

Research Article

Independence, Objectivity, and Competency of Internal Auditors and Their Impact on the Effectiveness of the Internal Audit

Muhammad As'ad, Padri Achyarsyah*

Faculty of Economics and Business, Universitas Nasional, Indonesia

Corresponding e-mail: padri.achyarsyah@civitas.unas.ac.id

Abstract: Using the auditor experience variable as a moderator, this study attempts to investigate how the independence, objectivity, and competency of internal auditors affect the efficacy of the internal audit function. This study used SmartPLS to handle data from 136 respondents using a quantitative technique. The results of the study show that while objectivity has no bearing on internal audit effectiveness, independence and competence do. The association between objectivity and internal audit effectiveness is moderated by auditor experience. It is trusted that the discoveries of this investigate will give important suggestions to companies to fortify inside review forms and progress chance administration, compliance and generally operational productivity. Moreover, it is anticipated that the discoveries of this inquire about will offer assistance controllers create more pertinent rules and measures to guarantee that inner review meets best practices and thorough compliance.

Keywords: independence, objectivity, competency, internal audit function

INTRODUCTION

As organizations grow, their structures and operations become increasingly complex. A successful system of internal controls must be present for large, complex businesses to guarantee both regulatory compliance and smooth operations. Internal control exists to help businesses accomplish their goals in an efficient manner. Ensuring the effective and efficient implementation of internal controls within the organization is the aim of inner audit. Internal auditors evaluate the effectiveness of internal controls in managing risk and provide recommendations for improving the risk control system (Kusuma, 2021). According to Ta and Doan (2022), organizations can identify and resolve problems quickly, manage risks better, and improve overall operational quality through an effective internal auditor function.

Otoritas Jasa Keuangan (OJK) revoked the business license of PT Hewlett Packard Finance Indonesia (HPFI), the decision to revoke the business license was stated in the Decree of the OJK Board of Commissioners Number KEP-30/D.06/2023 on December 18, 2023. OJK revoked the business license of PT Hewlett Packard Finance Indonesia (HPFI) because it did not comply with audit recommendations and failed to meet the quality standards of financing receivables (CNBCIndonesia, 2023) This shows the important role of internal audit in ensuring regulatory compliance and operational effectiveness.

The organization must guarantee the impartiality, competency, and independence of internal auditors in order to carry out the internal audit role efficiently. Based on

previous research, Nurhaliza et al., (2021) where the results of their study explained that independence has a significant influence, which means that when an internal auditor has a high independent attitude, the auditor is aware of the importance of independence in increasing the effectiveness of internal audits. In addition, with a work environment that is free from pressure from the interests of other parties, the efficacy of the internal audit function can be increased by auditors performing audit functions objectively. Meanwhile, in the research of Nainggolan & Prabowo (2019) where the results of their study explained that independence does not affect the effectiveness of internal audits. Their research shows that internal auditors tend to be susceptible to external influences when performing audit functions. In this instance, internal auditors are employed by the same management or company as the auditee, or the audited object, in contrast to external auditors who are agencies outside the audited object. This causes the independence of internal auditors to still often be questioned.

Objectivity also shows contradictions in various studies, in previous studies, Prihartono et al. (2019); Rakhmat and Fadhilah (2019) where the results of their studies explain that objectivity has a significant effect. According to studies, objectivity is an impartial and unbiased mindset that inner auditors must exhibit in order to carry out audit activities without letting any influence from outside parties. This attitude is manifested in the delivery of honest audit results and in accordance with comprehensive audit procedures to the auditee. In addition, auditors also provide recommendations for improvements to errors that are not detected by interference from outside parties. By maintaining objectivity, internal auditors can ensure the integrity of the audit process and provide significant added value to the organization.

Meanwhile, in the research of Nurhaliza et al. (2021), the results of their study explain that objectivity does not affect the effectiveness of internal audits. Their research results show that not all internal auditors have a background in accounting. Auditors with a background in accounting tend to emphasize objectivity in their internal audits. This is because there is pressure that may be given by top management to complete various tasks, which can reduce the ability of internal auditors to maintain an objective attitude. In this case, the organization must provide sufficient support so that auditors can work effectively and independently without any adverse influence from other parties.

