samples selected using purposive sampling. The respondents were team leaders, team members, technical controllers, inspectors and quality control at each inspectorate.

Table 1 Dimension and indicator of variable

<i>Variable</i>	<i>Dimension</i>	<i>Indicator</i>
Internal auditor competence (X1) Pick ² (2010), The IIA Research Foundation's Common Body of Knowledge (CBOK) Study (2010) and Cheng et al. (2002)	Knowledge (X1.1)	1.1 Knowledge about internal audit, internal control of government, local financial information systems, government accounting system
		1.2 Having functional Auditor certification
		1.3 Knowledge about internal audit ethics standards
	Skill (X1.2)	2.1 Skills to keep a secret
		2.2 Skills to communicate orally and in writing
	Expertise (X1.3)	3.1 Expertise in auditing standards and auditing practices
		3.2 Expertise in the area of financial policies and procedures
		3.3 Expertise in environmental governance unit audited
		3.4 Expertise in the auditing of information technology of financial local government
		3.5 Expertise in statistics and sampling techniques
		3.6 Expertise in detecting fraud
		3.7 Expertise in risk analysis and control assessment techniques
	Internal auditor competence (X1) Pickett (2010), The IIA Research Foundation's Common Body of Knowledge (CBOK) Study (2010) and Cheng et al. (2002)	Behaviour (X1.4)
4.2 Communication, discussion, and good cooperation with fellow examiner		
4.3 Be careful, thorough, and careful in carrying out its duties and powers		
Internal auditor objectivity (X2) Pickett (2010) and Brandon (2010)	1 Unbiased attitude (X2.1)	1.1 Honest
		1.2 Disclose all material facts
	2 Impartial attitude (X2.2)	1.3 Be careful in using and maintaining all information obtained in the audit
		1.4 Do not accept a bribe
		2.1 Do not use the information for personal gain

Table 1 Dimension and indicator of variable (continued)

<i>Variable</i>	<i>Dimension</i>	<i>Indicator</i>
Internal auditor objectivity (X2) Pickett (2010) and Brandon (2010)	3 Avoid conflict of interest (X2.3)	3.1 Do not have a social relationship / kinship with the auditee
		3.2 The auditor who ever worked in the auditee office should not be involved in the examination
		3.3 Do not participate in activities that may lead to conflicts of interest
Management support (X3) Mathis and Jackson (2003), Cohen and Sayag (2010) and Mihret	1 Resources provided by management (X3.1)	1.1 Equipment and technology
		1.2 Comparison between the number of internal auditors with the audit work that has been planned and should be completed
	2 Management's commitment to use the audit recommendations and strengthen the internal audit (X3.2)	1.3 The budget given to the internal audit department
		2.1 Follow-up on audit findings and recommendations
Organisation culture (X4) Robbins and Coulter (2013, p.80) and Robbins and Judge (2013, p.552)	1 Innovation and risk taking (X4.1)	2.2 Commitment to strengthen the internal audit
		1.1 Experimenting
		1.2 Opportunity seeking
	2 Aggressiveness (X4.2)	1.3 Risk taking
		2.1 Competitive
	3 Stability (X4.3)	2.2 Low emphasis on social responsibility
		3.1 Predictability
		3.2 Security
	4 Attention to detail (X4.4)	3.3 Rule-oriented
		4.1 Precise
	5 Outcome orientation (X4.5)	4.2 Analitic
		5.1 Action-oriented
		5.2 High expectation
6 People oriented (X4.6)	5.3 Result-oriented	
	6.1 Fairness	
7 Team oriented (X4.7)	6.2 Tolerance	
	7.1 Collaboration	

Table 1 Dimension and indicator of variable (continued)

