

The Influence of Auditor Competence and Independence on Internal Audit Quality: The Mediating Role of Risk-Based Audit

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ABSTRACT

This study aims to analyze the influence of auditor competence and independence on internal audit quality, with risk-based audit as a mediating variable. The research employs a descriptive quantitative method with a population of internal auditors from rural banks (BPR) in West Java. The sample consists of 47 auditors selected using purposive sampling technique. Data processing is performed using Smart PLS 4. The hypothesis testing results indicate that only auditor competence has a significant effect on internal audit quality. Meanwhile, auditor independence does not show a significant effect on internal audit quality, nor does the mediation effect of risk-based audit between auditor competence and independence on internal audit quality. These findings suggest that auditor competence is a key factor in enhancing internal audit quality. This study provides important contributions to the management of internal audits in rural banks, particularly in West Java, by emphasizing the importance of improving auditor competence to achieve better internal audit quality.

Keywords: Competence, Independence, Risk-Based Audit, Internal Audit Quality.

INTRODUCTION

In an increasingly transparent era of globalization, every company must enhance its competence in preparing financial statements. These reports must comply with applicable accounting principles to be well-received by stakeholders involved in decision-making (1). The role of the auditor is crucial for a company because auditors have a significant impact on the company's activities (2). An auditor's duties extend beyond simply detecting fraud or errors in the company's financial system; they also involve examining financial statements to form an opinion (3). This includes analyzing the accuracy of the financial statement presentation, which serves as a basis for investor decision-making (4).

An auditor capable of delivering high-quality audits will enhance their competence, thus producing reliable financial statements as a basis for decision-making (5). An independent

auditor is crucial in examining financial statements and providing opinions based on the examination results, thereby playing an essential role in determining audit quality (6). One of the factors significantly impacting the quality of financial statement audits is the auditor's level of competence. Highly competent auditors can reduce errors in audit analysis. The quality of financial statement audits is critical for the banking sector because these reports serve as the foundation for decision-making by stakeholders, including shareholders, regulators, and bank clients. Accurate and transparent financial statements help the public and investors understand the risks and opportunities associated with a particular bank (7). Therefore, banking management must consider the auditor's level of competence when assigning them to specific roles (8).

The rapid growth in the banking sector, especially in Bank Perkreditan Rakyat (BPR), over the past few years has been a significant milestone in economic development (9). Unfortunately, this growth has not always been matched by high-quality audit practices. In some cases, BPR institutions have been involved in fraudulent activities, including financial statement manipulation, which has subsequently damaged public and customer trust. The main issue is the non-compliance with established internal audit standards (10). The Financial Services Authority has revealed the causes of many BPR bankruptcies (11). The Chairman of the Indonesia Deposit Insurance Corporation (LPS), Purbaya Yudhi Sadewa, stated that 134 banks have gone bankrupt in the country, with the majority being BPRs (12).

Audit quality is the auditor's ability to detect violations in the client's accounting system and disclose these findings in the audit report (13). This process involves auditing financial statements, detecting discrepancies in the client's accounting records, and reporting the results in accordance with applicable auditing standards and ethical codes (14). High-quality audits are also believed to enhance the trust of external parties, investors, and the market in a company when conducted by a qualified auditor.

The theory of auditor competence is linked to audit quality to evaluate the extent to which an auditor's skills, knowledge, and experience contribute to their ability to detect and report discrepancies in the client's financial

statements (15). Research connecting the theory of auditor competence with audit quality provides insights into the importance of these factors in ensuring a high-quality audit. Studies indicate that auditor competence significantly impacts audit quality (16). Auditor competence includes the expertise, knowledge, and auditing experience necessary to perform audits effectively and produce accurate audit reports. Several studies have shown that auditor competence partially positively influences audit quality (17).

H1: Auditor Competence Influences Audit Quality

The theory of auditor independence in relation to audit quality underscores the importance of auditor independence in maintaining the integrity and quality of the audit performed. The relationship between the theory of auditor independence and audit quality shows that auditor independence significantly impacts audit quality (18). Auditor independence is crucial to ensuring that auditors can perform their duties without external influences that might compromise their objectivity (19). Several studies have shown that auditor independence partially positively influences audit quality (18). Auditor independence ensures that auditors can provide objective and trustworthy opinions on the client's financial statements.

H2: Auditor Independence Influences Audit Quality

Competence of Auditors refers to the ability of an auditor to apply their knowledge and

experience in auditing, enabling them to perform audits meticulously, accurately, and objectively. This reference discusses the influence of auditor competence on audit quality, which can provide relevant insights into the relationship between auditor competence and risk-based auditing (20).

H3: Auditor Competence influences Risk-Based Auditing.

The impact of auditor independence and integrity on audit quality using risk-based auditing as a moderating variable. Risk-based auditing is an approach that prioritizes significant risks in the audit process (21).

H4: Auditor Independence influences Risk-Based Auditing.

The influence of risk-based auditing, factors such as tenure, rotation, and specialization can affect how audits are conducted, taking into account the existing risks (22).

