
Auditors' and auditees' perception on the internal audit quality

Kartika DJATI,

The Faculty of Economics and Business,
Sebelas Maret University, Surakarta, Indonesia,
E-mail: kartikadjati@gmail.com

RAHMAWATI,

The Faculty of Economics and Business,
Sebelas Maret University, Surakarta, Indonesia,
E-mail: Rahmaw2005@yahoo.com

PAYAMTA,

The Faculty of Economics and Business,
Sebelas Maret University, Surakarta, Indonesia,
E-mail: payamta@yahoo.com

Lia UZLIAWATI,

The Faculty of Economics and Business,
Sultan Ageng Tirtayasa University, Serang Banten,
Indonesia,
E-mail: uzliawati@yahoo.co.id

Abstract

The purpose of this study is to examine the influence of audit planning, fieldwork audit, audit reporting, follow-up action of the audit results, the auditor team competence, and independence of the auditor team on the internal audit quality at the General inspectorate of the Ministry of Finance, Indonesia.

The study uses a research instrument in the form of a questionnaire which is submitted to the auditor team of the Inspector General and the head of office as the auditee in the Ministry of Finance. We also conducted interviews with senior auditors at the General Inspectorate and officials as the auditee at the Ministry of Finance. The sample is analysed by multiple regression analysis.

The results show that the internal audit quality according to the auditor team perception is affected by audit planning, audit reporting, and auditor team competence. Fieldwork audit, follow-up action of the audit results, and the independence of the auditor team do not affect the internal audit quality. From the auditee's perception, the internal audit quality is affected by audit planning, fieldwork audit, and the competence of the auditor team. Meanwhile, the reporting of audit results, the follow-up action of the audit results, and the independence of the auditor team do not affect the internal audit quality at the General inspectorate of the Ministry of Finance.

Keywords: Internal audit quality, auditor team perception, auditee perception, General Inspectorate of the Ministry of Finance of Indonesia.

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Introduction

This study aims to examine the influence of audit planning, fieldwork audit, audit reporting, follow-up action of the audit results, the auditor team competence, and independence of the auditor team on the internal audit quality at the General Inspectorate of the Ministry of Finance. Auditors have found an auditee action in achieving goals and objectives through test result. Internal audit must identify the goals and objectives of the auditee, establish the significant criteria for achieving them, and examine and measure these criteria to determine how the auditee action has reached its goals and objectives (Dittenhofer, 2001).

The phenomenon of the poor quality of audit in audit practice is affecting the level of stakeholders' satisfaction toward audit performance, as it was the case of the Public Accountant Firm (PAF) Arthur Anderson and Enron in the United States of America in 2001. PAF Arthur Andersen had committed a violation on the ethical principles of the accounting profession, namely it abused the principles of integrity and professional conduct. The firm was not able to maintain and enhance public confidence as a member of the Big Five category, and it did not behave professionally and consistently with its professional reputation, by condoning the hiding and misrepresentation of accounting information while auditing the financial reports. PAF Arthur Andersen also violated the appropriate professional service standards because it did not perform its professional duties properly, or as required by the relevant technical and professional standards.

The emergence of cases in organization causes the moral impact on stakeholders' satisfaction regarding the audit practice and, therefore, the effectiveness of the internal auditor's function existence was questioned (Rezaee et al., 2003). DeAngelo (1981) states that audit quality is indicated by the auditor's ability to find the violation in the client's accounting system and to report it.

The General Inspectorate, as the internal auditor in the Ministry of Finance, is functioning as the responsible internal audit structure of the government in overseeing the internal control of the state's finance. The scope of this supervision includes the budgeting process, administration, and the state's financial reporting. These controlling areas cover the state finance in the state budget - APBN (Anggaran Pendapatan dan Belanja

Negara) as well as the state's finance that is separate from APBN. Therefore, the quality and performance of the internal audit performed by the General Inspectorate are important because their existence is part of the governmental internal auditor's function that will keep record of all of state's assets (so there will be no problem in maintaining it) and is responsible for development and supervision of the Government Internal Control System (GICS).

There are various factors affecting the audit quality from the various segments of different dimensions associated with the auditing process (Mock and Samet, 1982; Gibbins and Wolf, 1982; Chow et al., 1987; Sutton and Lampe, 1990; Sutton, 1993), namely: audit planning, fieldwork audit and reporting of audit result. Sutton (1993) examined the factors that are affecting the quality of auditing in the USA. The result of analysis showed that there were 19 attributes that affected audit quality, classified in three categories: audit planning, fieldwork audit and administrating/reporting.

Although there have been a lot of studies about the internal audit quality in association with organizational performance, there is a limited number of studies that examine the internal audit quality in relation to the auditing process in the public sector. This study is intended as an extension and a development of previous studies, by examining if the audit quality is affected by audit planning, fieldwork audit, and reporting of auditing results (Mock and Samet, 1982; Sutton and Lamp, 1990; Sutton, 1993).