With the amount of auditor experience serving as a moderating variable, the purpose of this study is to evaluate the influence of the independence, objectivity, and competency of internal auditors on the efficacy of the internal audit function. Additionally, it is anticipated that this study will provide new insights into the variables influencing the effectiveness of the internal audit department at the finance head office, which is registered with the DKI Jakarta Financial Services Authority, as well as further clarify the disparities found in earlier research. Thus, it is expected that this study will aid in the creation of internal auditing protocols and encourage more effective target achievement for businesses.

LITERATURE REVIEW

Internal Audit Independence

Internal auditors must maintain independence, which means being free from external influence or control (IPPF, 2017). Independence is essential for providing objective and unbiased evaluations. For the chief audit executive to be as independent as necessary, they need to have direct access to top management and the board.

Internal Audit Objectivity

Objectivity is a free mental attitude that must be possessed by the auditor in carrying out an audit, where the auditor must not allow his/her assessment to be influenced by the work environment or by other people, even if the person has a very close relationship with the auditor. According to International Professional Practice Framework (IPPF) (2017:8) Internal auditors must be neutral, impartial, and avoid conflicts of interest. An objective auditor will not rely on outside judgment in the audit process. Management of potential threats to objectivity at the individual level of internal auditors is important. Objectivity can be measured through professional attitude, freedom from conflicts of interest, and reporting based on accurate facts. Internal auditors must adhere to the objectivity principle, which calls for them to be fair, unbiased, intellectually honest, and free from prejudice and other influences. In this case, if that the audit results to be accepted and offer the organization real benefits, auditors must be dedicated to upholding objectivity and avoiding conflicts of interest while performing their jobs.

Internal Auditor Competency

Internal auditors should consider their qualifications in order to complete and meet the required formation, competency, and skill requirements. The Code of Ethics of the Institute of Internal Auditors (IIA) is rich in internal auditors who provide services that are in accordance with their life experiences. When performing audits, internal auditors are required to adhere to the International Standards for the Professional Practice of Internal Auditing and continuously work to enhance their level of expertise, productivity, and service quality. Therefore, qualified internal auditors can make greater contributions to audit tasks and the success of the organization. According to Simarmata (2021:101), competence is the skill of an individual to be able to utilize or use the expertise, skills and knowledge they have in carrying out their work for which they are responsible and make decisions to produce the best performance or service. According to Masrita (2019) an auditor must have the education, knowledge, expertise and skills, experience and competence needed to carry out his responsibilities. The standard competencies that auditors must have are general competence (requirements for being appointed as an auditor), internal audit technical competence (requirements for carrying out internal audit assignments according to the auditor's position level) and cumulative competence. The Auditor Competency Framework is a measure of the minimum capabilities that auditors must have including aspects of knowledge, skills and behavior to carry out tasks in the auditor's functional position well.

Auditor Experience

With expertise, an auditor's level of attention to the financial statements of the company's materiality rises. In addition, because they have performed several audits and examined a variety of financial statements from different industries, more experienced auditors typically have better views and responses to the information contained in the financial statements. Based on what was stated by Mulyadi (2012:24) who explained that auditor experience is the result of the accumulation of everything obtained through interaction. Thus, the auditor's experience reflects expertise in the field of auditing, which is obtained through learning from past experiences. When an auditor performs the same task repeatedly, he will complete it faster and better, because he already understands the completion technique and has faced various obstacles and mistakes in the past, so that he becomes more careful and thorough in carrying out his duties.

