

Exploring Respondents Characteristics as The Essential Factors of Internal Auditor Performance

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Abstract. This study aims to analyze differences in audit performance perceived by auditors based on their characteristics. It is crucial to managing the internal audit team to supervise and control regional government work appropriately. The public sector organization in Indonesia still struggles to face corruption and fraud issues during budget planning, implementation, and reporting. The subject of this study is internal auditors of the regional government (city and regency) in Sumatra Utara, Indonesia. Using random sampling, this study has collected 280 data. The data was analyzed using Multivariate Analysis of Variance (MANOVA). The result of this study indicates that gender and professional grade impact individual audit performance, particularly professional skepticism and communication. This study recommends that decision-makers design an appropriate combination of auditor teams to maintain professional skepticism and communication among internal auditors. It is essential to maintain auditor ethical and risk concerns during supervision and internal control tasks. It is also necessary to maintain the comprehensiveness of crucial information the internal auditor team probably collects.

Keywords: internal audit, good governance, clean government, gender, fraud

1 Introduction

The supervisory function has long been practiced worldwide, both in the private and public sectors, to control fraud in the management and use of budgets. According to government regulation Number 12 of 2017 [1], the Inspectorate carries out the practice of decentralization of supervision in the public sector at the local government level. The Inspectorate is tasked with supervising the implementation of local government so that the government runs efficiently and effectively, following the plans and provisions of the applicable laws and regulations, and realizing good governance and clean government. In addition, the Inspectorate supervises and reviews the financial statements of all local government activities funded by the Regional Revenue and Expenditure Budget (in Bahasa: APBD). Furthermore, referring to Government Regulation Number 72 of 2019 concerning Regional Apparatus Organizations [2], the Inspectorate has the function of facilitating supervision, implementing internal supervision of performance and finances, compiling reports on supervision results, coordinating the prevention of corruption, and supervising the implementation of biocracy reform and other supervisory activities. Thus, it can be understood that the Inspectorate serves as the internal auditor of the local government. Meanwhile, external supervision is carried out by the Supreme Audit Agency (in Bahasa: BPK) of the Republic of Indonesia.

However, Indonesia is still faced with cases of criminal acts of fraud or corruption in the Regional Government. Based on data from Indonesian Corruption Watch [3], there are 533 corruption cases in Indonesia with 1173 suspects in 2021; this number increased in 2020 with 444 corruption cases and 875 person suspects, and in 2019 with 271 corruption cases and 580 person suspects. Most of these cases are dominated by budget abuse, fictitious projects, and markups carried out by local governments [3]. In 2021, 176 village governments, 146 district governments, 33 city governments, and 22 provincial governments will be involved in corruption cases [3]. The data shows that corruption is a crucial problem that must be overcome even though the government already has internal and external monitoring instruments.

Furthermore, the summary of the results of BPK-RI's 2020 external audit of regional government financial reports that of the 541 audit report shows 6,160 findings and 16,861 recommendations. From these findings, there were 10,499 problems, 49% of which were weaknesses in the internal control system, and another 51% were non-compliance with laws and regulations. Based on these data, it can be assumed that the effectiveness of internal control or internal audit quality within the local government environment is still weak. This weakness in audit quality is also suspected to be one of the causes of the rampant corruption cases in local governments in Indonesia.

Interestingly, the definition and meaning of audit quality also differ among experts and professional associations. The Indonesian Institute of Accountants and the Government Accountability Office define audit quality as compliance and implementation of professional standards, auditing standards, and quality control standards [4]. Meanwhile, Schwartz [5] defines audit quality as the probability of errors and irregularities that can be detected and reported. Indeed, ideally, these errors and irregularities are found in the audit process that has set standards. This view is in line with Rosnidah [6], who argues that audit quality is the implementation of audits that follow standards so that they can disclose and report in case of client violations. Likewise, previous researchers suggested that the probability of fraud detection is influenced by issues that refer to the auditor in generating his opinion. Sukriah et al. [7] suggested that the quality of the internal audit conducted by the government's internal auditors is influenced by the behavior and competence of the supervisory apparatus so that the supervision and control run effectively. Internal auditor competence can be viewed from the year of experience, specialization, and level of auditor education [8-11].

On the other hand, several previous studies also associate gender with audit performance or the opinion given by auditors [12-13]. It happens because of the different ways of processing information between men and women [14]. Women tend to process all available information, considering all risks and ethical aspects in their decision-making, while men tend to analyze specific aspects that indicate problems [14]. The implication is that women tend to avoid risk, have low self-confidence, and have higher moral sensitivity than men [15-16]. This phenomenon will undoubtedly have further implications for auditing performance, which requires effectiveness in identifying fraud and ensuring that government entities carry out the budget accountably.

