

## **EFFECT COMPETENCIES, INDEPENDENCE, OBJECTIVITY OF THE FUNCTION OF INTERNAL AUDIT (IMPLICATIONS FOR QUALITY FINANCIAL REPORTING)**

**Musa Yosep**

Doctoral Students of Science Accountancy Department, Faculty of Economics and  
Business, Padjadjaran University, Dipati Ukur Steet, Bandung, Indonesia & Kementrian  
Pendidikan Dan Kebudayaan Jln. Jendral Sudirman Senayan Jakarta

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**ABSTRACT:** *This article aims to determine Competition an, Autiditor Internal, the Quality of Financial Reporting. Competencies are individual characteristics that affect the success and the actions taken in any situation using the knowledge and skills of the individual in achieving its strategic goals and achieve excellence kompetitif. Auditor Internal independent appraisal function to examine and evaluate effectively help the management personnel and directors, in the implementation of effective accountability for generating financial statements. The system functions are interconnected with one another and work together in harmony to process financial data into the financial information required by the management in the decision making process in the field of financial reporting.*

**KEYWORDS:** Competition an, Autiditor Internal, Quality of Financial Reporting

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### **INTRODUCTION**

Boynton et al (2006: 61) states that the competence of auditors is determined by three (3) factors items, namely: 1) formal education at university to enter the accounting profession; 2) Training practices and experiences in the field of auditing; 3) Following continuous professional education for the auditor's professional career. Mills (1993: 84) state auditor competence can be seen from two factors: knowledge and behavior, knowledge itself related to education, skills and experience. Flint (1988: 48) states that the competence of auditors can be seen from the two (2) factors such as knowledge and skills. Knowledge and skills are the result of education, training and experience. Competence of human resources enter input into a system, sub-systems and applications to reduce things that may Arise, such records are not accurate, method of Inappropriate accounting, business interruption, poor decision making, fraud and embezzlement, violation of laws or rules, Increased costs, loss of assets, loss of competitive position of the market (Sawyer et al, 2006: 113). In general competency of human resources is a method and a device that tries to ensure the accuracy, validity and appropriateness of information system activity (O'Brien & Maracas, 2011: 569). Human resource competence consists of knowledge, skills and abilities (Yukl, 2010: 419; Moeller, 2011: 161; Stewart & Brown, 2011: 22). Combining the knowledge and expertise of users leads to a better solution (Laudon and Laudon, 2012: 541).

While knowledge is a mix of previous experience, insight and data that make up the memory organized (Zikmund et al, 2010: 22). While the skills needed to drive improvements in critical processes (Atkinson et al, 2012: 26), where a person's skills in the form of conceptual skills, interpersonal skills and technical skills (Daft, 2010: 10-12). In terms of capabilities, Robbins (2007: 51-54) says that capability is the capacity of an individual to operate a variety of tasks easily and meticulously composed of intellectual ability and physical ability. Thus, the

competence of human resource development is a professional independence, because if the resources are not enough qualified, the application does not follow the expected development procedures (Tait and Vessey, 1988). As things Attribute Standard 1100 International Standards for the Professional Practice of Internal Auditing (IIA, 2004) emphasized the importance of the attitude of independence and objectivity in the practice of internal auditing.

In which the internal audit function should be independent, and internal auditors must be objective in carrying out his work. "The independence of the organization refers to the status of the internal audit function, while the objectivity of the auditor refers to the mental attitude individually. Furthermore, in the Practice Advisory 1100-1, explained that "internal audit is said to be independent if it can carry out tasks independently and objectively." The guarantee will be the independence of internal audit should be enshrined in the Charter Internal Auditor confirms its independence against the intervention of the management and the independence and objectivity of each members (IIA, 2004). The internal audit function was measured by the four-dimension, namely the scope of the task of the internal audit function, the characteristic function of internal audit, internal audit functions audit implementation, and management of the internal audit function. Dimensions of the scope of internal audit tasks measured by the indicators of the activity of maintaining adequate internal control systems, test and evaluate the system risk, ensure compliance with laws, requirements and accuracy of reporting to regulators, as well as ensure the accuracy and reliability of accounting data and financial statements.

The financial statements have particular significance because it is a form of accountability of each PIU in carrying out its activities during the first year that the performance-based budget. Similarly, that the financial statements are required to be submitted on time, complete / intact, valid, and accountable prepared under accounting principles agencies. But the current reality, that not all work units in the province and in the District Satkers allocated costs for the operation of the financial statements based Institution Accounting System (SAKPA and SABMN). The impact is very difficult to satisfy in a timely element (Ditjebundepitan, 2008: 1).