<i>Variable</i>	<i>Dimension</i>	<i>Indicator</i>
Internal audit function effectivity (Y) Moeller (2005)	1 Innovation and risk taking (Y1.1)	1.1 Considering activities that have the greatest risk
		1.2 Consideration from the leader
		1.3 Identifying, analysing, evaluating and documenting sufficient information to achieve the objectives of the assignment
		1.4 Planning about audit activities, resources required, vision, mission, goals, strategies, programs and activities of auditors every five years
		1.5 Arranging the plan based on the principles of harmony, alignment, avoiding overlapping and repetitive examination and considering the efficiency and effectiveness of resource use
Internal audit function effectivity (Y) Moeller (2005)	2 Communication and approval (Y1.2)	2.1 Communication about audit plan 2.2 Communication about resources
	3 Management of resources (Y1.3)	3.1 Managing and utilising its resources economically, efficiently and effectively
	4 Policies and procedures of internal audit (Y1.4)	4.1 The contents of the policy and procedures of internal audit
		4.2 Review of policies and procedures continuously to be effective
	5 Coordination (Y1.5)	5.1 Coordination of monitoring plans and monitoring results, both with other internal auditors and external auditors
	6 The internal audit reports to the CEO (Y1.6)	6.1 The contents of the report: the realisation of the activities, problems, obstacles
		6.2 The report submitted periodically to the leadership
	7 Development program and quality control (Y1.7)	7.1 Developing programs and controlling audit quality which covering all aspects of audit activities in the Internal Supervisory Government Apparatus (APIP)
8 Following the Public Complaints (Y1.8)	8.1 Handling complaints with clearly mechanisms and procedures, transparent and accountable based on the rule	

5 Results and discussion

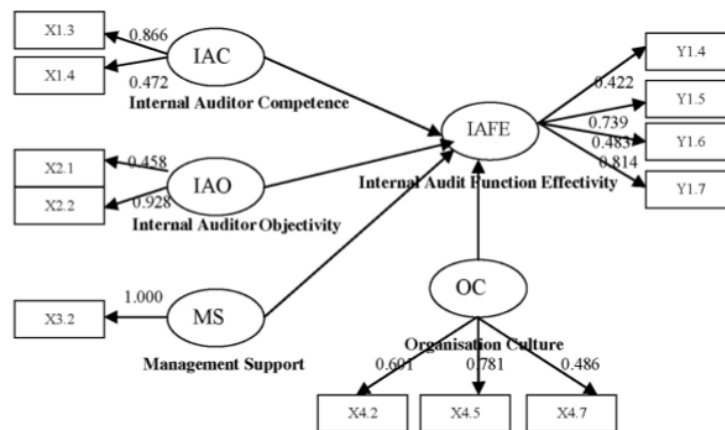
5.1 Result

5.1.1 Model measurements (validity test)

This research used PLS as analysis method. On the basis of the result of validity test, all of the variables have been valid, proven by the AVE with scores higher than 0.4. It means that the information contained in all of the dimensions and indicators were represented in the latent variables. Before that, we have been eliminated some indicators (see Table 1) that are not valid (X1.1, X1.2, X2.3, X3.1, X4.1, X4.3, X4.4, X4.6, Y1.1, Y1.2, Y1.3, Y1.8).

The composite reliability of the latent variable was higher than the recommended score as much as 0.6 which means that all dimensions and indicators have consistency. By using PLS analysis method, it was acquired a full model path diagram in Figure 1.

Figure 1 Coefficient standards of structural modelling



5.1.2 Structural model (hypothesis testing)

R^2 of this research model is 0.163, meaning that the four variables (the competence of internal auditors, the objectivity of the internal auditors, management support and organisational culture) can explain the internal audit function effectivity by 16.3%. Based on Table 2, there is significant influence of the internal auditor competence to the effectiveness of the internal audit function at 10% level of significance, with path coefficient of 0.118. Internal auditor objectivity influences the effectiveness of the internal audit function at 5% level of significance, with path coefficient of 0.249. There is no significant influence of management support to the effectiveness of the internal audit function. However, organisational culture influences the effectiveness of the internal audit function with path coefficient of 0.282 (see Table 2).

Table 2 Effect of internal auditor competence (IAC) and internal auditor objectivity (IAO), management support (MS), organisation culture (OC) on the internal audit function effectivity (IAFE)

<i>Influence</i>	<i>Path coefficient</i>	<i>t value</i>	<i>P value</i>	<i>Ha</i>
IAC → IAFE	0.118	1.713	0.087**	Accepted
IAO → IAFE	0.249	2.880	0.004*	Accepted
MS → IAFE	0.085	1.003	0.316	Rejected
OC → IAFE	0.282	4.055	0.000*	Accepted

*Significant at 5%.