Based on the empirical and literature review above, this study aims to analyze differences in audit performance perceived by auditors based on their characteristics. The characteristics of auditors in this study were viewed from the demographics, including gender, professional-grade, and educational background. Meanwhile, audit performance is viewed from audit quality, professional skepticism, and communication. The audit quality referred to in this study is the auditor's perception regarding his ability to detect errors in financial statements and report them to users of financial statements [see: 17]. Meanwhile, professional skepticism

is an attitude of suspicion that the auditor has to maintain his professional commitment to behave in harmony with the public interest [18]. Such an attitude is essential for the auditor profession because sensitivity in fraud control and supervision requires directed professional skepticism [19]. Furthermore, communication in this study is defined as the auditor's perceived ability related to the communication of the results of the internal audit assignment, communication of the weaknesses of the internal control system, and communication of the auditee's non-compliance with applicable regulations carried out between the auditor team and between auditors and auditees. Communication is essential in producing good audit team performance and constructive audit recommendations in control and supervision [20-22].

The results of this study are expected to contribute to recommending the composition of the auditor team based on their characteristics to produce an effective auditor team in controlling fraud in local governments. Effective internal control is expected to have implications for increasing public accountability, public services, preventing irregularities, securing state assets, and overall good governance and clean government in local government in Indonesia. Theoretically, this research is expected to strengthen the theoretical basis related to the impact of auditor characteristics based on demographics on the performance of their audits.

2 Research Method

The subjects of this study were internal auditors at the inspectorate in districts and cities in North Sumatra, amounting to 924 people. This study uses a random technique from this population to obtain samples [23]. The number of targeted samples was calculated using Slovin's formula, obtaining 280 target respondents. This study analyzes primary data [23]. The primary data was collected using a questionnaire with 5 Likert scales. The items on the instrument are arranged based on the variable indicators the researcher has set. Before being used to collect data, the researcher conducted content validity and face validity on the instrument by involving two expert opinions (judgment experts).

After the questionnaire was developed and validated, the researcher made the instrument into an online format with the help of the Google Form application. It is intended so that the instrument is easily accessible by respondents and the quality of data storage can be maintained [See: 24]. Furthermore, this questionnaire is submitted online through an official letter sent via email to inspectorate offices throughout North Sumatra. Finally, the data collected were tabulated and analyzed using Multivariate Analysis of Variance (MANOVA) [25]. Data analysis in this study was carried out with SPSS 23 software..

3 Result

3.1 Demography of Sample and Statistics Descriptive

This study has collected 280 data. This amount corresponds to the amount of data targeted. From the total number of samples, there are 100 male and 180 female respondents. Based on the responses, male respondents have a higher audit quality with an average of 3.981 than female respondents, who have an average of 3.975. Meanwhile, female respondents have higher professional skepticism and communication with an average of 3,982 and 4,189

compared to males with an average of 3,941 and 4,149. This figure does not seem to have far differences. However, the significance will be analyzed using the MANOVA test, which is discussed in the next section.

On the characteristics of professional grade, the criteria are divided into three, namely primary, young/junior, and intermediate. In addition to representing the level of the position, the professional grade is also a proxy for the year of experience of the respondents. It is because the increase in grade given to the auditor refers to the period of duty and hours of auditing. In this characteristic, there are 74 respondents (26%) who have a primary grade, 134 respondents (48%) who have a young/junior grade, and 72 respondents (26%) who have an intermediate grade. Of the three criteria, the young/junior and intermediate grades have the highest audit quality figures with an average of 3.980, the primary grades have the highest professional skepticism scores with an average of 4.011, and the young/junior grades have the highest communication figures with an average of 4.208. This figure does show different variability in each performance dimension. However, although it is the same as the gender criteria, the variability shown by each characteristic is not far apart

Table 1. Demography of Sample and Descriptive Statistics

No	Factors	n	%	Audit Quality		Professional Scepticism		Communication	
				Avg	St. Dev	Avg	St. Dev	Avg	St. Dev
1.	<i>Gender</i>								
	Male	100	36%	3,981	0,061	3,941	0,284	4,149	0,131
	Female	180	64%	3,975	0,078	3,982	0,246	4,189	0,138
2.	<i>Professional Grade</i>								
	Primary	74	26%	3,970	0,081	4,011	0,291	4,122	0,134
	Young/Junior	134	48%	3,980	0,059	3,927	0,239	4,208	0,138
	Intermediate	72	26%	3,980	0,068	3,981	0,259	4,158	0,117
3.	<i>Educational Background</i>								
	Bachelor	210	75%	3,979	0,069	3,956	0,258	4,177	0,139
	Master	70	25%	3,972	0,061	3,986	0,269	4,157	0,125