### **Competence**

Makhijani (2009: 94) said that competence is proven to encourage personal characteristics that are superior job performance and establish a causal link between certain behaviors and achieve success. Furthermore, Spencer & Spencer (1993: 9) defines: A competency is an underlying characteristics of an individual that is causally related to criterion-referenced effective and / or superior performance in a job or situation. An auditor shall have the competence and have the obligation to maintain professional knowledge and skills on an ongoing basis. With that expected of an auditor can provide better services and the corresponding expectations of users of audited financial statements. Konrath (2002: 5), states that the examination can be done well, implementing checks should be someone who has the education, experience and expertise in the field of accounting and auditing. An auditor must have certain qualifications to understand the criteria used and must be competent, in order to determine the type and amount of evidence that must be collected to reach the proper conclusion after the evidence is complete audit tested. An auditor also should have an independent mental attitude.

Thus, a organisasi (companies) need to determine the level of competence required for the various work tasks and translate those needs to a level that requires the knowledge and skills (Moeller, 2011: 161). A major competency is the knowledge and ability to perform certain types of activities, where a major competency usually involve a combination of technical expertise and skills of application (Yukl, 2010: 419). This is in line with the said Funk (2005:

33) that the competence is a level of performance that demonstrate the effective application of knowledge, skills and management. Meanwhile, Spencer & Spencer (1993: 11) points out the characteristics of competence in the form of motive, traits, self-concept, knowled and skill. Knowledge (knowledge) and skills (skills) are more easily developed and scalable, while the motive (motive), properties (traits), and self-esteem (self-concept) is hidden within the individual. From the definitions that have been mentioned above, the definition of the concept of competence in the study in question is individual characteristics that affect the success and the actions taken in any situation using the knowledge and skills of the individual in achieving its strategic goals and achieve competitive advantage.

Referring to the definition of competence and characteristics of competence that have been raised, it can be concluded that the competence of human resources concrete and more tangible form of knowledge and skills that are used as dimension measurement of competence in this study (Spencer & Spencer, 1993: 9; Yukl, 2010: 419 ; Moeller, 2011: 161; Stewart & Brown, 2011: 22). Knowledge in essence is all what we know about everything that constitutes the repertoire of mental wealth that directly or indirectly enrich our lives (Jujun Suriasumanteri, 2010: 104). According to McLeod & Schell (2007: 81) Knowledge is something that can be learned, whether it is through the eyes of a formal course or through its own efforts such as reading and watching (knowledge is something that can be learned, either through a formal course of study or through such individual Efforts as reading and observation). Meanwhile Zikmund et al, (2010: 22) says "Knowledge is a blend of previous experience, insight, and the data that forms organizational memory", which means that knowledge is an amalgam of previous experience, deep understanding, and data that make up memory is organized. knowledge is the awareness and understanding of a range of information and how to make the information more useful to support a particular task or to take a decision (Stair & Reynolds, 2010: 6). In line with those expressed Avison & Fitzgerald (2006: 27) that knowledge is the accumulation of information and contains the ability to use the information effectively for specific purposes (knowledge is accumulated information and contains the ability to use information Effectively for particular purposes).

This type of knowledge that allows one to contribute in the development of information systems, including computer science, information science, the fundamentals of business, systems theory, information system development process and modeling of information systems (McLeod & Schell, 2007: 81). Thus managers, especially the general manager should have a basic knowledge of information systems to make decisions that have serious implications for business (Pearlson & Saunders, 2010: 9). Skills knowledge possessed by an individual organization's needs is in need so that the goal can be met (Mullins, 2005: 335). The expected skill of human resources within the organization consists of Conceptual skills (Conceptual Skill), Interpersonal Skills (Interpersonal Skill) and Technical Skills (Technical Skill) (Daft, 2010: 10-12). Along with Spencer & Spencer (1993: 11) the ability to consist of analytical skills and conceptual abilities.

- Conceptual Skills (Conceptual Skill) is the cognitive ability to see the organization as a whole system and the relationship between its parts, which includes thinking, processing information, and the ability of managers plan.
- Interpersonal Skills (Interpersonal Skill) is the ability to work with and through others, as well as working effectively as a team member, where these skills are reflected in the ability to motivate, facilitate, coordinate, lead, mengomu-communicated and resolve conflicts. McLeod & Schell (2009: 104) adds communications skills involve the ability

to transmit information to one or more persons using oral communication, written or drawn.

- Technical Skills (Technical Skill) is the ability of understanding and control in performing a particular task, which includes mastery of methods, techniques and equipment used in certain functions such as engineering, manufacturing, and finance.

