

Analysis of the Effect of Competence and Integrity on the Quality of Internal Audit Results in Medan City



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ABSTRACT: The purpose of this research is to analyze the influence of competence and integrity on the quality of the results of the internal audit of the Medan City Inspectorate. The quality problem of the audit results produced by the Medan city inspectorate is very helpful in order to create a system of checking the flow of funds from the center to various agencies in the city of Medan, the audit results of the audit results are also useful for information that is transparent to the public, therefore this research I focus on the factors that influence the quality of the audit results of the Medan City Inspectorate auditors with indicators of competence and integrity. The purpose of this research is to analyze the influence of competence and integrity on the quality of the results of the internal audit of the Medan City Inspectorate. Therefore, this research focuses on the factors that affect the quality of the audit results of the Medan City Inspectorate with indicators of competence and integrity. The purpose of this research is to analyze the influence of competence and integrity on the quality of the results of the internal audit of the Medan City Inspectorate. Therefore, this research focuses on the factors that affect the quality of the audit results of the Medan City Inspectorate with indicators of competence and integrity. The purpose of this research is to analyze the influence of competence and integrity on the quality of the results of the internal audit of the Medan City Inspectorate. Results existence research Influence of Competence and Integrity on the Quality of Internal Audit Results of the Medan City Inspectorate..

KEYWORDS: Competence, Integrity, Internal_Audit Results

INTRODUCTION

Community demands require the implementation of a reliable internal control function and a good internal control system in accountability for the use of funds for the implementation of government which ensures the implementation of activities can be evenly distributed throughout the public sector and is in accordance with established policies and plans and economically applicable provisions. efficiently and effectively carried out by government agencies, namely the Provincial, Regency/City Inspectorate which functions for planning supervision programs, formulating policies and supervisory facilities, inspections (audits), investigations, tests, and assessments of supervisory tasks. Currently, the quality of the government's internal audit results is still in the spotlight of various parties, especially the public. This is due to the lack of transparency of audit findings detected by government auditors as internal auditors, but by external bodies, namely the Supreme Audit Agency (BPK) can be detected completely. The quality of internal audit at the inspectorate shows that it is still not good and trustworthy.

The BPK Representative of North Sumatra Province (2019) mentions the Audit Results Report (LHP) of the Indonesian Audit Board of the Regional Government Financial Reports (LKPD) for the 2015 to 2018 fiscal years for the City of Medan as follows:

Table 1. Results of BPK's Opinion

No	City/Year	Results
1	Medan city/2016	Fair With Exceptions (WDP)
2	Medan city/2017	Fair With Exceptions (WDP)
3	Medan/2018	Fair With Exceptions (WDP)
4	Medan City/2019	Fair With Exceptions (WDP)
5	Medan City/2020	Fair With Exceptions (WDP)

Source: Supreme Audit Agency Representative of the Province of SUMUT

Analysis of the Effect of Competence and Integrity on the Quality of Internal Audit Results in Medan City

The results of the quality of the internal audit have an effect on the opinion issued by the external auditor, if the results of the quality of the internal audit produced by the Medan City Inspectorate are good, the opinion generated by the external auditor (BPK) will be good and vice versa[1]. Based on the report on the results of the BPK examination above, it shows that for four consecutive years the Medan city government has always received a Fair with Exception (WDP) opinion on the Financial Statements. Due to the many phenomena of auditors committing fraud such as accepting bribes to give an assessment and the results of an opinion on the financial statements by the BPK which stated that they were Fair with Exceptions (WDP), which allowed for irregularities. Researchers took samples to the internal auditors at the Medan City Inspectorate because according to the researchers independence, professionalism and competence were very likely to affect the quality results of the audit results at the Medan City Inspectorate. The findings on the LHP issued by the BPK also explain the weaknesses of internal control and disobedience to the legislation carried out by the Medan City Government.

Problem The quality of the audit results is still doubtful because there are still many frauds that are not detected by the Medan City Inspectorate because of the low competence and integrity. The urgency of this research is to determine the effect of competence and integrity on the quality of audit results because there are still many frauds that are not detected by the Medan City Inspectorate

THEORETICAL BASIS

Agency theory

Agency theory concerns the contractual relationship between two parties, namely the principal and the agent. Agency theory discusses the agency relationship in which a certain party (principal) delegates work to another party (agent) who does the work. Agency theory views that local governments as agents for the community (principals) will act with full awareness for their own interests and view that local governments cannot be trusted to act as well as possible for the interests of the community [3].