Furthermore, on the educational background characteristics, the respondent's criteria are divided into bachelor's and master's. Auditors generally have a bachelor's education background because the local government internal auditor profession only requires a bachelor's education level. However, auditors are not limited to continuing their studies at the postgraduate level. Therefore, some auditors have an educational background at the master level. In this study, there were 210 respondents with a bachelor's educational background and 70 with a master's. Based on the results of descriptive statistics, respondents with a bachelor's educational background have a relatively higher audit and communication quality, with a mean of 3,979 and 4,177.

Meanwhile, in professional skepticism, respondents with an educational background master had a higher score with an average of 3.956. The results of the sample demographics and descriptive statistics are presented in Table 1 above. Next, the researcher conducted a MANOVA analysis to test the significance of the differences in the performance scores above.

3.2 MANOVA

The MANOVA test is used to analyze the multivariable mean differences in this study (Hair et al., 2010). This research involves three factors that become independent variables and three performance variables that become dependent variables. So overall, six variables will be analyzed for their variability in this study. The results of the MANOVA test were observed by reviewing the sig. at the SPSS 23 output or p-value with a critical value <0.05 at $= 5\%$. However, this study uses the criteria at $= 10\%$ for some cases with a critical value of <0.10 . This condition is common in social science research to analyze behavioral phenomena (see: Cooper & Schindler, 2010; Hair et al., 2010). The results of the data analysis showed that there were significant differences between male and female in professional skepticism and communication variables, with p-values of 0.011 (<0.05) and 0.001 (<0.05). These results indicate that female auditors have better professional skepticism and communication than male auditors.

Table 2. Result of MANOVA

No	Factors	Dependent Variables	Sum of Squares	df	Mean Square	F	Sig.
1.	Gender	Audit Quality	0,262	1	0,262	0,291	0,590
		Professional Scepticism	15,326	1	15,326	6,515	0,011**
		Communication	11,120	1	11,120	10,776	0,001**
2.	Professional Grade	Audit Quality	0,521	2	0,261	0,290	0,749
		Professional Scepticism	8,859	2	4,430	1,883	0,154
		Communication	5,664	2	2,832	2,745	0,066*
3.	Educational Background	Audit Quality	1,505	1	1,505	1,675	0,197
		Professional Scepticism	3,888	1	3,888	1,653	0,200
		Communication	1,814	1	1,814	1,758	0,186
4.	Gender Professional Grade	* Audit Quality	0,493	2	0,246	0,274	0,760
		Professional Scepticism	14,291	2	7,145	3,038	0,049**
		Communication	1,248	2	0,624	0,605	0,547
5.	Gender Educational Background	* Audit Quality	1,869	1	1,869	2,080	0,150
		Professional Scepticism	8,244	1	8,244	3,505	0,062*
		Communication	7,514	1	7,514	7,282	0,007**
6.	Professional Grade Educational Background	* Audit Quality	2,574	2	1,287	1,432	0,241
		Professional Scepticism	2,784	2	1,392	0,592	0,554
		Communication	5,066	2	2,533	2,455	0,087*

Furthermore, on the characteristics of the professional grade, there is a significant difference in the communication variable with a p-value of 0.066 ($\alpha = 10\%$). These results indicate that auditors with young/junior grades have better communication performance than auditors with primary and intermediate grades. This result is unique because the auditors in the

middle grade show better communication performance. Meanwhile, there is no significant difference in the other two aspects of performance, namely audit quality and professional skepticism. This condition indicates that the auditing performance of internal auditors in local governments is not much influenced by years of experience or professional grades. Then on the educational background criteria, there was no difference in the variables of audit quality, professional skepticism, and communication. This finding shows that the internal auditor of local (district or city) government education level does not affect its performance in supervising and exercising internal control of the local government. The results of the MANOVA test can be seen in Table 2 above.

