


The Effect of Internal Audit Effectiveness: Accountability, Objectivity and Auditor Ethics

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Article Info	ABSTRACT
Corresponding Author: Mega Puspa Ningrum E-mail: 202110315074@mhs.ubharajay.ac.id	<p>Internal audit effectiveness is a measure of the success or failure of the internal audit system in achieving predetermined goals through various possible choices. This article provides an overview of the factors that influence Internal Audit Effectiveness, namely: The purpose of writing this article is to develop hypotheses about the influence between variables that will be used in further research. The results of this literature review article are: 1) Accountability affects the Effectiveness of Internal Audit; 2) Objectivity affects the Effectiveness of Internal Audit; and 3) Auditor Ethics affect the Effectiveness of Internal Audit.</p> <p>Keywords: Internal Audit Effectiveness, Accountability, Objectivity and Auditor Ethics</p>

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INTRODUCTION

Internal audit is a very important process for a company or organization. Before an examination by an external auditor, large companies usually ensure that internal audits are carried out effectively. Internal audit can provide various analyses, assessments, and recommendations regarding the activities being examined. The existence of an internal audit function can improve the achievement of organizational goals (Badara & Sadidin, 2014).

The goal of effective internal audit is to achieve its main objective, which is to create added value and improve organizational performance (Huong, 2018). Meanwhile, according to Wibowo (2019), internal audit is considered effective if it is not only limited to financial audits, but can also include broader audits, including consulting services, assurance, and emphasizing the importance of added value and its contribution to achieving organizational goals.

Internal auditors must disclose all important facts known to them, namely facts that if not disclosed can distort reports on the activities being reviewed or cover up unlawful practices (Betri, 2019). Internal audit can help prevent fraud in financial reporting that can violate the law, the lack of effectiveness of internal audit causes many cases of fraud /

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manipulation of financial statements that occur abroad and within the country which shows that internal auditors are still weak in carrying out their duties and detecting this. One of the foreign cases that has occurred is the Enron case, while within the country, among others, it has occurred in SOEs such as the case of engineering the financial statements of PT Garuda Indonesia Tbk for the 2018 financial year and PT Waskita Karya Tbk (Oman and Hendra; 2019).

Accountability or a sense of responsibility for auditors is also a trait that must be possessed by auditors because in carrying out their duties to audit financial statements in order to fulfill client requests, auditors are required to work with high accountability and professionalism. In addition, objectivity must also be owned by the auditor because objectivity is an impartial mental attitude so that the audit report does not have ordinary results. According to Hafizh (2007), accountability is a form of psychological encouragement that makes a person responsible for all actions and decisions he takes. The central government and local governments act as information providers to fulfill public rights, namely the right to know, the right to be informed, and the right to be heard.

Objectivity according to the fourth principle in the Principles of Professional Ethics of the Indonesian Institute of Accountants decided at the VIII congress in 1998 as quoted by Mulyadi (2002) is a quality that provides value for the services provided by members. This principle of objectivity requires members to be fair, impartial, intellectually honest, not prejudiced or biased, and free from conflicts of interest or under the influence of other parties. Auditors make a balanced assessment of all relevant conditions and are not influenced by their own interests or the interests of others in making their decisions.

According to Maryani and Ludigdo (2001), defining ethics as a set of rules or norms or guidelines governing human behavior, both what to do and what to leave that is adopted by a group or professional society. Auditors must also comply with the established Code of Ethics. The audit implementation must refer to the Audit Standards and Code of Ethics which are an inseparable part of the audit standards (Lubis, 2009).

In addition, auditors in carrying out audits must comply with the code of ethics as accountants. According to Jaafar (2008) in Sari (2011) the auditor's code of ethics is a rule of auditor behavior in accordance with the demands of the profession and organization as well as auditing standards which are the minimum quality measures that must be achieved by independent auditors in carrying out their audit duties, if these rules are not met, it means that the auditor is working below standard and can be considered malpractice. However, adherence to the code of ethics only results from a self-regulating planned education program to improve understanding of the code of ethics (Devis, 2008 in Anita, 2011) Payamta (2002) states that based on the IFAC "Code of Ethics", the ethical requirements of an accounting organization should be based on basic principles that govern the actions / behavior of an accountant in carrying out his professional duties. These principles are (1) integrity, (2) objectivity, (3) independence, (4) trust, (5) technical standards, (6) professional ability, and (7) ethical behavior.

The effectiveness of internal audit is a measure of the success or failure of the internal audit system in achieving predetermined goals through various possible choices (Mustika, 2015). The effectiveness of the internal control system can be created if it is supported by a positive control environment where support from the leadership of an agency

is needed because employees will carry out the applicable rules in accordance with the direction of the leadership (Prihartono, 2018).

