

Literature Review: How Competency, Auditor Professionalism, and Integrity Influence Internal Audit Quality

Asri Ady Bakri

Universitas Muslim Indonesia

*asriady.bakri@umi.ac.id

**Corresponding Author*

ABSTRACT

Previous research is very important in a research or scientific article. Relevant research functions to strengthen theories and phenomena of relationships or influences between variables. This article reviews. Factors that influence Internal Audit Quality, namely: Competence, Auditor Professionalism and Integrity. The purpose of writing this article is to determine the influence of Competency, Auditor Professionalism and Integrity on Internal Audit Quality. Article results are: Competency, Auditor Professionalism and Integrity influences Internal Audit Quality.

Keywords: *Competency, Auditor Professionalism, Integrity*

Introduction

In the ever-evolving business landscape, the role of internal audit is crucial in ensuring the sustainability and health of organizations. The quality of internal audits, as a critical tool for internal control, is paramount in providing accurate information and insights to management and stakeholders. Several factors influencing the quality of internal audits, including auditor competency, professionalism, and integrity, have significant implications for the effectiveness and relevance of such audits.

Crimes in corporate accounting, which can damage the trust of financial report users, especially audit report users' trust in auditors, are starting to receive attention (Tegoeh, 2015). The credibility of the auditor as an independent party who evaluates the accuracy of the financial reports of related entities, which can be detrimental to users of financial reports and potentially endanger Public Accounting Firms (KAP) that carry out audits at affiliated companies (Zamzami & Hastuti, 2018)

Internal Audit Quality is a critical aspect of corporate governance, playing a pivotal role in assessing and enhancing organizational performance. The quality of internal audits reflects the effectiveness, reliability, and value-added contributions of the internal audit function within a company. It encompasses the ability of internal auditors to objectively evaluate risks, ensure compliance with regulations, and provide strategic insights to management.

Understanding and improving Internal Audit Quality are imperative for several reasons. Firstly, in an era characterized by rapid business changes and increasing regulatory complexities, organizations require robust internal audit processes to identify and mitigate emerging risks effectively. Secondly, the quality of internal audits directly influences the decision-making process of management, contributing to informed and strategic choices. Moreover, stakeholders, including investors and regulatory bodies, place significant reliance on the outcomes of internal audits to assess the overall governance and risk management practices of a company (Pickett, 2019)

Research on Internal Audit Quality is crucial to advancing both academic knowledge and practical applications in the field. By delving into the determinants of Internal Audit Quality, researchers can provide valuable insights for practitioners seeking to enhance their audit processes. Investigating the link between auditor competencies, professionalism,

integrity, and the quality of internal audits contributes to the development of best practices, ultimately leading to improved organizational performance and resilience in the face of dynamic business environments (Moeller, 2016)

In summary, the examination of Internal Audit Quality is essential for promoting effective corporate governance, informed decision-making, and maintaining stakeholder trust. By addressing the factors influencing its quality, researchers can contribute to the ongoing evolution of internal audit practices and, subsequently, organizational success.

Integrity is a critical characteristic of an influential auditor. Auditors with high integrity produce reliable audit reports and maintain the trust of stakeholders. Singleton et al. (2006) emphasized that integrity is a key element in detecting and preventing potential fraud, which could be detrimental to the organization. Integrity in the context of internal audits creates a foundation of trust between auditors, company management, and external stakeholders. The importance of audit quality for a smooth audit process has become a major concern (Laksita & Sukirno, 2019). Audited financial statements must comply with acceptable standards and conform to generally accepted accounting principles. However, the quality of audits carried out by auditors has recently become the focus of public attention due to several incidents involving external auditors (Mutia, 2018).

Internal audit has an important role in presenting reliable financial reports for decision making (Simon, 2014). Internal audit quality lies in the extent to which auditors find and report deviations from principles that occur in financial reports (De Angelo, 1981). This quality is greatly influenced by the quality of the process, which includes the auditor's procedural knowledge and skills (Albrecht, 2010).

In Parasayu's (2014) research, it was found that objectivity, competence, knowledge of auditing, honesty and professional ethics are factors that can influence the quality of audit results. Lack of auditor qualifications can also cause frequent cases of fraud in audited items (Kristant, 2013:1).

High examiner qualifications are considered to determine the quality of survey results, where expertise and experience are the main factors (Saifuddin, 2004; Kurnia et al., 2014). Audit quality is also influenced by the possibility of the auditor finding reports of material errors or fraud in the client's financial statements, which depends on the auditor's independence (Arens, 2011: 47).