**Significant at 10%.

6 Discussion

6.1 Effect of internal auditor competence to the internal audit function effectivity

Internal auditor competence influences the effectiveness of the internal audit function. This is consistent with Moeller (2009, p.294) and Arens and Loebbecke (1997, p.788) stating that the internal auditor should have the competence to perform their job duties that can be an effective internal audit function. The results are also consistent with research conducted by Messier and Schneider (1988), Maletta (1993), Krishnamoorthy (2002), Desai et al. (2006) and Soh and Bennie (2010), that the internal auditor competence affects the effectiveness of the internal audit function. On the basis of this study result, the internal auditor must have competences (good expertise and behaviour). In this study result, knowledge and skill were not reflection of competence. It means that for government internal auditor, having knowledge and skill are not enough, he or she must be expert and well behaved in doing their job to get internal audit function effectivity.

6.2 Effect of internal auditor objectivity to the internal audit function effectivity

There is significant influence of internal auditor objectivity to the effectiveness of the internal audit function. Internal auditors are effective if they are independent (objective) in the operating unit being evaluated (Arens dan Loebbecke, 1997, p.788). This is consistent with the Desai et al. (2006), Soh and Bennie (2010), Messier and Schneider (1988), Maletta (1993) and Krishnamoorthy (2002) that there is significant influence of internal auditor objectivity to the effectiveness of the internal audit function. On the basis of this study result, unbiased and impartial attitude is reflection of internal auditor objectivity, and it influences internal auditor function effectivity, but avoid conflict of interest is not reflection of internal auditor objectivity. This means that the government internal auditor should have unbiased and impartial attitude in doing their job to get internal audit function effectivity.

6.3 Effect of management support to the internal audit function effectivity

There is no significant influence of management support to the internal audit function effectivity. On the basis of this study result, resources provided by management and management's commitment to use the audit recommendations and strengthen the internal audit, as dimension of management support cannot influence internal audit function effectivity. This result study is not consistent with Cohen and Sayag (2010) who stated that audit findings and recommendations will not work much without the support and commitment from management to implement them. It is also not consistent with Sawyer's (2003) statement that management support for the internal audit function has long been seen as critical to the success of that function. This result study does not support the research conducted by Cohen and Sayag (2010), D'Aquila (1998), Alzeban and Gwilliam (2012) and Mihret and Yismau (2007) stating that management support affects the internal audit function effectivity. According to the previous study, management support is important factor for creating the internal audit function effectivity, but based on this study result, it could not affect the internal audit function effectivity directly. Maybe management support should affect internal auditor competence and objectivity first before affecting the internal audit function effectivity, so this still needs further research.

6.4 Effect of organisation culture to the internal audit function effectivity

There is significant influence of organisational culture to the effectiveness of the internal audit function. On the basis of this study result, organisational culture (aggressiveness, outcome orientation and result oriented) has influenced internal auditor function effectivity. This support (Kinicki and Kreitner, 2007) suggest that organisational culture is means to further enhance the quality of employees in order to achieve the objectives of the company or organisation. This result study is in line with the research of Ostroff and Schmitt (1993). However, the others four dimensions of organisation culture, such as innovation and risk taking, stability, attention to detail and people oriented, were not reflection of organisation culture in this study result.

7 Conclusions and implication

- Auditor competence influences the effectiveness of the internal audit function significantly. Having knowledge and skill is not enough, the internal auditor must be expert and well behaved in doing their job to get internal audit function effectivity.
- The unbiased and impartial attitude is reflection of internal auditor objectivity, and it does influence internal auditor function effectivity.
- Organisational culture (aggressiveness, outcome orientation and result oriented) influences internal audit function effectivity.
- Management support does not affect the internal audit function effectivity. Resources provided by management and management's commitment to use the audit recommendations and strengthen the internal audit, as dimension of management support cannot directly create internal audit function effectivity.

- Management support cannot directly affect the effectiveness of the internal audit function. It could be reexamined in future studies that the internal auditor competence and objectivity as mediating variable for the relationship between management support and internal audit function effectivity.
- Since the R^2 of this research model is low, it suggests the next research to use other variables that might affect the internal audit function effectivity.

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