Research on internal audit effectiveness has been conducted previously, including using independent variables, career opportunities, and gateways, objectivity, responsibility and audit experience, competence, audit risk and many others. This study will use the variables of internal competence, objectivity, and independence.

Meanwhile, the definition of internal audit effectiveness is the application of internal control elements and the achievement of its objectives in a company (Rozali and Alfian, 2014). It can be concluded that the effectiveness of internal audit is the achievement of audit objectives carried out by auditors so that they can then achieve the objectives expected by the work unit.

Problem Formulation

Based on the background, it can be formulated the problems that will be discussed in order to build hypotheses for further research, namely : 1) Does Accountability affect Internal Audit Effectiveness?. 2) Does Objectivity affect Internal Audit Effectiveness?. 3) Does Auditor Ethics affect Internal Audit Effectiveness?

METHOD

Literature Review

Internal Audit Effectiveness

Effectiveness is a measure of the success of an activity that is associated with the goals set. Subagio (2012) explains that effectiveness is the achievement of the desired goals or results regardless of the energy, time, cost, thoughts and others used. It can be concluded that what is meant by effectiveness is the ability of a unit to achieve the expected goals and objectives.

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According to Mardiasmo (2004), the relationship between output and goals or objectives that must be achieved is the meaning of effectiveness. Effectiveness is a measure to determine the success or failure of the goals set by the organization. Effectiveness in relation to internal audit in government according to the Indonesian Government Internal Auditor Association (2021) states that internal audit effectiveness is an internal audit activity that is made to add value to an organization. If added value is created for the organization, then its operational activities can be said to be effective.

According to (Rakhmat & Fadhilah, 2019) Internal auditor effectiveness is a measure of success for an internal audit process within an organization to what extent the

organization is declared successful in its efforts to achieve these goals. Internal auditors are employed by an agency to perform auditing for management purposes. It is the means by which an organization's resources are directed, monitored and measured. It plays an important role in preventing and detecting fraud and protecting organizational resources, both physical (e.g. machinery and buildings) and intangible (e.g. reputation or intellectual property such as trademarks). This is like the opinion of Baharudin, et al. (2014) that the establishment of an internal audit function is important as an internal assurance mechanism in public financial control and as a tool to monitor and evaluate financial management activities in government. In addition, to help government organizations achieve accountability and integrity, improve the implementation of government programs and develop trust between citizens and stakeholders.

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Accountability

Accountability is a form of accountability for the responsibilities assigned to an individual. According to (Mardiasmo, 2002) accountability is an obligation in which the trustee (agent) must present, report, disclose and be responsible for all activities that are his responsibility to the party who gave the trust (principal). And the principal has the right and authority to hold the agent accountable.

According to (Arif et al., 2002) accountability is more than just compliance with applicable laws and regulations, but still pays attention to the use of resources economically, wisely, effectively and efficiently. The main objective of accountability is to produce reliable financial reports.

Accountability is one of the factors that affect audit quality. According to Hafizh (2007), accountability is a form of psychological encouragement that makes a person responsible for all actions and decisions he takes. The central government and local governments act as information providers to fulfill public rights, namely the right to know, the right to be informed, and the right to be heard.

Libby and Luft (1993), Cloyd (1997), and Tan and Aliso (1999) see three indicators that can be used to measure individual accountability. First, how much motivation they have to customize the job. Motivation in general is a state within a person that encourages the individual's desire to carry out certain activities to achieve goals. According to Libby and Luft (1993) where it relates to a person's accountability, people with high accountability also have high motivation in doing things. Second, how much effort (thought power) is given to complete a job. People with high accountability can devote more effort (thought power) than people with low accountability when completing work (Cloyd, 1997). Third, how confident they are that their work will be checked by superiors. The belief that a job will be examined or assessed by others can increase a person's desire and effort to produce higher quality work. According to Tan and Alison (1999), someone with high accountability has a higher belief that their work will be checked by a supervisor or leader compared to someone who has low accountability.

Objectivity

Objectivity is an independent mental attitude that must be maintained by internal auditors in carrying out their duties. Objectivity requires internal auditors to carry out assignments in such a way that auditors are confident in the results of their work and do not compromise the quality of significant work (KOPAI, 2004: 47). Therefore, auditors must be in a position to make professional decisions freely and objectively. With an attitude of objectivity, the resulting judgment is unbiased, impartial, and not the result of a compromise.

Objectivity is a belief, a quality that provides value for auditor services or services and is one of the characteristics that distinguishes the accounting profession from other professions and the principle of objectivity establishes an obligation for auditors to be impartial, intellectually honest, and free from conflicts of interest (Sukriah., et al, 2009). According to Wibowo (2006), auditors demonstrate professional objectivity at the highest level when collecting, evaluating, and reporting information on the activities or processes being tested, where the auditor in assessing assertions is balanced on all relevant conditions and is not influenced by his own interests or the interests of others in making his decisions. According to Mulyadi (2010), explaining that objectivity is a mental attitude that must be maintained by auditors in conducting audits and auditors must not allow their audit considerations to be influenced by other parties. This makes an auditor must maintain objectivity and be free from conflicts of interest in fulfilling his obligations. The principle of objectivity requires members to have a fair, impartial, intellectually honest, unprejudiced attitude, and be free from conflicts of interest or how much is under the influence of other parties.