Cognitive Theory

Cognitive theory states that all components of an organization must be compatible with one another. In management accounting systems, contingency theory is based on the general premise that there is no universal control system that is always appropriate to be applied to all organizations in every situation [4]. This means that the design of various components of the accounting system depends on special contingencies or it can be said that there are other situational factors that can influence certain conditions.

Quality of Internal Audit Results

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 of auditor recommendations in accordance with laws and regulations or based on established standards [5] The quality of the results of the internal audit is reporting on weaknesses in internal control and compliance with regulations, responses from responsible officials, keeping the disclosure of prohibited information confidential, distributing audit reports and following up on the auditor's recommendations in accordance with the laws and regulations [6]. The indicators of the quality of internal audit results are internal control weaknesses, deviations from legislation,

Competence

Competence is knowledge, skills, and abilities related to work, as well as abilities needed for non-routine jobs [7]. The definition of competence in the field of auditing is often measured by experience. To improve skills development, companies need to provide courses to assist competency development in order to develop quality of service to customers and the effectiveness of the relationship between clients and auditors in auditing [8]. The research conducted [9] analyzed the current situation of education in UK countries among the aspects related to the formation of auditor competence, the researcher argues that skills in academics and training are very important.

Integrity

Integrity is the attitude of honesty, courage, wisdom and responsibility of the auditor in carrying out the audit. Integrity is a quality that underlies public trust and is a benchmark for members in testing all their decisions. Integrity requires an auditor to be honest and transparent, courageous, wise and responsible in carrying out the audit. These four elements are needed to build trust and provide a basis for reliable decision makers. Integrity is an element of character that underlies the emergence of professional recognition. Integrity is a quality that underlies public trust and is a benchmark for members in testing all decisions they make. Integrity requires a member to be honest and forthright without sacrificing the confidentiality of the beneficiary, Public service and trust must not be defeated by private gain. Integrity is a principle where internal auditors must uphold the

Analysis of the Effect of Competence and Integrity on the Quality of Internal Audit Results in Medan City

truth by demonstrating honesty, and compliance with laws and regulations [10] Integrity can accept unintentional mistakes and honest differences of opinion, but cannot accept fraud in principle.). Then Integrity is the ability of people to realize what has been said or promised by the person into a reality [11]. and compliance with laws and regulations [10] Integrity can accept unintentional mistakes and honest disagreements, but cannot accept fraud in principle.). Then Integrity is the ability of people to realize what has been said or promised by the person into a reality [11]. and compliance with laws and regulations [10] Integrity can accept unintentional mistakes and honest disagreements, but cannot accept fraud in principle.). Then Integrity is the ability of people to realize what has been said or promised by the person into a reality [11].

Conceptual Framework

The conceptual framework can be formulated as follows in accordance with the above description:

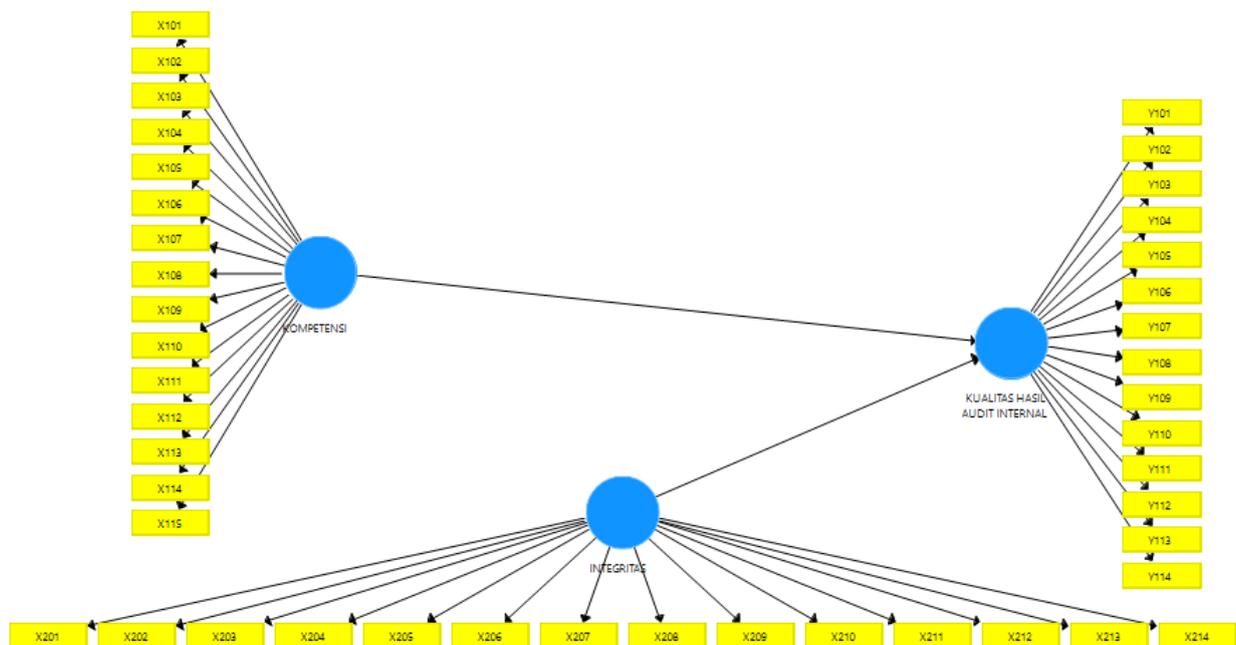


Figure 1. Conceptual Framework

HYPOTHESIS

Hypotheses are temporary answers to a study problem formulation, with the problem formulation expressed in the form of a question phrase (Sugiyono 2013). The hypotheses used in this study are:

- H1 :Competence has a positive and significant effect on the Quality of the Internal Audit Results of the Medan City Inspectorate.
- H2 :Integritypositive and significant effecton the Quality of the Internal Audit Results of the Medan City Inspectorate.

RESEARCH METHODS

Research sites

The location research will be conducted at the Medan City Inspectorate having its address at Jl. Captain Maulana Lubis 2 Medan City, while the research period is from January to December 2022.

Population and Research Sample

The population in this study were all internal auditors at the Medan City Inspectorate. While the sample in this study is a census, the entire population is the internal auditor at the Medan City Inspectorate with the following criteria:

Table 2. List of Populations and Samples

No	Position	Amount
1	Associate Auditor	4
2	Young Auditor	19
3	First Auditor	10
4	Advanced Executing Auditor	3

Analysis of the Effect of Competence and Integrity on the Quality of Internal Audit Results in Medan City

No	Position	Amount
5	Middle Government Supervisor	20
6	Junior Government Supervisor	2
7	First Government Overseer	3
	Amount	61

Research data

Data collection technique is a method used by researchers to reveal or collect information from respondents according to the scope of research [11]. In general, there are several data collection techniques, namely tests, interviews, observations, questionnaires, surveys, literature studies and documentation analysis. Data used in 2022.

Data analysis

The data collection method used a questionnaire with a modified Likert scale consisting of 4 answer options, namely point 4 Strongly Agree (SS), point 3 Agree (S), point 2 Disagree (TS), and point 1 Strongly Disagree (STS). The data analysis technique used in this study is multiple linear regression analysis, with the following stages:

a. convergent validity

The convergent indicator validity test is used to assess the convergent validity, namely the loading factor value must be more than 0.7 for confirmatory research and the loading factor value between 0.6-0.7 for exploratory research is still acceptable and the average variance extracted (AVE) value must be greater than 0.5 [11].

b. discriminant validity.

Discriminant validity relates to the principle that different constructs' manifest variables should not be highly correlated. The value of cross loading for each variable must be >0.70 [11].

c. *Average variance extracted (AVE)*

It is recommended that the AVE value should be greater than 0.50 which means that 50% or more of the variance of the indicator can be explained [11].

d. *Composite Reliability and Cronbach Alpha.*

Reliability test was conducted to prove the accuracy, consistency and accuracy of the instrument in measuring the construct. The rule of thumb that is usually used to assess construct reliability is that the composite reliability value must be greater than 0.7 for confirmatory research and the value 0.6-0.7 is still acceptable for exploratory research [11].

e. Coefficient of Determination/R-Square value.

In assessing the structural model with PLS, we start by looking at the R-Square value for each endogenous latent variable as the predictive power of the structural model. R-Square values 0.75, 0.50 and 0.25 can be concluded that the model is strong, moderate and weak [11].

f. Hypothesis test.