Effectiveness of the Internal Audit Function

Effectiveness is a measurement used to evaluate how well a business can accomplish its objectives. Businesses with an efficient internal audit department typically outperform those without one, particularly when it comes to combating fraud, Achyarsyah et al. (2023). Meanwhile, according to Rosidi (2017) because internal auditors are in charge of organizing and providing unbiased information on the outcomes that are beneficial to the company, the role of internal audit is essential. Audited organizations must offer accurate and unaltered financial reports and adhere to current legislation and policies in order to assess the efficacy of internal audits. Internal auditors can inspect and evaluate businesses more successfully in this way. Furthermore, the consequent improvement in openness will aid an organization in accomplishing its objectives and enhance overall performance. Thus, the importance of a strong internal audit department to the expansion and survival of the business.

METHOD

This study uses a research method through a quantitative approach and data is collected through a questionnaire distributed via Google Form to respondents at 136 head offices of financing companies registered with the Financial Services Authority in DKI Jakarta. This study uses a non-probability sampling technique using saturated samples. Data were analyzed using Partial Least Squares (PLS) Structural Equation Modeling (SEM) with SmartPLS 3.0.

RESULT

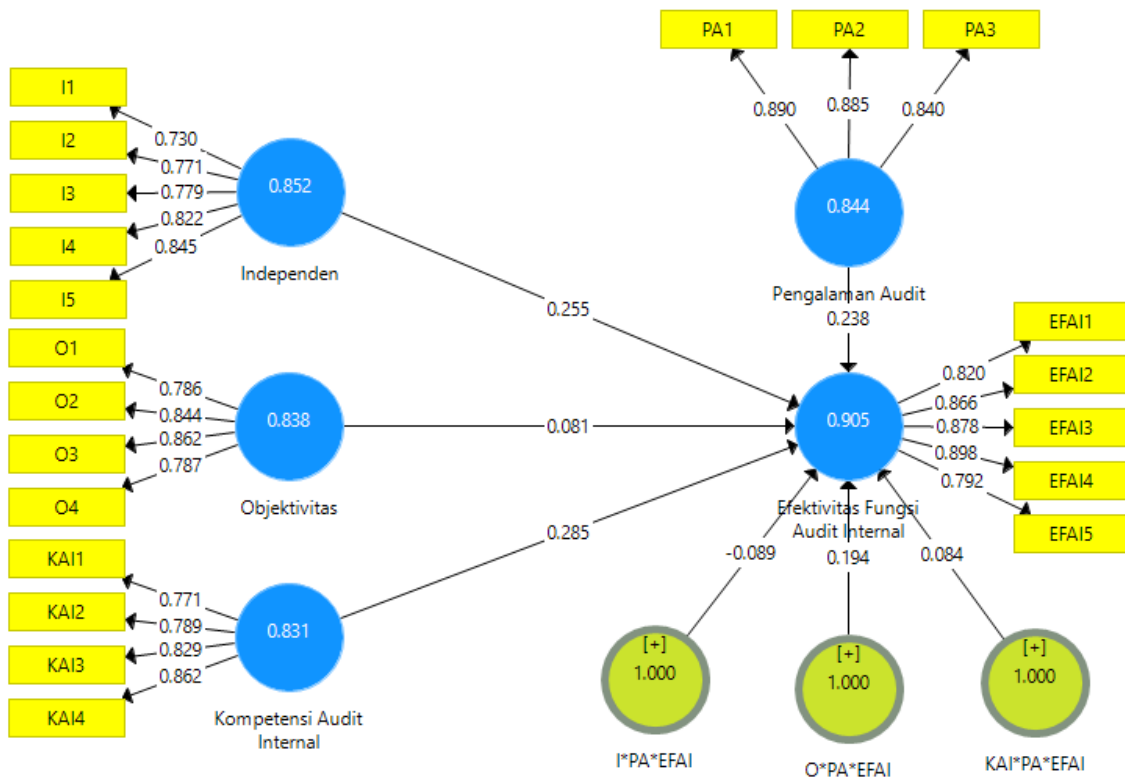
Descriptive analysis aims to find out the answers to the statements made in the questionnaire for each indicator. Descriptive analysis was carried out by combining responses from respondents based on those used in the survey, namely a scale of 1-5 for each indicator (see Table 1).