Meanwhile, the said ability is an individual's capacity to perform various tasks in a job (Robbins, 2007: 51-54), which consists of:

- intellectual ability is the ability required to perform the mental activities.
- Physical ability is the ability required to perform tasks demanding stamina, dexterity, strength, and similar skills.

Sukrisno Agoes and I Cenik Ardana (2009: 146) states that competence means the skill and ability to perform a job or profession. A competent person means a person who can do his job with good quality results. In broad terms, the competence includes the mastery of science / knowledge (knowledge) and skills (skills) are insufficient, and have attitudes and behavior (attitude) that is suitable in carrying out the job / profession. But too often the concept of competence is meant in a more narrow sense, that is only associated with the knowledge and skills without considering the attitude and behavior. Azhar Susanto (2007: 105) states that competence means that employees have the knowledge and expertise to perform their duties. Cheng et al (2002) suggest competence is someone who has the knowledge (education, skills and experience) and attitudes and ethical behavior in the work. With the competency of someone able to demonstrate a performance to baikdalam occupations, roles or specific situations.

Bedard and Chi (1993), states that a competent person as someone who has the knowledge and skills extensive procedural and shown with audit experience. Agoes and Ardana (2009: 163) states the sense of competence covers three areas, namely: cognitive (knowledge / knowledge), affective (attitudes and behaviors attitude include: ethical, emotional and spiritual intelligence) and psychomotor (technical skills / physical). For the accounting profession, the third sphere of competence include: (a) the cognitive aspects, ie knowledge of accounting and related disciplines (knowledge); (B) aspects of affection, the attitude and ethical behavior, the ability to communicate; and (c) psychomotor aspects, namely technical skills / physical, for example: the mastery of information technology (computers), technical audits and so on.

Based on some definitions of competence can be concluded that competence means a person who has the knowledge and have the attitude and ethical behavior in the work. Knowledge gained from the education, expertise, skills and experience of someone in work. According Rezaee (2008: 6), the general competence of auditors consisting of:

**Professional competence:** To audit public companies, auditors must be registered in professional organizations. Auditors must meet all the requirements of registration and inspection.

**Technical competence:** Auditors should have knowledge in professional standards, roles, laws and regulations, understand the industry and business clients, corporate governance, financial reporting process and internal controls.

**Competence process:** The auditor's ability to choose the appropriate procedures, collect evidence (tests of controls, substantive testing) and perform audit procedures.

**Competence reporting:** Reporting competence refers to the ability and willingness of auditors to find and report material misstatement.

According to Cook and Kelly (1991) in the audit environment there is a stiff competition among accounting firms to get clients. The client includes a client requesting the audit for the first time and clients who ask for change of auditor. One cause is the problem of competition competency of auditors. According to Bedard and Chi (1993) impossible without adequate knowledge of an auditor can provide its services better and quality. What type of knowledge in auditing, among others, general auditing, functional areas, accounting issues, industry-specific, general world knowledge and knowledge about solving the problem. Auditing common knowledge can be obtained by seorang auditor formally (through college) or informally or through training undertaken by the company in the context of human resource development or practical experience that has been done by an auditor. Knowledge of the functional area is almost the same as the common auditing knowledge, but the scope is more specific. While this type of knowledge of accounting issues, industry specific and general business concerned with the field of auditing. In carrying out the inspection, the auditor would have to have extensive knowledge about the area auditing, accounting and client. The auditor should have knowledge of the characteristics of clients because each company has different characteristics.

According to Bedard and Chi (1993) to be able to carry out audit tasks properly, then an auditor in conducting examinations in addition to having knowledge also should have expertise. Expertise is the existence of specific knowledge about the environment, understanding of the problems arising from the environment and the skills to solve problems. Tan and Libby (1997) state audit expertise can be grouped into two groups, namely: technical expertise and non-technical skills. Technical expertise adalah fundamental ability of an auditor in the form of procedural knowledge and ability of other clerical within the scope of accounting and auditing secant non technical expertise is the ability in general. While the non-technical skills is the ability of the inside of an auditor is heavily influenced by personal factors and experiences. Ashton (1991) states that the knowledge gained through practical experience is an important component in the audit. According Abdolmohammadi and Wright (1987) experience is a vital factor that can influence the judgment of the complex. Auditors who are inexperienced will assign higher error than the more experienced auditors (Kaplan and Recker, 1989).