Hypothesis testing serves to test research hypotheses, where the t test can be seen from the results of the Path Coefficient test which will provide an estimate of the influence between variables and provide very useful significant information regarding the relationship between research variables. The hypothesis is accepted when the significance level is less than 0.05 or the t-value exceeds the critical value. The t-statistics value for the 5% significance level is 1.96.

The multiple regression model is formulated in the following form

$$Y = a + b_1X_1 + b_2X_2 + e$$

Information :

Y = Quality of Internal Audit Results

a = Constant

X1 = Competence

X2 = Integrity

b12 = Coefficient

e = Error

RESEARCH RESULTS AND DISCUSSION

Investment Decisions

The outer model test begins by estimating or estimating parameters, namely by calculating the PLS algorithm with the following

Analysis of the Effect of Competence and Integrity on the Quality of Internal Audit Results in Medan City

results.

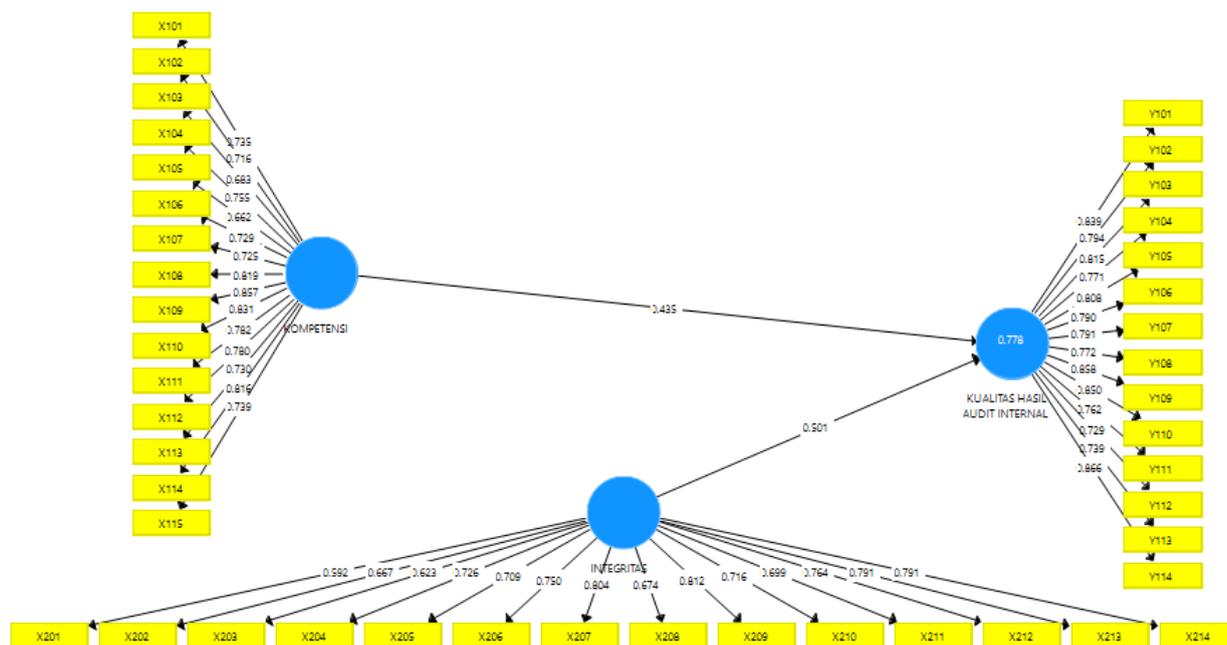


Figure 2. PLS Algorithm . Calculation Output Display

From the output of the analysis, the measurement model (outermodel) can be evaluated, namely by testing convergent validity, discriminant validity and reliability. All indicators are declared to represent Competency Variables (X1), Integrity (X2) and Quality of Internal Audit Results (Y), the conclusion is that all indicators have met the criteria for the validity of indicators for each construct.

Table 1. Construct Reliability and Validity

Variable	Composite Reliability
Competence	0.953
Integrity	0.939
Quality of Internal Audit Results	0.961

Table 1 shows that the category is quite good, each construct has met the outer model reliability assessment criteria with a composite reliability value > 0.7.

Hypothesis test results

The results of the SmartPLS algorithm in assessing the Path Coefficient are directly given in Table 2.