According to The Institute of Internal Auditors (2017) in standard no 1120, internal auditors must have a mental attitude of impartiality and without prejudice, and always avoid the possibility of conflicts of interest arising. Objectivity according to Tugiman (2006) is a free attitude that must be possessed by internal auditors in carrying out audits, an internal auditor must not place the assessment in connection with the audit carried out lower than the assessment made by other parties or assess something based on the results of other people's assessments.

Auditor Ethics

Ethics is a moral principle and action that becomes the basis for a person's actions so that what he does is seen by society as a commendable act and increases one's dignity and honor, including in improving audit quality (Munawir, 2007). Ethics is related to the question of how to behave towards others (Kell et al, 2002 in Alim et al, 2007).

According to the Big Indonesian Dictionary (1995) ethics means the value of right and wrong adopted by a group or society. However, according to Maryani and Ludigdo (2001), defining ethics as a set of rules or norms or guidelines governing human behavior, both what to do and what to leave adopted by a group or professional society. Auditors must also comply with the established Code of Ethics. The audit implementation must refer to the Audit Standards and Code of Ethics which are an inseparable part of the audit standards (Lubis, 2009).

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Tabel 1. Relevant previous research

No.	Author (year)	Previous Research Results	Similarities with this article	Differences with this article
1.	Dani Pramesti Setiowati, Cris Kuntadi, Rachmat Pramukty (2023)	Internal Competence, Objectivity, and Independence have an effect on Internal Audit Effectiveness	Objectivity affects the effectiveness of internal audit	Internal Competence and Independence affect Internal Audit Effectiveness
2.	Nurhaliza, Yuneita Anisma, Devi Safitri (2021)	Independence, Career and Leveling,	Objectivity affects the	Independence, Career and Gap, and Audit

		Objectivity, and Audit Experience affect Internal Audit Effectiveness	effectiveness of internal audit	Experience affect Internal Audit Effectiveness
3.	Salsabila Adira (2022)	Competence, Independence, Accountability, Objectivity, Motivation and Tenure of Internal Auditors affect the Effectiveness of Internal Audit	Accountability and Objectivity on Internal Audit Effectiveness	Competence, Independence, and Motivation and Tenure of Internal Auditors affect the Effectiveness of Internal Audit
4.	Prihartono, Theresia, Sekar Mayangsari (2019)	Integrity, Objectivity, and Competence of Internal Auditors affect the Effectiveness of External Audits	Objectivity affects the effectiveness of internal audit	Internal Auditor Integrity and Competence affect Internal Audit Effectiveness
5.	Valentrina Siahaan (2022)	Competence, Objectivity, Work Experience and Support of Internal Auditor Entity Leaders affect Internal Audit Effectiveness	Objectivity affects the effectiveness of internal audit	Competence, Work Experience and Support of Internal Auditor Entity Leaders affect the Effectiveness of Internal Audit
6.	Nurul Aziza (2021)	Competence, Objectivity, and Independence affect the Effectiveness of Internal Audit	Objectivity affects the effectiveness of internal audit	Competence and Independence affect the Effectiveness of Internal Audit

Research Methods

The method of writing this scientific article is a qualitative method. Examine theories and relationships or influences between variables from books and online journals sourced from Mendeley, Scholar Google and other online media.

In qualitative research, literature review must be used consistently with methodological assumptions. This means that it must be used inductively so that it does not direct the questions asked by the researcher. One of the main reasons for conducting qualitative research is that the research is exploratory, (Ali & Limakrisna, 2013).

Conceptual Framework

Based on the formulation of the problem, theoretical studies, relevant previous research and discussion of the influence between variables, the thinking framework of this article is as below.