The concept of audit experience are often operated in years of audit experience or level of hierarchy positions used as a substitute measure auditor skills (expertise), because the concept of this expertise may not be observed directly, according to Bedard (1989). Meanwhile, according to Jeffrey (1992) states that a person with more experience in a substantive areas have more things stored in his memory and to develop a good understanding of the relative frequency of events. Tubbs (1992) suggests there are some implications for auditors berpngalaman, namely:

- a) The auditor becomes aware of a lot more mistakes - mistakes.
- b) Auditors have fewer misunderstandings about the mistake - a mistake.
- c) The auditor became aware of the errors are more unusual.
- d) Matters relating to the causes for such errors of the department where the occurrence of mistakes and violations of internal control objectives become more prominent.



Tubbs (1992) also reveals an experienced auditor is able to remember more mistakes - mistakes and fewer mistakes - mistakes made. Experienced auditors also remember more mistakes are not uncommon. Libby and Frederick (1990) found that an experienced auditor mempunyai a better understanding of the financial statements. Experienced auditors are better able to give a plausible explanation on errors in the financial statements and may classify the errors based on the purpose of the audit and the structure of the underlying accounting system.

### **Independence and Objectivity Internal Audit Function**

Standard Attributes 1100 International Standards for the Professional Practice of Internal Auditing (IIA, 2004) emphasized the importance of the attitude of independence and objectivity in the practice of auditing internal where, "The internal audit function should be independent, and internal auditors must be objective in carrying out their work." The independence refers to organizational status of the internal audit function, while the objectivity of the auditor refers to the mental attitude individually. Furthermore, in the Practice Advisory 1100-1, explained that "internal audit is said to be independent if it can carry out tasks independently and objectively." The guarantee will be the independence of internal audit should be enshrined in the Charter of Internal Auditors terhadapintervensi assert their independence from management and the independence and objectivity of each of its members (IIA, 2004).

### **Expertise and Accuracy Internal Audit Professionals**

Attribute Standard 1200 IIA (2004), the International Standards for the Professional Practice of Internal Auditing, states that "The assignment should be carried out with due regard to expertise and professional rigor." The expertise and due professional care every internal auditor is an essential for the proper functioning of the internal audit function. Therefore, due professional care should consider the nature, role and capacity of auditor in gathering information, testing, evaluation and communication, as well as competent to examine all areas of the company's operations (IIA, 2004). free and objective. "Security will be the independence of internal audit should be enshrined in the Charter Internal Auditor confirms its independence against the intervention of the management and the independence and objectivity of each of its members (IIA, 2004).

### **Auditor Internal**

Audit internal dalam perkembangannya telah mengalami perubahan-perubahan. Di dalam The Auditing Practices Board (APB)-"Guidance for internal auditors" yang dipublikasikan pada bulan Oktober 1990, audit internal didefinisikan sebagai berikut: "Internal audit is an independent appraisal fuction established by management for the review of the internal control system as a service to the organization. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources." (Pickett, 2000: 3)

Selanjutnya sejak tahun 1991 – 1994 IIA telah beberapa kali merevisi definisi internal auditing yang telah dikembangkan sebelumnya. Adapun revisi definisi internal auditing oleh IIA terakhir tahun 1994 sebagai berikut: "Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization, including those in management and on the board, in the effective discharge of their responsibilities. To this end internal auditing furnishes them with analysis, appraisals,

recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.” (Pickett, 2000 :4-5)

From the above definition can be concluded that the internal audit is an independent appraisal function established by management within an organization to examine and evaluate effective system of internal controls, as well as helping the organization's personnel, including management and directors, in the implementation of effective accountability. Ratliff & Reding (2002) explains that the internal audit is required to be able to prepare for the examination to virtually all business operations, including control systems, accounting information system performance, compliance, financial reporting, fraud, environmental reporting and performance management. Therefore, according to Ramamoorti (2003), the internal auditor must have:

Analytical and critical thinking skills.

- \* An efficient method to gain an adequate understanding of auditee- any individual, organization, or system.
- \* New concepts, principles, and techniques of internal control.
- \* An awareness and understanding of risk and opportunity related to both the auditee and the auditors.
- \* Development of general and specific audit objectives for any project audit.
- \* Selection, collection (using a broad array of audit procedures), evaluation, and documentation of audit evidence, including the use of statistical and non-statistical induction.
- \* Reporting audit results in a variety of formats to a variety of recipients.
- \* Audit follow-up.
- \* Professional ethics.
- \* Audit technology applicable across a variety of types of audit reports.

All of this illustrates the extent of the duties and responsibilities that should be assumed by the internal audit function, so in 1999 IIA formally assess and evaluate the principles, orientations, and basic knowledge of the capabilities and expertise of the internal audit profession. According Ramamoorti (2003) in the Guidance Task Force / GTF Report (1999) there are four strategic objectives of the IIA in the form of internal audit's vision, namely: a) Enhance the economic value of internal auditing; b) Ensure consistently high quality of internal auditing; c) Strengthen the professional standing of internal auditing; and d) Achieve broad market awareness of internal auditing. GTF was formed by the IIA to carry out a thorough review of the professional standards, code of ethics, and even the definition of internal audit, which reflects the development of effective practices so that this profession can compete in a competitive market (Krogstad, et al., 1999).