1. Literature review

Internal audit is a business activity which was introduced as profession since the establishment of The Institute of Internal Auditors (IIA) in the 1940s, in the USA. The concept of internal audit is also used in public and governmental institutions. This is due to the fact that governments handle public resources and they should be accountable for the use of these resources efficiently, economically, and effectively in the process of achieving their objectives. The government is responsible for the observance of laws and regulations. Government is also responsible for creating and maintaining an effective control meant to ensure the achievement of its goals and appropriate objectives, protection of the resources, compliance with laws and regulations, the disclosure of the data obtained, and the disclosure of a true and fair view of government information. The audit report of the

government becomes the most important element of public control and government accountability (Dittenhofer, 2001).

The quality of audit involves the compliance of professional standards. The results of the audit process are the financial statements which provide an accurate representation of economic realities, benefit from assurance services and contribute to the efficient risk management of the company. To benefit from all these qualities, the audit process must be implemented independently of the auditee, allowing the auditor to have the sceptical position recommended in the course of the audit mission (Christensen et al., 2013). Knechel et al. (2013) focus on four dimensions of audit quality: audit input (expertise), audit process (consideration of auditor and audit practice), outcome (reporting) and contextual (period of auditor working). Francis et al. (2011) argue that the quality of audit framework includes inputs, processes, the audit firm itself (expertise in the business industry), the market and audit industry (market competition), the economic consequences of the audit results (publication of auditor's opinions).

The quality of audit must also be identifiable and measurable by the auditee. The level of audit quality must be built from the beginning of the audit implementation until the moment of reporting and making the final recommendations. Therefore, the indicators used to measure the quality of audit are the quality of processes, namely whether the audit is done carefully, according to procedure, while continuing to maintain a sceptical attitude on the auditor's part. There is a lot of feedback regarding the quality of audit that is separated from auditing standards. One of the most important feedbacks is related to the auditor's personal attributes such as auditor skills and experience, ethical values, and the general mindset. Other inputs are auditor perception and audit tenure. The audit companies need to attract high quality individuals with technical skills and interpersonal skills that are necessary to maintain or improve the audit quality (Duff, 2004).

The audit process can be seen as the activity of collecting and evaluating evidence to support information/report that serve the auditee, to increase the users' assurance that the auditee's report can be used as a basis for decision making. In general, the internal audit process can be categorized in audit planning, fieldwork audit, audit reporting, follow-up action audit (Tim Penyusun Modul Program Pendidikan Non Audit Sektor Publik, 2007).

2. Research methodology

Based on the review of specialized literature, we defined the research direction in the field, by referring to the possible correlation between audit planning, fieldwork audit, audit reporting, follow-up action of the audit results, the auditor team competence, and independence of the auditor to the internal audit quality from the auditor's perception. We also intend to test new hypotheses, such as the existence of correlation between audit planning, fieldwork audit, audit reporting, follow-up action of the audit results, the auditor team competence, and independence of the auditor to the internal audit quality from auditee perception.

The analysed population is made up to 66 leaders of the auditor teams from the General Inspectorate of the Ministry of Finance and 208 auditees from the Ministry of Finance. By using the Slovin formula for the size of the sample we determined the final sample of 151 of the auditees from the Ministry of Finance. In the data collection stage, we used a questionnaire with closed questions. For processing and interpreting the data, we used the SPSS software (*Statistical Package for the Social Sciences*), version 20.0.

The research hypotheses that we intend to test are the following:

- H1: There is a positive influence between *Audit planning* and *Internal audit quality*.
- H2: There is a positive influence between *Fieldwork audit* and *Internal audit quality*.
- H3: There is a positive influence between *Audit reporting* and *Internal audit quality*.
- H4: There is a positive influence between *Follow-up action* of the audit results and *Internal audit quality*.
- H5: There is a positive influence between the *Auditor team competences* and *Internal audit quality*.
- H6: There is a positive influence between *Independence of the auditor* and *Internal audit quality*.

3. Research results

3.1. Descriptive analysis of variables

A first analysis reveals the fact that for the observed sample, the mean degree of dissemination of the information on internal audit quality from the auditor team's perspective has values between 2.60 and 5.00, for 68.1% of the sample (Table 1). On the other side,

from the auditees' perception, the mean degree of dissemination of the information on internal audit quality

has values between 2.40 and 5.00, for 77.7% of the sample (Table 2).

Table 1. Descriptive statistics for the auditors' perception

Variable	N	Min	Max	Mean	Std. Deviation
Audit planning (PL)	66	2.56	5.00	3.9674	0.40859
Fieldwork audit (CO)	66	3.48	5.00	4.1782	0.40222
Audit reporting (RE)	66	3.13	5.00	4.1608	0.46705
Follow-up results (FO)	66	3.00	5.00	4.0606	0.52268
Auditor competence (COM)	66	3.25	5.00	4.0947	0.45312
Auditor independence (IND)	66	3.00	5.00	3.9129	0.45887
Internal audit quality (QU)	66	2.60	5.00	3.8924	0.43864

Source: Authors' processing, based on the SPSS output.