Table 1
Descriptive Analysis

Variable	N	Min	Max	Mean	Std. Deviation
Independence	89	18	25	22.57	2.205
Objectivity	89	12	20	16.91	2.368
Internal Audit Competency	89	12	20	17.75	2.160
Effectiveness of the Internal Audit Function	89	16	25	22.17	2.370
Auditor Experience	89	9	15	13.18	1.645

A good distribution throughout the data set is indicated by Table 1, which displays the mean value of every variable being greater than the standard deviation. Results of the SEM analysis: The effectiveness of internal audits is significantly enhanced by independence and competency, but not by objectivity. The relationship between objectivity and the internal audit function's efficacy is influenced by the experience of the auditor (see Figure 1).

Figure 1
Full SEM Model Test



Information:

- I*PA*EFAI** : The auditor's experience modifies the independence variable's moderating effect on the internal audit function's efficacy.
- O*PA*EFAI** : The auditor's experience moderates the moderating effect of the objectivity variable on the effectiveness of the internal audit function.
- KAI*PA*EFAI** : The experience of the auditor moderates the moderating effect of the internal auditor competency variable on the effectiveness of the internal audit function.

The structural model in Figure 1 is a model that has been modified to describe the indicators of each variable. All indicators have loading factor values above 0.70, indicating good validity and measurement of the variables. At the same time, indicator I is an indicator for the independence variable (5 indicators), indicator O is an indicator for the Objectivity variable (4 indicators), indicator KAI is an indicator for the Internal Audit Competence variable (4 indicators), indicator EFAI is an indicator for the Internal Audit Function Effectiveness variable (5 indicators), and indicator PA is an indicator for the Audit Experience variable (3 indicators).

Table 2 illustrates that the AVE value of all research variables is above 0.5, so the AVE value of the Discriminant Validity test is sufficient for further testing.

Variable	AVE	Cut Off	Information
Independence (I)	0.625	0.5	Valid
Objectivity (O)	0.673	0.5	Valid
Internal Audit Competency (KAI)	0.662	0.5	Valid
Internal Audit Function Effectiveness (EFAI)	0.725	0.5	Valid
Audit Experience (PA)	0.760	0.5	Valid
I * PA * EFAI	1,000	0.5	Valid
O*PA*EFAI	1,000	0.5	Valid
KAI * PA * EFAI	1,000	0.5	Valid

Source: Data processed by the author, 2024

Table 3
The Results of Cronbach's Alpha and Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability	Information
Independence	0.852	0.893	Reliable
Objectivity	0.838	0.892	Reliable
Internal Audit Competency	0.831	0.886	Reliable
Effectiveness of the Internal Audit Function	0.905	0.929	Reliable
Audit Experience	0.844	0.905	Reliable

Source :Data processed by the author of PLS3 output, 2024

Table 3 illustrates that the Composite Reliability value for all research variables is above 0.7 and the Cronbach's Alpha value for all research variables is above 0.6. So it was concluded that all the variables used in the research were declared reliable.

Table 4
R-Square Test Result

Variable	R-Square (R ²)
Internal Audit Function Effectiveness (Y)	0.276

Based on Table 4 above, the Q-Square (Q²) value is 0.276 which means 27.6%, where this value is greater than 0 (zero). Thus, it can be concluded that variable effectiveness of the internal audit function (Y) can predict the model moderately.

Table 5
Model Fit

Criteria	Normed Fit Index (NFI) Value
NFI	0.098

NFI values, which have a range of 0 to 1, are obtained by contrasting the proposed model with an independent model. If the value is near to 1, the model fits the data well. Given the given table, the model fit can be characterized as good because the NFI value is 0.698.

Following data processing, the t-statistic value reveals the results of hypothesis testing and moderation. The suggested hypothesis can only be accepted or rejected if the t-statistics value is greater than the t-table value ($\alpha=0.05$) of 1.96 and the hypothesis's influence (positive or negative) is appropriate (see Table 6).