The redefinition of the internal audit is designed to accommodate perkembangan profession's role and responsibilities are as follows: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization Accomplish its objectives by bringing a systematic, disciplined approach to Evaluate and improve the effectiveness of risk management, control, and governance processes. "(IIA, 2004). From the definition, it appears that the internal audit function has an important role as an assurance and consulting activity that is independent and objective, which is designed to add value and improve an organization's operations. Internal audits also help the organization to achieve its objectives, through a systematic and orderly approach to evaluate and improve the effectiveness of risk management, control and

governance processes. So based on internal audit redefinition of the old definition into a definition of what it is today, has changed the orientation of the internal audit function itself, so that their work is very important in achieving organizational goals.

### **Internal Audit Function**

In the Standard Attribute 1000, the International Standards for the Professional Practice of Internal Auditing (IIA, 2004), stated that "the purpose, authority, and responsibility of the internal audit function should be formally articulated in the Charter of Internal Audit, consistent with the standards, and approval of the council. "Later in the standard glossaries, internal audit charter activity is defined as" a formal written document that describes the purpose of the activity, authority, and responsibility ". Further explained also that the charter should: a) describe the position of the internal audit activity within the organization; b) state the authority of the internal audit function to gain access to all records, personnel and assets needed for the implementation of their duties; and c) describe the scope of the internal audit function (IIA, 2004).

Meanwhile, the considerations and suggestions in developing the internal audit charter is described later in Practice Advisory (Target Application) 1000-1. KOPAI (2004) adapted the goals of this application according to the conditions in Indonesia as follows:

- a) The purpose, authority, and responsibility of the internal audit function should be set out in a charter. Responsible for the internal audit function should seek approval of the charter of the senior management and the management and supervisory board of the organization. Approval of the charter should be documented in minute company.
- b) Charter must be recorded in written form. Pouring in writing allow formal communication in order to get the review and approval of the Management senior, and acceptance of the management and supervisory board of the organization. In addition, the charter in written form also makes it easier to do the reviews back periodically, to suit the ever-changing environmental conditions.
- c) Responsible for the internal audit function must perform regular assessment whether the objectives, responsibilities and authority of this function, as stated in the charter, is still sufficient to enable to achieve goals. The results of this assessment should be documented to senior management as well as the management and the supervisory board of the organization.

### **Internal Audit Function**

The few things that concern the internal audit in the regulations issued by BIS (2001) are as follows: a) Objectives and tasks of the internal audit function; b) Principles of internal audit, consisting of: (1) Permanent function-continuity; (2) The audit charter; (3) Independence and Objectivity; (4) Professional competence; (5) Scope of activity; and (6) The bank's internal capital assessment procedure; c) Functioning of the internal audit include: (1) Working methods and types of audit; (2) Risk focus and audit plan; (3) Procedures; and (4) Management of the internal audit department (BIS, 2001).

1. Objectivity and Scope of Duties Internal Audit Function A third principle of the internal audit in banking companies issued by BIS (2001), explained that an internal audit be part of the ongoing monitoring activities of the internal control system and the capital assessment procedure, because internal audit provides independent assessment on the



adequacy of compliance policies and procedures. Thus, the internal audit function assist senior management and boards of directors in performing responsibilities effectively and efficiently. Furthermore, BIS (2001) explains that the general scope of the internal audit of the bank is as follows:

- \* The examination and evaluation of the adequacy and effectiveness of the internal control systems;
- \* The review of the application and effectiveness of risk management procedures and risk assessment methodologies;
- \* The review of the management and financial information systems, Including the electronic information system and electronic banking services;
- \* He review of the accuracy and reliability of the accounting records and financial reports;
- \* The review of the means of safeguarding assets;
- \* The review of the bank's system of assessing its capital in relation to its estimate of risk;
- \* The appraisal of the economy and efficiency of the operations;
- \* The testing of both transactions and the functioning of specific internal control procedures;
- \* The review of the systems established to Ensure compliance with legal and regulatory requirements, codes of conduct and the implementation of policies and procedures;
- \* The testing of the reliability and timeliness of the regulatory reporting; and
- \* The carrying-out of special investigations.