H5: Risk-Based Auditing influences Audit Quality.

The influence of competence, accountability, and independence on audit quality using auditor ethics as a moderating variable. In the context of the relationship between risk-based auditing, auditor competence, and audit quality, this reference can provide relevant insights into how these factors interact and influence audit outcomes (16).

H6: Risk-Based Auditing influences the relationship between Auditor Competence and Audit Quality.

The impact of auditor independence and integrity on audit quality using risk-based auditing as a moderating variable. The relationship between risk-based auditing and auditor independence. Independence significantly influences audit quality positively (21).

H7: Risk-Based Auditing influences the relationship between Auditor Independence and Audit Quality.

The influence of competence, accountability, and independence on audit quality using auditor ethics as a moderating variable. The relationship between auditor competence, auditor independence, risk-based auditing, and audit quality can provide insights into how these factors simultaneously affect audit quality (16).

H8: There is a simultaneous influence of Auditor Competence, Auditor Independence, and Risk-Based Auditing on Audit Quality.

METHODS

This study employs a quantitative descriptive method with a population of internal auditors from rural banks (BPR) in West Java. The sample consists of 47 individuals selected using purposive sampling. Data processing was conducted using Smart PLS 4.

RESULTS AND DISCUSSION

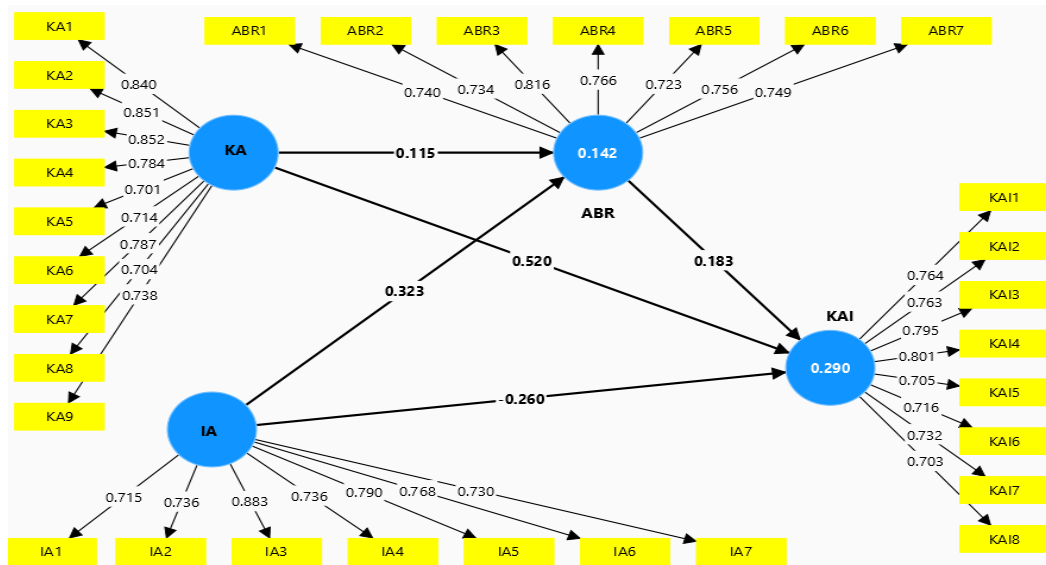


Figure 1: Validity Test

Based on Figure 1, a structural path analysis model examines the relationships between several latent variables: Auditor Competence (KA), Auditor Independence (IA), Risk-Based Auditing (ABR), and Internal Audit Quality (KAI). The results of the validity testing for this model are as follows:

Construct Validity Testing

a. Auditor Competence (KA):

Measured by indicators KA1 to KA9.

Factor loadings for all indicators range from 0.701 to 0.852.

Factor loadings above 0.70 indicate that these indicators are valid in measuring the Auditor Competence construct.

b. Auditor Independence (IA):

Measured by indicators IA1 to IA7.

Factor loadings for all indicators range from 0.715 to 0.883.

All indicators have factor loadings above 0.70, indicating good validity in measuring the Auditor Independence construct.

c. Risk-Based Auditing (ABR):

Measured by indicators ABR1 to ABR7.

Factor loadings for all indicators range from 0.734 to 0.816.

These indicators are also valid in measuring the Risk-Based Auditing construct as all factor loadings are above 0.70.

d. Internal Audit Quality (KAI):

Measured by indicators KAI1 to KAI8.

Factor loadings for all indicators range from 0.703 to 0.801.

All indicators show good validity with factor loadings above 0.70.