Table 6
Hypotheses Testing

Hypothesis	Original Sample	T-Statistics (O/STDEV)	Table	P Values	Hypothesis
X1 -> Y	0.255	2,135	1,986	0.016	H1 is accepted
X2 -> Y	0.081	0.728	1,986	0.233	H2 is rejected
X3 -> Y	0.285	2,383	1,986	0.009	H3 is accepted
X1 -> Z -> Y	-0.089	0.639	1,986	0.261	H4 is rejected
X2 -> Z -> Y	0.194	1,623	1,986	0.049	H5 accepted
X3 -> Z -> Y	0.084	0.795	1,986	0.213	H6 is rejected

Source: Data processed by the author of PLS3 output, 2024

DISCUSSION

Does the independence of internal auditors in conducting internal observations have an impact on the effectiveness of the internal audit function. The comes about of the consider appeared a importance esteem of 0.016, littler than the set centrality level of 0.05. In this manner, the elective theory (H1) can be concluded as acknowledged. This finding is steady with past ponders conducted by Nurhaliza et al., (2021); Ta and Doan (2022). This consider found that expanding the freedom of inner evaluators features a critical affect on the adequacy of inside reviews. Reviewers who can keep up their objectivity and freedom can deliver more precise and dependable reports. Of course, this will bolster chance administration and progress the operational proficiency of the company. In any case, it should be famous that basically having objectivity is not sufficient to ensure the victory of the review. Satisfactory follow-up is required on the proposals from the review comes about. Thus, the key to advancing the overall appropriateness of the internal review process is carrying out appropriate actions following the examination.

Does the objectivity of internal auditors in conducting internal observations have an impact on the effectiveness of the internal audit function. The results of the analysis showed a noteworthy value of 0.233, more prominent than the importance level of 0.05, so that the H2 speculation was rejected. This finding is in line with past comparative ponders, such as those conducted by Nurhaliza et al. (2021). In any case, the comes about of this consider are not in line with the inquire about of Rachmawati and Arifin (2022); Prihartono et al. (2019). Concurring to later inquire about, inner inspector objectivity contributes emphatically to inside review execution. This condition shows that the review prove created by inner reviewers is not adequate to support the increment within the adequacy of the review work. One conceivable cause is the need of revelation of review prove to the reviewed party, which can decrease the level of believe within the proposals given. In overcoming this issue, it is fundamental to move forward communication between inside evaluators and auditees as well as straightforwardness in passing on review discoveries, to guarantee that proposals can be acknowledged and actualized viably. Review prove gotten dispassionately ought to be the premise for evaluating execution, recognizing shortcomings, and giving suggestions that can progress inner control and organizational administration. When this prove is disregarded or not utilized legitimately, review comes about ended up less pertinent, and openings to form genuine enhancements within the organization are missed. Moreover, in the event that the objectivity of review prove isn't regarded, the internal review work may lose validity, and administration and partners may not believe review comes about, eventually preventing nonstop change and expanding dangers for the company.

Does the competence of internal auditors have a positive influence on the effectiveness of the internal audit function. From the comes about of the consider, the centrality esteem of 0.009 is littler than 0.05, so H3 can be acknowledged. This finding is in line with past ponders conducted by Geovani (2023); Sirajuddin and Ravember (2020). This consider appears that the competence of inside evaluators backed by abilities and speed in completing assignments plays an vital part in accomplishing company objectives. The more capable an inspector is in carrying out his obligations, the more compelling the coming about inside review work will be. Advance in improvement too energizes inner evaluators to work harder. Talented reviewers have to be have adequate instruction and certification to assist the company accomplish its objectives. Review quality can be made strides through tall polished skill, which too makes a difference fortify the inner review work. Competent evaluators have way better information and aptitudes in conducting reviews, in this manner increasing the viability of inside reviews. Competent evaluators tend to be more proactive within the review prepare, dynamic in examinations and supervision, and to create precise discoveries and clear suggestions.