Meanwhile, Bank Indonesia Regulation Number 1/6 / PBI / 1999, also regulates the scope of work of internal audit, that internal audit to conduct the inspection and assessment of the adequacy and effectiveness of the internal control structure and top quality performance in carrying out the responsibilities that have been outlined. The scope of work and activities to be audited and must be directed by the chief executive and the board of commissioners. Based on the scope of the internal audit, senior management can ensure that the internal audit department always provide fully informed about the development, initiatives, and operational changes to ensure that all risks can be known early.

## 2 Principles of Internal Audit

- \* In this case, senior management in fulfilling the duties and responsibilities need to establish an internal audit function that is permanent, so the bank can continuously rely on these functions in accordance with the size and nature of its operations. The formation of the internal audit function, including providing resources and staffing in accordance with the desired objectives.
- \* Internal Audit Charter (Internal Audit Charter): The internal audit charter shall include at least: (a) the purpose and scope of the internal audit function; (B) the position of the audit of internal audit within the organization, accountability and relationship with the control functions; and (c) the accountability of the head of internal audit. Meanwhile, Bank Indonesia Regulation Number 1/6 / PBI / 1999 explained that the internal audit function.

Internal Audit Unit (SKAI), and the Internal Audit Charter should at least include: (a) Status of Internal Audit. (B) The authority to make access to records, employees, resources and funds and other bank assets related to the audit. (C) The scope of internal audit activities .. (d) Investments that the internal auditor should not have the authority or responsibility to carry out the activities of the auditee operations.

The example that illustrates the overall Internal Audit Charter,

- This means that internal audit is given an Appropriate standing within the bank and carries out its assignments with Objectivity and impartiality. "Bank Indonesia Regulation Number 1/6 / PBI / 1999, explaining that both Internal Audit and the respective internal auditors must have independence in auditing and express their views and ideas in accordance with the profession and generally accepted auditing standards. The independence is very important that the resulting products have the optimum benefit to the established and ensuring the interests of the bank and the public. In this connection, internal audit must be independent of the activities examined. Internal auditors are considered independent if it can work freely and objectively.  
In PBI No. 1/6 / PBI / 1999, explained that the professional skills of internal auditors can be obtained through education and work experience and skills in the field of internal audit, banking operations and other relevant disciplines with specialization.
- In particular, the internal audit department should evaluate: (a) compliance with policies and risk control; (B) the reliability (including integrity, accuracy and completeness) and timeliness; (C) the continuity and reliability of electronic information systems; and (d) the functioning of the entire staff department
- The internal audit function needs to do a review of the risk management system developed by the bank which connects the capital with the risk level of compliance with the policies of capital. Therefore, the internal audit function must review and evaluation within the framework of the supervision of capital adequacy assessment and compliance with capital ratios.
- \* Functioning of Internal Audit Function: The internal audit function including the preparation of the plan, test and assess the availability of information, communicating results, and participated recommends audit issues. Furthermore, BIS (2001) explains that there are several types of internal audits can be done, namely: (a) Financial audits, aimed at the objective of assessing the reliability of accounting and information systems that produce reliable financial statements; (B) Compliance audit aimed to assess the quality and appropriateness of the systems established to ensure compliance with laws, regulations, policies and procedures (c) Operational audit, aimed to assess the quality and appropriateness of systems and procedures, researching organizational structure, and evaluate the adequacy of the methods and resources; and (d) Management audits, aimed to assess the quality management approach in taking risks and controls.
- \* The audit plan includes the timing and frequency of internal audit work planned and based on a method of assessment of risk control. Therefore, internal auditors must understand the activity of the institution and risks associated with document assessment of risk control.

- \* The audit program must be adapted and aligned according to the recognized risk. All formats audit procedures are part of the task to be documented, and should reflect the tests that have been created that emphasizes the evaluations formulated in the audit report.
- \* "Standards for the Professional Practice of Internal Auditing," issued by the IIA. In particular, the head of the internal audit department should ensure the establishment of an audit charter, audit plan, and written policies and procedures for staff. Internal Audit regularly need to report to senior management and the board of directors or audit committee on the performance of the internal control system and achievement of the internal audit section. In particular, need to inform senior management and / or its directors or audit committee about the progress of the audit plan. As part of its supervisory duties, the board of directors or audit committee should regularly discuss the organization and resources of the internal audit department, the audit plan, reporting activities, and a summary of internal audit recommendations and the status of implementation.

### **Effectiveness of Internal Audit Function**

Understanding the effectiveness of such a Previously Described that success (KBBI, 2001), or measure the success or failure of an organization to Achieve its objectives (Mardiasmo, 2002: 134). Then the effectiveness of the internal audit function can be interpreted as a success of the internal audit function in carrying out its duties and responsibilities to the auditee as users of Reviews their services, in accordance with the applicable standards. Consortium of Internal Audit Professional Organization / KOPAI (2004: 1) states that in order to take Reviews their responsibilities Effectively, internal auditors need to maintain a high standard of conduct and has a standard practice of the implementation of a reliable job. Some studies use different approaches in Determining the criteria for evaluating the effectiveness of the internal audit function.