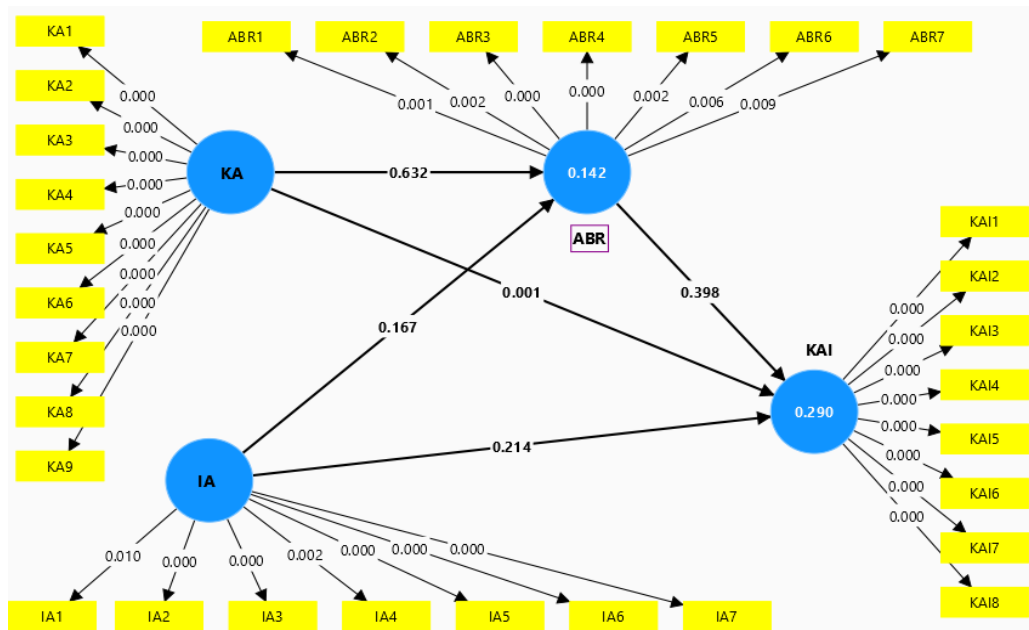


Figure 2: Hypothesis Testing

Based on Figure 2, the structural model illustrates the relationships between Auditor Competence (KA), Auditor Independence (IA), Risk-Based Auditing (ABR), and Internal Audit Quality (KAI). The model was tested using the Bootstrapping technique to examine hypotheses with a significance level (p-value) < 0.05.

Hypothesis Testing Results

Each tested relationship in the model includes the total effect, sample mean, standard deviation, T-statistic, and p-value for each path. A significant p-value is < 0.05.

Hypothesis Testing Results

H1: Auditor Competence influences Internal Audit Quality

Path Coefficient: 0.541; T-Statistic: 3.842; P-Value: 0.000

Interpretation: Since the p-value < 0.05, the influence of Auditor Competence on Internal

Audit Quality is statistically significant. Therefore, Hypothesis H1 is accepted.

H2: Auditor Independence influences Internal Audit Quality

Path Coefficient: -0.200; T-Statistic: 0.990; P-Value: 0.322

Interpretation: Since the p-value > 0.05, the influence of Auditor Independence on Internal Audit Quality is not statistically significant. Therefore, Hypothesis H2 is rejected.

H3: Auditor Competence influences Risk-Based Auditing

Path Coefficient: 0.115; T-Statistic: 0.478; P-Value: 0.632

Interpretation: Since the p-value > 0.05, the influence of Auditor Competence on Risk-Based Auditing is not statistically significant. Therefore, Hypothesis H3 is rejected.

H4: Auditor Independence influences Risk-Based Auditing

Path Coefficient: 0.323; T-Statistic: 1.382; P-Value: 0.167

Interpretation: Since the p-value > 0.05, the influence of Auditor Independence on Risk-Based Auditing is not statistically significant. Therefore, Hypothesis H4 is rejected.

H5: Risk-Based Auditing influences Internal Audit Quality

Path Coefficient: 0.183; T-Statistic: 0.845; P-Value: 0.398

Interpretation: Since the p-value > 0.05, the influence of Risk-Based Auditing on Internal Audit Quality is not statistically significant. Therefore, Hypothesis H5 is rejected.

H6: Risk-Based Auditing mediates the influence of Auditor Competence on Internal Audit Quality

Path Coefficient: 0.541 (KA → KAI); T-Statistic: 3.842; P-Value: 0.000

Interpretation: Since the direct path from Auditor Competence to Internal Audit Quality is significant, but the influence of Auditor Competence on Risk-Based Auditing is not significant (P-Value 0.632), mediation cannot be proven. Therefore, Hypothesis H6 is rejected.

H7: Risk-Based Auditing mediates the influence of Auditor Independence on Internal Audit Quality

Path Coefficient: -0.200 (IA → KAI); T-Statistic: 0.990; P-Value: 0.322

Interpretation: Since the direct path from Auditor Independence to Internal Audit Quality is not significant, and the influence of Auditor Independence on Risk-Based Auditing is also not significant (P-Value 0.167), mediation cannot be proven. Therefore, Hypothesis H7 is rejected.

CONCLUSIONS

From the hypothesis testing results, it can be concluded that only Auditor Competence has a significant influence on Internal Audit Quality. The other relationships, including mediation through Risk-Based Auditing, are not statistically significant. This indicates that Auditor Competence is a key element in improving Internal Audit Quality.

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