Does audit experience affect the independence of internal auditors and the effectiveness of the internal audit function. The comes about of the consider appeared a centrality esteem of 0.261, which is more prominent than 0.05, so that the H4 theory is rejected. One reason inspectors are incapable to direct the relationship between freedom and inner review adequacy is that freedom itself encompasses a noteworthy impact on adequacy, without being influenced by outside variables such as encounter. In this case, autonomy plays an imperative part in assessing how compelling the inside review work is within the company. The expansion of evaluator encounter as a directing variable does not make a critical commitment. In other words, when the evaluator as of now has solid autonomy, it is likely that the level of adequacy of the inside review work is additionally at a tall level, so that extra involvement does not have a significant impact. This shows that it is very important to strengthen the independence of internal inspectors and not only rely on experience to improve the effectiveness of the internal audit function in companies.

Does audit experience affect the objectivity of internal auditors and the effectiveness of the internal audit function. The comes about of the think about appeared a centrality esteem of 0.049, which is littler than 0.05, so that the H5 theory is acknowledged. Experienced inspectors have superior capacities in recognizing and understanding dangers and mistakes within the company. Involvement too plays a critical part in expanding validity and building believe between inspectors and auditees. Experienced evaluators are more regarded by administration and staff, so that the proposals they give are more likely to be executed. Tall validity is extremely important in order to respond to review findings with specific corrective actions, which can ultimately enhance the company's ability to continue internal audit operations. With auditor experience, specialized abilities and connections with auditees can be progressed, which can eventually fortify the in general review comes about.

Internal auditor competence is demonstrated through auditor experience with a centrality value of 0.213, surpassing the constrain of 0.05. Subsequently, speculation H6 is rejected. Tall competence is frequently related with proceeding instruction and proficient preparing, which can have a more prominent coordinate affect on viability than encounter. In spite of the fact that encounter remains imperative, its impact may be more articulated in certain circumstances, such as in critical choice making or complex issue understanding. In any case, involvement does not continuously fortify the relationship

between inside reviewer competence and the viability of the review work in common. Encounter does not give noteworthy included esteem for reviewers who as of now have satisfactory capabilities for inside review assignments. In this way, it may be more advantageous to concentrate on competencies through preparation and procedure in order to advance the equality of internal assessment work.

CONCLUSION

In summary, objectivity by itself does not improve internal audit effectiveness; internal audit independence and expertise do. The relationship between objectivity and audit effectiveness is moderated by auditor experience, emphasizing the value of both technical expertise and real-world experience in enhancing audit results.

Implication

The purpose of this study is to give businesses insight into the value of internal auditor independence, objectivity, and competence in enhancing the internal audit function's efficacy. By considering evaluator encounter as a directing figure, this investigate will distinguish how inspector characteristics impact review quality and compliance with company measures and approaches. It is trusted that the discoveries of this investigate will give important suggestions to companies to fortify inside review forms and progress chance administration, compliance and generally operational productivity. Moreover, it is anticipated that the discoveries of this inquire about will offer assistance controllers create more pertinent rules and measures to guarantee that inner review meets best practices and thorough compliance. Typically anticipated to extend straightforwardness, responsibility and open certainty in inside reviews over different industry segments. This inquire about will give the Founded of Inside Evaluators (IIA) with an understanding of the require for more structured training and proficient improvement programs to extend the encounter and competence of inside reviewers.

Limitation and Future Direction

The analyst realizes that there are a few confinements that will influence the comes about of this consider. Respondents as it were come from financing head workplaces enrolled with the DKI Jakarta Monetary Administrations Specialist, and the utilize of surveys as information collection strategy makes it inconceivable for analysts to confirm the exactness of respondents' answers. For encourage inquire about, it is prescribed to extend the test area exterior of one range, and analysts to go with respondents in filling out the survey to get more exact answers. The factors that influence this think about are the autonomy and competence of inside inspectors. Analysts are too prompted to investigate the impact of inside review objectivity on the viability of the inside review work, as well as consider other inside characteristic factors, such as administration bolster, proficient encounter, and astuteness.

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