For example, research conducted IIAUK (1988) in Al-Twaijry et al., (2003) concluded that the consideration of the level of compliance is one of the factors that affect the performance of the internal audit function, as well as research Ridley and D'Silva

(1997) concluded that compliance with professional standards have a very important contribution to the value-added internal audit function. Therefore, compliance is an indicator of the effectiveness of the internal audit function (Fadzil, 2005).

From the point of padandang differ on the effectiveness of the internal audit function, Van Gansberghe (2005) suggested that the factors that influence the effectiveness of the internal audit function anta another perception and ownership, organizational framework and governance, regulation, professionalism, conceptual framework, and resources.

While Mihret and Yismaw (2007) conducted a study to identify the factors that influence the effectiveness of the internal audit function at higher education institutions in Ethiopia. The factors may include: the quality of internal audit, management support, organizational situation and attributes auditee. The results empirically they concluded that the quality of the internal audit and management support significantly influence the effectiveness of the internal audit function, while the organizational situation and auditee attributes do not affect the effectiveness of the internal audit function.

## Financial reporting

Organized under the government's financial reporting laws and regulations governing government finances, among others (PP No. 24 of 2005: 105):

- Budget Outcome Statement / D, presents an overview of sources, allocation and use of economic resources that are managed by the central government / local, which illustrates a comparison between the budget and its realization in the reporting period.
- Balance Sheet, the financial position of a reporting entity regarding the assets, liabilities, and equity funds on a specific date.
- Statement of Cash Flows, cash presents information with respect to operational activities, investment of non-financial assets, financing and transaction nonanggaran depicting the beginning balance, receipts, expenditures, and the end of government cash balances pusatdaerah during a certain period.
- Notes to the Financial Statements, includes a narrative description or details of the numbers listed in the Budget Realization Report, Balance Sheet and Cash Flow Statement.

The financial statements of the public sector is a representation of the financial position of the transactions carried out by a public sector entity. The general purpose financial statements is to provide information about the financial position, performance and cash level of an entity that is useful to a large number of users (wide range of users) to develop and evaluate decisions about the allocation of resources used by an entity in achieving its goals. The financial statements are prepared to provide relevant information regarding the financial position and all transactions conducted by a reporting entity during the reporting period. In the Conceptual Framework for the Government Accounting Standards (PP No. 24 of 2005) states what is meant by a reporting entity is a government unit consisting of one or more entities accounting in accordance with the provisions of the legislation required to submit an accountability report form of financial statements, consisting of: (a) central government, (b) The local authorities, (c) organizational units within central government / local or any other organization, if according to the laws of organizational unit is required to submit financial statements.

Each reporting entity has an obligation to convey the efforts that have been made and the results achieved in the implementation of systematic and structured manner on a reporting period for interest (PP No. 24 of 2005 in (Indriasari, 2008: 17):

- Accountability. Accounting for resource management and policy implementation is entrusted to entities reporting in achieving the goals set periodically.
- Management. Amok help users evaluate the implementation of a reporting entity in the reporting period to facilitate the planning, management, and control over all assets, liabilities, and equity interests of society amok government funds.
- Transparency. Providing an open and honest information to the public based on the consideration that the public has a right to find out openly and comprehensively on government accountability in the management of the resources entrusted to him and his obedience to the laws and regulations.
- The balance between generations (intergenerational equity). Assist users in knowing the adequacy of government revenues in the reporting period amok cover all the expenses allocated and whether future generations will be assumed to bear the burden of these expenditures.

The purpose of government financial statements according to the International Federation of Accountants Public Sector Committee (IFC-PSC) study 11 (Masmudi, 2003: 24) are:

- Report whether the resources diperoleh and used in accordance with the regulations (the budget).
- Report whether resources are acquired and utilized in accordance with the legal requirements and other contracts.
- Provide information about resource allocation and use of financial resources.
- Provide information on how the government or the units under it to finance its activities.
- Provide information about the benefits of evaluating the ability of governments or units in financing its activities and fulfill the obligations and commitments.
- Provide information on the government's financial condition or units and changes.
- Provide information that is useful in evaluating the performance of the government or its units in terms of service costs, efficiency and achievement.