Table 2. Descriptive statistics for the auditees' perception

Variable	N	Min	Max	Mean	Std. Deviation
Audit planning (PL)	107	1.33	5.00	3.6283	0.75273
Fieldwork audit (CO)	107	2.57	5.00	4.1005	0.56350
Audit reporting (RE)	107	2.00	5.00	4.0153	0.71020
Follow-up results (FO)	107	2.50	5.00	4.3598	0.60965
Auditor competence (COM)	107	2.00	5.00	3.9766	0.71501
Auditor independence (IND)	107	2.33	5.00	4.1935	0.69623
Internal audit quality (QU)	107	2.40	5.00	3.8374	0.62819

Source: Authors' processing, based on the SPSS output.

3.2. Testing the research hypotheses

In order to validate the research hypotheses, we applied multiple regression analysis from the auditor's perception, as presented in Table 3.

Table 3. Regression from the auditor's perception

Equation		
$QU_t = b_0 + b_1PL_t + b_2CO_t + b_3RE_t + b_4FO_t + b_5COM_t + b_6IND_t + e$		
Keterangan	Coefficient	Significance
Audit planning (PL)	0.310	0.003***
Fieldwork audit (CO)	-0.069	0.629
Audit reporting (RE)	0.365	0.002***
Follow-up results (FO)	0.091	0.347
Auditor competence (COM)	0.285	0.006***
Auditor independence (IND)	0.074	0.458
F Test	24.171	0.0000***
Adjusted R ²	0.681	

*** Signification on $\alpha = 1\%$

Source: Authors' processing, based on the SPSS output.

From the auditees' perception, we validated the research hypotheses by means of a multiple regression analysis, as shown in Table 4.

Table 4. Regression from auditees' perception

Equation		
$QU_e = b_{0e} + b_{1e}PL_e + b_{2e}CO_e + b_{3e}RE_e + b_{4e}FO_e + b_{5e}COM_e + b_{6e}IND_e + e$		
Description	Coefficient	Significance
Audit Planning (PL)	0.113	0.070*
Fieldwork Audit (CO)	0.334	0.003***
Audit Reporting (RE)	0.073	0.388
Follow-up Results (FO)	0.016	0.825
Auditor competence (COM)	0.457	0.000***
Auditor independence (IND)	0.054	0.419
F Test	62.467	0.000***
Adjusted R ²	0.777	

* Signification on $\alpha = 10\%$, *** Signification on $\alpha = 1\%$

Source: Authors' processing, following the SPSS output.

The result show that, from the auditors' perception, *Audit planning*, *Audit reporting*, and *Auditor competence* have a positive relationship with the *Quality of internal audit*. Audit planning plays an important role in the success of the internal audit activities. The optimal audit planning is achieved by involving the auditee and can provide additional value in accordance with the auditee's needs to improve and enhance its performance.

Audit reporting and the *Follow-up recommendations* are means of communication regarding the aspects that need improvements. The final audit report should be

informative and appropriate and should include the result of discussions with the auditee. Furthermore, the *Auditor competence* variable is one of the most important factors of competition within the industry (Carcello et al., 1992). Beattie and Fearnley (1995) argue that one of the key characteristics of audit quality is the auditor's technical competence.

On the other side, from the auditee's perception, the results show that *Audit planning*, *Fieldwork audit*, and *Auditor competence* have positive impacts on *Internal audit quality*. This is due to audit planning, that involves

the fact that the auditee can help the internal auditor to maintain its objectivity at the time of audit planning and implementation and therefore the auditee will be assisted in solving the problems with which he is faced. Additionally, the results show that fieldwork audit has a significant positive effect. This is in accordance with the result of previous studies which state that the quality of internal audit procedure is included in the ability to implement audit (Spraaakman, 1997; Xiangdong, 1997; Fadzil et al., 2005).

Auditor competence in this study also has a positive influence on internal audit quality. The results show that one of the key characteristics of audit quality is the auditor's technical competence. The Auditor team competence variable is influencing internal audit quality, which means that, in implementing its assignments, the General Inspectorate teams have sufficient audit experience and expertise.

Conclusions

Starting from the results in specialized literature, we tested six research hypotheses regarding the

perception related to the correlation between audit planning, fieldwork audit, audit reporting, follow-up action of the audit results, auditor team competence, and independence of the auditor to the internal audit quality, from the auditor's perspective. At the same time, we tested the same correlations from the auditee's perception.

Statistical tests showed that, with certain restrictions concerning the normal distribution of the variable, for the analysed sample, the research hypotheses are confirmed from the auditor's perception: there are positive significant correlations between *Internal audit quality* and *Audit planning*, *Audit reporting*, and *Auditor competence*, respectively. From the auditee's perception it was confirmed that there are significant positive correlations between *Internal audit quality* and *Audit planning*, *Fieldwork audit*, and the *Auditor competence*.

As future research directions, there could be considered extending the analysis to a larger sample and identifying regression models that would explain better or in more detail the quality of internal audit.

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