Table 2. Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Competence → Quality of Internal Audit Results (Y),	0.435	0.436	0.088	4,935	0.000
Integrity → Quality of Internal Audit Results (Y),	0.501	0.502	0.096	5,232	0.000

Based on Table 2, it can be seen that the most dominant factor in influencing the Quality of Audit Results is Integrity with the highest path coefficient of 0.501. Based on the table, the following structural equation can be formed:

$$\text{Quality of Audit Results} = 0.435 \text{ Competence} + 0.501 \text{ Integrity}$$

It is known that the coefficient value of Competence, which is positive, means that every increase in the value of Competence by one unit will increase the value of Quality of Audit Results by 0.435% with the assumption that other variables in

Analysis of the Effect of Competence and Integrity on the Quality of Internal Audit Results in Medan City

the model are fixed and this value can be interpreted if Competence has an influence on the Quality of Audit Results.

It is known that the coefficient of integrity, which is positive, means that every increase in the value of objectivity by one unit will increase the value of Quality of Audit Results by 0.501% with the assumption that other variables in the model are fixed and this value can be interpreted if integrity has an influence on the Quality of Audit Results.

DISCUSSION

The Effect of Competence on the Quality of Audit Results

Based on the results of hypothesis testing, it shows that competence has no effect on the quality of internal audit results at the Medan City Inspectorate. This means that in this study the influence of competence which can be interpreted as competence does not have an important role in improving the quality of audit results at the Medan City Inspectorate. This is due to the lack of knowledge of the auditor in understanding the entity being audited, then the lack of the auditor's ability to analyze problems. This is also reinforced by the Audit Results Report (LHP) conducted by the Supreme Audit Agency (BPK) from 2016 to 2020. The same research was also conducted at the Medan city inspectorate by (Tarigan 2010) which examined the quality of audit results with the variable accountability, competence,

Competence means that each auditor must have expertise in the field of auditing and have knowledge and knowledge that is quite broad about the field being audited. The competence of auditors in the field of auditing is indicated by their educational background and must have sufficient experience in the field of auditing. In terms of education, an auditor should ideally have an educational background in auditing. The auditor's competence regarding the field being audited is indicated by educational background, when auditing financial statements, he must have an educational background and understand very well the process of preparing financial reports and applicable accounting standards. Similarly, auditors who conduct operational and compliance audits, The auditor must have sufficient knowledge about the operational activities being audited, both in carrying out and the criteria used to conduct the assessment. If the auditor is less capable or does not have the ability, the auditor is obliged to use the appropriate experts.

This is very different from research conducted by (Alim, Hapsari, and Purwanti 2007) which states that competence affects the quality of audit results and audit quality can be achieved if an auditor has good competence and the results of his research find that competence affects the quality of audit results. while this study is in line with research conducted by (Harsanti and Whetyningtyas 2014) (Safitri et al. 2014) (Turangan et al. 2017) in their research that competence has no effect on 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 significantly affect the decline in audit quality.

Effect of Integrity in Moderating Competence with Quality of Audit Results

The test results show that integrity has an effect on the quality of internal audit results at the Medan City Inspectorate. This can be observed based on the respondents' answers, there are still some respondents who do not agree with the questions adjusted from the integrity indicators. This research is in line with (Utami, 2015), (Gunawan, 2012) which states that there may be sensitive questions that can lead to insignificant results, because the auditor considers the personal circumstances of a person/group to justify an act of violating the provisions or laws that applicable, and if the object of the examination makes a mistake, the auditor will be blaming which can cause losses.

CONCLUSION

Based on the results of research and discussion through the proof of the hypothesis. The conclusions of this study are as follows:

1. Competence partially has no effect and is not significant on audit quality
2. Objectivity partially has no effect and is not significant on audit quality

SUGGESTION

After analyzing and producing several conclusions on the research that has been carried out at the Medan City Inspectorate, the things that researchers can suggest that can be input and attention are as follows:

1. It is hoped that the Medan City Inspectorate can maintain and improve Integrity because it has a dominant influence in influencing the quality of the auditor's results.
2. This research can later be used as a reference for further researchers related to concepts or theories regarding the quality of auditor results. Competence and Integrity.

Analysis of the Effect of Competence and Integrity on the Quality of Internal Audit Results in Medan City

3. Further researchers are advised to add variables that are different from the previous variables in order to enrich their insight and knowledge.

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