### **Effect of Competence Against Financial Reporting**

Competence of human resources (personal / user) information system is an important factor in the success of accounting information systems (Daoud & Triki, 2013). Human resource competence consists of knowledge, skills and abilities (Yukl, 2010: 419; Moeller, 2011: 161; Stewart & Brown, 2011: 22). If the human resources involved are not qualified, then the information systems can not follow the normal procedure in a company's development (Tait and Vessey, 1988). Results of research conducted Thong (1999) have proven knowledge of employees about the information system becomes a deciding factor increasing the quality of information systems within an enterprise. Sedera et al (2010) also said that knowledge has a positive relationship with the success of the business information system planning. Thus, the knowledge, skills and ingenuity of individual staff involved will be very important (Ward & Peppard, 2002: 529), because of personal competent as important as the appropriate information systems for the company (Xu, 2009). Combining the knowledge and expertise of users leads to a better solution (Laudon and Laudon, 2012: 541). So that information systems can benefit the organization if employees contribute knowledge (O'Brien & Maracas, 2010: 68).

Bantley & Whitten, 2007: 9). Managers who know how to work with the situation of an organization's information system will be more successful than the less skilled managers in implementing information systems (Laudon and Laudon, 2012: 84). In addition to the general business knowledge, information systems managers must have a more in-depth knowledge of technology to manage the information system and partnered with a general manager who uses the information (Pearlson & Saunders, 2010: 9). The general manager should have basic knowledge of information systems to make decisions that may have serious implications for business (Pearlson & Saunders, 2010: 9). In general, to be able to engage in a business system, the competence of human resources is needed, in which the competence of human resources consist of knowledge, skills and abilities (Yukl, 2010: 419; Moeller, 2011: 161; Stewart & Brown, 2011: 22).

Results of other studies found that the use of information systems can dipegaruhi for their capabilities in the development of information systems personnel (Choe, 1996). May be advantageous for the company to have at least one personnel with high capabilities in Accounting Information Systems used in the enterprise, where the presence of personnel can



help other users to use the system with the correct information (Soegiharto, 2001). The successful implementation of accounting information systems can be described as a series of complex, interconnected activities require participants to have the technical and managerial skills to solve problems that arise (Muhammad Zulkarnain Sori, 2009).

### **Effect of the Financial Reporting Internal Auditor.**

The internal audit function can be interpreted as a success of the internal audit function in carry out their duties and responsibilities to audite as users of their services, in accordance with the applicable standards (Mardiasmo, 2002: 134). Consortium of Internal Audit Professional Organization / KOPAI (2004: 1) states that in order to take their responsibilities effectively, internal auditors need to maintain a high standard of conduct and standards of practice have a reliable implementation of work on the financial reporting. Some studies menggunakan pendekatan different in determining the criteria for evaluating the internal audit function. Research sealed the IIAUK (1988) in Al-Twaijry et al., (2003) concluded that the consideration of the level of compliance is one of the factors that affect the performance of the internal audit function, as well as research Ridley and D'Silva (1997) concluded that compliance with professional standards have a very important contribution to the value-added internal audit function. Therefore, the standard financial reporting is an indicator of the effectiveness of the internal audit function (Fadzil, 2005).

From a different viewpoint regarding the internal audit function, Van Gansberghe (2005) suggested that the factors that affect the internal audit function anta another perception and ownership, organizational framework and governance, regulation, professionalism, conceptual framework, and resources for the success of the reporting finance. Research conducted by (Anissa ', 2004: 26) regarding the timely submission of financial statements review of performance management, quality auditors, and the audit opinion, show the company's management has the obligation to submit financial statements. The financial statements are presented accurately show that management looked at the information contained in the financial statements is good news (good news). Empirical testing to prove that the four variables (quality audits, opinions, auditing, profitability, and leverage) that allegedly motivated the management to submit financial statements correctly, only affect the audit opinion timeliness of financial reports. Research conducted (Na'im, 1999: 45) on the value of information timely submission of financial statements: Empirical analysis of regulatory information in Indonesia. Variable timeliness of completion of the financial statements. Timeliness is important to be tested due to delays in the completion of the financial statements on education will hamper the preparation of the financial statements of local government. Financial statement information becomes irrelevant if the delivery time is too late.

### **CONCLUSION**

The function of competence , have an important role in decision making for internal auditors , this can be seen from the role of internal auditors in giving opinion on the quality assessment of a company's financial statements . Rated accuracy of information is the submission of the financial statements are the main elements of the system include: recruitment of staff care, cultural integrity and loss prevention within the organization . The internal audit function provides an independent assessment on the adequacy of compliance policies and procedures . Thus, the internal audit function assist senior management and boards of directors in

performing responsibilities effectively and efficiently . Financial reporting is submitted correctly pointed out that the management looked at the information contained in the financial report is good news .

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