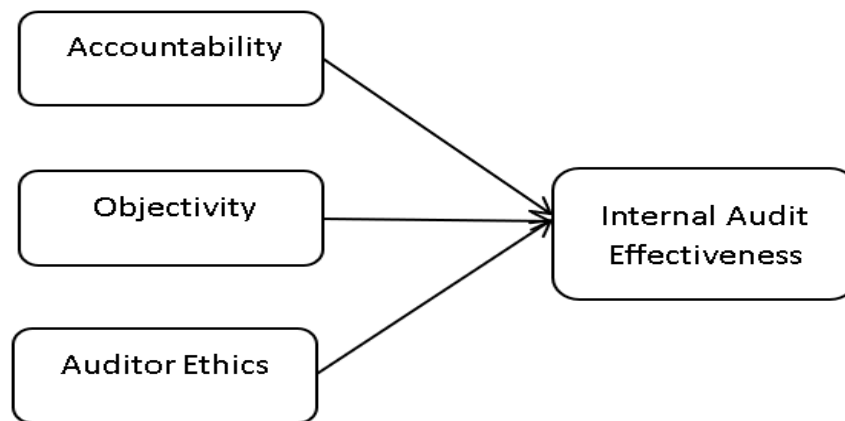


Figure 1 Conceptual Framework

Based on the conceptual framework picture above, Accountability, Objectivity, and Auditor Ethics affect Internal Audit Effectiveness. Apart from these three exogenous variables that affect Internal Audit Effectiveness, there are still many other variables that affect it, including:

- a.) Internal Competence: (Dani Pramesti Setiowati et al., 2023), (Salsabila Adira, 2022), and (Prihartono et al., 2019).
- b.) Independence: (Dani Pramesti Setiowaticet al., 2023), (Nurhaliza et al., 2021), and (Salsabila Adira, 2022).
- c.) Career and Gap: (Nurhaliza et al., 2021).
- d.) Integrity: (Prihartono et al., 2019).

RESULTS AND DISCUSSION

Based on theoretical studies and previous research relevant to this research, the discussion of this literature review article is as follows:

1. The Effect of Accountability on Internal Audit Effectiveness

Accountability has an influence on internal audit effectiveness . According to (Hilman et al., 2021), accountability is a psychological drive possessed by a person to complete his

obligations that will be accounted for to his environment. The results of the auditor's work will affect the final conclusion and will affect whether or not the decision taken by the company's external parties is correct so that auditors are required to provide quality results with auditors having a sense of responsibility for each task, and having a professional attitude in order to avoid errors or irregularities that may occur during the audit process. This feeling of responsibility can be said to be accountability for an auditor.

2. The Effect of Objectivity on Internal Audit Effectiveness

The Objective Principle means that in making reports including financial reports, in accounting records the data sources used must be verifiable. Therefore, it can be concluded that internal audit objectivity is a psychological attitude that internal auditors must have when looking for existing facts without adding or subtracting existing information, then making decisions based on existing findings, where by working objectively, internal auditors can provide audit results that can provide a true picture of the performance of government agencies and the suitability of the implementation of activities with applicable policies and regulations, so it can be said that objectivity has an influence on the effectiveness of internal audit. As stated in the APIP Audit Standards, the General Standards section states that the better the principle of auditor objectivity, the better the quality of the examination and requires auditors to conduct audits honestly and their quality cannot be compromised. Therefore, auditors are required to have an objective attitude where an auditor must have sufficient confidence and quality in providing audit services. Objectivity must continuously be developed by an internal auditor in carrying out his duties because the auditor must be objective in carrying out his duties and only report according to the evidence or findings that have been found.

The higher the level of auditor objectivity, the better Internal Audit Effectiveness. In this way, internal audit will also be more effective, and the effectiveness of internal audit can be realized. This is in line with research by Gamayuni (2016), Endaya & Hanefah (2016) and Dellai & Omri (2016) which concluded that objectivity has a positive and significant effect on internal audit effectiveness.

3. The Effect of Auditor Ethics on Internal Audit Effectiveness

Accountability has an influence on internal audit effectiveness. Ethics can be said to be an attitude of considering or paying attention to human behavior in making decisions related to morals. An auditor in making decisions must use more than one rational consideration based on an understanding of applicable ethics and make a fair decision and the actions taken reflect the actual situation. The application of ethics that apply when carrying out the auditor profession can also produce good audit quality.

Professional ethics are needed by auditors to maintain public trust in audit quality. The implementation of professional work cannot be separated from ethics because professional behavior is needed for all professions so that the profession is trusted by the

public. With higher ethical awareness, an auditor tends to be professional in his duties and carry out his duties in accordance with the professional code of ethics, so that the audit results will better show the actual situation. Professional auditors in carrying out their duties have binding guidelines such as a code of ethics, so that in carrying out their activities the auditors have a clear direction and can make the right decisions and can be accounted for by the parties who use them.

CONCLUSION AND SUGGESTION

Conclusion

Based on theory, relevant articles and discussion, hypotheses can be formulated for further research: 1) Accountability affects the effectiveness of internal audit. 2) Objectivity affects the effectiveness of internal audit. 3) Auditor ethics affect the effectiveness of internal audit. Based on the above conclusions, the suggestion in this article is that there are many other factors that affect the effectiveness of internal audits, apart from accountability, objectivity, and auditor ethics at all types and levels of organizations or companies, therefore further studies are still needed to find what other factors can affect the effectiveness of internal audits other than the variables examined in this article. Other factors such as Internal Competence, Independence, Career and Gap, and Integrity.

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