In the interaction effect, several interesting findings were obtained. First, gender and professional grade have interaction in impacting professional skepticism with a p-value of 0.049 ($\alpha = 5\%$). This finding indicates that professional grade influences professional skepticism in auditors of a certain gender. According to descriptive statistics, it is suspected that female auditors with primary professional-grade have higher professional skepticism. Furthermore, this study also found an interaction between gender and educational background in producing professional skepticism with a p-value of 0.062 ($\alpha = 10\%$) and communication with a p-value of 0.007 ($\alpha = 5\%$). These findings indicate that the effect of gender on professional skepticism and communication increases in certain educational backgrounds. Referring to descriptive statistics, female auditors with a master's educational background are thought to have higher professional skepticism, while female auditors with a bachelor's educational background have better communication. Finally, professional grade and educational background were found to have an interaction effect on contact with a p-value of 0.087 ($\alpha = 10\%$). These findings indicate that the impact of professional grades on communication increases with the educational background. Referring to descriptive statistics, young/junior auditors with a bachelor's educational background will have better communication performance than other criteria based on professional grade and educational background.

4 Discussion

This study found that auditor characteristics are essential in producing certain performances. First, female auditors were found to have professional skepticism and better communication. Second, the effect of auditor gender interacting with professional grade in influencing communication and interacting with an educational background influences professional skepticism and communication. This finding is in line with the views of Meyers-Levy & Maheswaran [14], Croson & Gneezy [15], and You et al. [16], which suggest that female have higher ethical sensitivity and risk than men. In terms of professional skepticism in the auditing profession, it is based on ethical sensitivity and risk. The ethical sensitivity in question is the correctness of the use of the budget related to the interests and use of public funds. In this case, the auditor is responsible for controlling the use of the budget in accordance with the fulfillment of public needs and the correctness of the budget allocation. At the same time, risk sensitivity is related to the implementation of the auditor's function in control and supervision. Professional skepticism, which functions as the basis for prudence, is undoubtedly based on avoiding the risk of fraud and audit errors.

Furthermore, women's tendency to process all information is also indicated of causing better communication performance in audit assignments [see: 14]. This attitude will make

female auditors communicate various things, including the internal audit results, weaknesses in the internal control system, and the auditee's non-compliance between the auditor team and the auditee. This relates to the need for comprehensive information from the audit subject and, of course, the auditor team to produce appropriate recommendations. Furthermore, ethical sensitivity and risk seem to increase with the increasing professional-grade and educational level of female auditors. At the same time, the communication performance of female auditors also increases as their education level increases. This finding supports the results of research by Sukriah [7], Kurnia et al. [8], Mufidah [9], Bouhawia et al. [10], and Dityatama [11]. They suggest that the longer the auditor's experience in auditing, the better his performance will be.

Third, the researcher found that auditors with professional-grade young/junior had better communication performance. Fourth, the impact of professional grades on communication performance is more substantial when interacting with educational backgrounds. This finding strengthens the view of Sukriah et al. [7], which suggests that their competence influences the performance of internal auditors. Meanwhile, competence can be viewed from the level of education, year of experience, and professional qualifications it has [9-10]. These criteria are proxied as professional grade and educational background in this study. However, this study did not find the effect of these two variables on audit performance and professional skepticism. Thus, the researcher indicates that within the scope of work of local government internal auditors in North Sumatra, educational background and year of experience are not crucial variables in achieving audit quality and professional skepticism. At the same time, audit work as a team may obscure the variance in audit quality and professional skepticism.

5 Conclusion

This study aims to analyze differences in audit performance perceived by auditors based on their characteristics. Based on the study's results, researchers found several important characteristics to consider in producing audit performance. First, female auditors were found to have professional skepticism and better communication. Second, the effect of auditor gender interacting with professional grade in influencing communication and interacting with an educational background influences professional skepticism and communication. Third, the researcher found that auditors with professional-grade young/junior had better communication performance. And fourth, the impact of professional grades on communication performance is strengthened when interacting with educational backgrounds. This study recommends that decision-makers compose an audit team with a balanced gender variation. This is intended to maintain the professional skepticism and good communication that female auditors in an internal audit team tend to practice.

Furthermore, this study recommends combining cross-grade audit teams to improve communication performance within an audit team. More specifically, the combination of female auditors in the audit team should be regulated by involving female auditors with various levels of education and professional-grade to form higher complexity, prudence, and completeness in internal supervision and control. The combination of the correct composition of the audit team is expected to result in better internal audit performance in local governments, which has implications for better prevention of acts of corruption and fraud.

This study has limitations in exploring specific aspects of the internal audit task in local governments. Particular cases, indeed, cannot be identified by survey research. Thus, this study recommends case studies and exploratory studies for further investigation.

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