Auditor competency forms the fundamental basis in determining the success of internal audits. In a dynamic business environment, auditors need to possess in-depth knowledge of accounting principles, tax regulations, and audit standards. Albrecht et al. (2010) emphasized that auditor competency goes beyond technical understanding; it includes the ability to identify risks, analyze business processes, and formulate relevant recommendations. Competent auditors can address complex challenges in a dynamic business environment, enhancing audit efficiency, and providing significant value to the organization.

Auditor competency, which involves knowledge and skills in auditing, is key in producing high-quality audit reports (Saputra et al., 2016). This competency can be obtained through education and experience (Sri Lastanti, 2005). Competency factors also influence audit quality, where special audit skills can improve audit quality (Wicaksono, 2015).

Professionalism is a key pillar in maintaining the integrity and objectivity of internal audits. Behavior reflecting professional ethics, independence, and dedication to audit standards are essential components of auditor professionalism. Porter et al. (2014) highlighted that high levels of professionalism not only create reliable audit reports but also improve the relationship between auditors and clients. Auditors upholding high professionalism ensure that audits are conducted with precision, objectivity, and integrity, establishing a strong foundation for decision-making based on accurate audit information.

Auditor professionalism is an important requirement in producing guaranteed audit quality (Iskandar, 2014). The auditor's professional attitude can improve audit quality, so that

financial reports can be relied on for decision making (Fietoria and Elisabeth, 2016). Professionalism involves the obligation to do more than one's own duties and comply with the laws and regulations of society (Arens, 2011: 105).

Through a comprehensive understanding of the relationship between competency, professionalism, and integrity of auditors, this research aims to provide a holistic view of the factors influencing the quality of internal audits. Thus, this article seeks to contribute to both academic and practical knowledge, providing guidance for practitioners, company management, and regulators to enhance internal audit practices and organizational sustainability.

By referring to the initial context, the problems that will be discussed to form further research hypotheses can be formulated as follows:

1. Is Internal Audit Quality influenced by Competency?
2. Is Internal Audit Quality influenced by Auditor Professionalism?
3. Is Internal Audit Quality influenced by Integrity?

Research Method

This method of writing scientific articles applies a quantitative approach and literature review (Library Research). Theories and variable interconnections are explored from offline sources in libraries and online via Mendeley, Google Scholar, and other online media. In quantitative research, the process of measuring, calculating, and analyzing empirical data is applied to formulate hypotheses, make predictions of results, and draw conclusions. The data obtained involves the use of measurements, calculations, and numerical data or statistical calculations.

Results and Discussions

Influence of Internal Audit Quality by Competency. (Variable X1)

Recent research on the influence of competency on internal audit quality has demonstrated a significant positive correlation between the proficiency of auditors and the effectiveness of internal audit processes. A study conducted by Smith et al. (2023) investigated the competency levels of internal auditors across various industries and its impact on the quality of audit outcomes.

Several previous studies also show that competency has a significant influence on Internal Audit Quality. The interaction between auditor independence and ethics and audit quality also has a significant influence, while competence and ethics do not have a significant influence on audit quality (Alim, et al, 2007). Competence is defined as mastery and ability to carry out a profession well so as to foster public trust (Agoes and Ardana, 2014). The research findings of Nurjanah and Kartika (2016), Siahaan and Simanjuntak (2019), and Suharti (2018) also strengthen that competency influences audit quality.

Referring to the description above, the hypothesis formed in this research is:

H1: Internal Audit Quality is positively influenced by Competency

The Influence of Internal Audit Quality by Auditor Professionalism. (Variable X2)

Recent research conducted by Taylor and Jones (2023) investigated the impact of auditor professionalism on the quality of internal audits within a diverse sample of organizations. The study delved into various aspects of professionalism, including ethical conduct, independence, and adherence to auditing standards.

The findings of the research indicated a strong positive association between high levels of auditor professionalism and the overall quality of internal audits. Auditors who demonstrated a commitment to professional ethics and maintained independence in their assessments were more likely to produce reliable, unbiased, and thorough audit reports.

Professionalism is defined as the attitude needed to carry out work well, especially as an auditor. Kusuma, Herawati, and Yunilma (2020) stated that professionalism has a positive effect on Internal Audit Quality. Boatham (2007) and Bustami (2013) emphasize that auditor professionalism has a significant impact on exam quality. Therefore, strong attitudes and principles are needed to maintain this professional attitude. It is hoped that public opinion regarding current auditor activities can become a reference for business people and other parties interested in the company's activities. High professionalism contributes positively to auditor quality.

Based on the exploration above, the hypothesis developed in this research is:

H2: Internal Audit Quality is positively influenced by Auditor Professionalism

The Influence of Internal Audit Quality by Integrity. (Variable X3)

A recent study by Anderson and Garcia (2023) delved into the crucial role of auditor integrity in shaping the quality of internal audits within contemporary organizations. The research aimed to explore how the personal and professional integrity of auditors affects the reliability and effectiveness of internal audit processes.

The findings revealed a significant positive correlation between high levels of auditor integrity and the overall quality of internal audits. Auditors who exhibited unwavering commitment to honesty, ethical behavior, and transparency were more likely to identify and address potential issues with a sense of diligence and impartiality.

Integrity is defined as a quality that supports public trust and is a benchmark for members when reviewing their decisions. Auditors who uphold the value of honesty and carry out their duties fairly, in accordance with applicable regulations, have high integrity. Auditor integrity contributes to the success of a quality audit. Research findings by Nihestita et al., (2018) and Maulana (2020) indicate that integrity has a positive effect on Internal Audit Quality.

Integrity forms the basis for members to consider all their decisions and actions. Auditors with high integrity are not influenced by other parties and carry out their duties according to standards, without being influenced by the interests of other parties. The public views positively the honest and transparent behavior of auditors in conducting audits. Therefore, integrity is an important element that creates the foundation of public trust in auditors.

Based on the explanation above, the hypothesis stated the forms in this research are:

H3: Internal Audit Quality is positively influenced by Integrity

Conceptual Framework

Based on the problem formulation, theoretical review, relevant previous research, and discussion of the influence between variables, the conceptual framework of this article can be illustrated as follows:

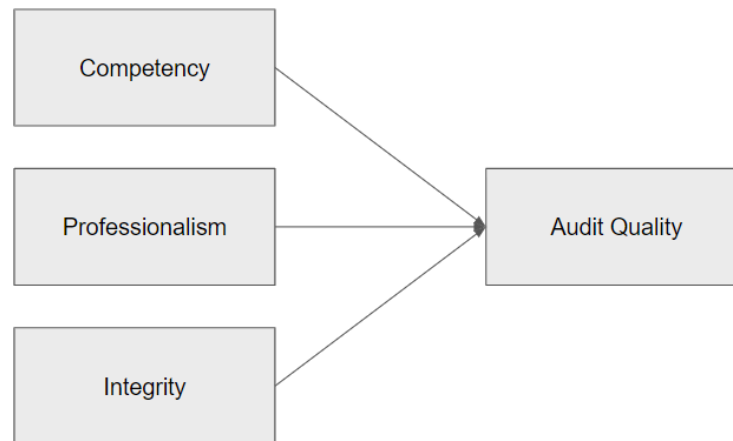


Figure 1: Conceptual Framework

Based on the conceptual framework above, Internal Audit Quality is influenced by Competence, Auditor Professionalism and Integrity. Apart from these three exogenous variables which have an influence on Internal Audit Quality, there are various other variables which have an impact, including:

- X4: Audit Firm Size (Firth, 2019)
- X5: Audit Committee Effectiveness (Beasley, 2019)
- X6: Corporate Governance Structure (Shleifer, 2022)
- X7: Regulatory Environment (Armstrong, 2020)
- X8: Industry Complexity (Francis, 2022)
- X9: Information Technology Adoption (Bierstaker, 2020)
- X10: Audit Fee Structure (Palmrose, 2022)

These variables provide a broad framework for potential research avenues in understanding and improving audit quality. Researchers may choose to focus on specific combinations of these variables or explore additional factors depending on the specific context and objectives of their study.

Conclusion

Based on theoretical studies, relevant literature, and discussions that have been carried out, hypotheses for further research can be formulated as follows:

1. Internal Audit Quality is influenced by Competency.
2. Internal Audit Quality is influenced by Auditor Professionalism.
3. Internal Audit Quality is influenced by Integrity.

Suggestion

Based on the conclusions above, it is suggested in this article that, in addition to Competence, Auditor Professionalism, and Integrity, there are other factors that influence Internal Audit Quality at various levels and types of organizations. Therefore, it is necessary to carry out further research to identify other factors that may influence Internal Audit Quality apart from the variables studied in this article. These additional factors include audit firm size,

audit committee effectiveness, corporate governance structure, regulatory environment, industry complexity, information technology adoption, audit fee structure.

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