

THE IMPLEMENTATION OF RISK-BASED AUDIT ON THE IMPACT OF AUDITOR COMPETENCE AND INDEPENDENCE ON AUDIT QUALITY IN BANK PEREKONOMIAN RAKYAT

Tatang Suhidayat¹

Universitas Sangga Buana, Bandung, Indonesia
tatangherisman9@gmail.com



Fitriana²

Universitas Sangga Buana, Bandung, Indonesia
Fitrianadachlan64@gmail.com

R. Ricky Agusiady³

Universitas Sangga Buana, Bandung, Indonesia
Ricky.agusiady@usbypkp.ac.id

Abstract

The importance of improving audit quality in Bank Perekonomian Rakyat (BPR) across West Java is evident, given the vital role of auditors in maintaining financial and operational integrity. Auditor competence and auditor independence are two key factors considered to have a significant impact on audit quality, particularly with the adoption of the Risk-Based Audit (RBA) approach. This study aims to analyze the impact of Auditor Competence (KA) and Auditor Independence (IA) on Audit Quality (KAI), both directly and through the Risk-Based Audit (RBA) approach as a mediating variable. The study uses a sample of 99 Internal Audit Executive Officers (PE) from 253 BPRs in West Java. The method employed is a quantitative approach using Partial Least Square (PLS). Data were collected through questionnaires, which were tested for validity and reliability before being analyzed. Hypothesis testing was conducted using the bootstrapping technique to determine the significance of the relationships between variables. The results of the study indicate that both Auditor Competence and Auditor Independence have a significant direct impact on Audit Quality. Auditor Competence and Auditor Independence also have a significant influence on the implementation of Risk-Based Audit. However, the indirect impact of Risk-Based Audit on Audit Quality shows only weak significance, particularly for Auditor Competence. Simultaneous testing also indicates that KA, IA, and RBA together significantly influence KAI, with F-value greater than the F-table. This conclusion suggests that enhancing Auditor Competence and Independence directly is more effective in improving Audit Quality than through the mediation of Risk-Based Audit.

Keywords: Auditor Competence, Auditor Independence, Risk-Based Audit, Audit Quality

INTRODUCTION

Amidst an increasingly transparent global era, every company is required to enhance its competence, particularly in preparing financial statements that adhere to applicable accounting principles (Rankine et al., 2024). These financial statements serve as the basis for decision-making by various parties involved in corporate activities. In this context, the role of auditors becomes crucial (Manulang et al., 2024). Auditors are not only tasked with uncovering fraud or errors in the company's financial system but also with providing an opinion on the accuracy of financial statements, which investors will use to make strategic decisions (Fitriana et al., 2021).

The significance of the auditor's role in ensuring the quality of financial statements underscores the need for high-quality audits (Bahrul et al., 2023). Auditors must meet stringent auditing standards so that financial statements can be trusted and used as a foundation for decision-making (R. A. Santoso & Masitoh, 2022). Furthermore, auditor independence is a key factor in determining audit quality, as only truly independent auditors can provide objective assessments based on their examination (Septiana et al., 2024).

In the banking industry, the quality of financial statement audits is crucial because these reports are used by various stakeholders, including shareholders, regulators, and bank clients. The level of auditor competence is a critical element in ensuring audit quality (Kuswara et al., 2024). High competence can reduce the risk of errors in audit analysis, which ultimately enhances the integrity of financial statements and maintains stability and trust in the banking sector (R. Santoso et al., 2023).

The rapid development of the banking sector, particularly in Bank Perekonomian Rakyat (BPR), has become one of the essential pillars of the national economy (R. A. Santoso & Rusdiansyah, 2023). However, several cases have revealed serious issues, such as the liquidation of several BPRs involved in fraudulent activities, leading to the manipulation of financial statements and eroding public trust. These cases indicate that auditor examinations are not always conducted diligently, reflecting poor audit quality (Pangaribuan & Santoso, 2023).

The Financial Services Authority (OJK) has identified that the primary cause of BPR failures is not business competition but rather poor governance and substandard financial

reporting (Sera et al., 2024). This is corroborated by liquidation data from several regions, including West Java, which shows that many BPRs were closed due to their failure to meet accounting standards and supervision requirements set by Bank Indonesia (Hutauruk, 2024).

To prevent the recurrence of BPR liquidations, OJK continues to promote the enhancement of internal audit functions within the banking sector (Deviani et al., 2024). This includes the development of human resources in the internal audit profession and the implementation of Risk-Based Internal Audit (RBIA), which focuses on risks in financial reporting (Safitri et al., 2024). This approach ensures that auditors not only possess competence and independence but also the ability to identify and manage risks that could affect audit quality (Erlina et al., 2020).

Previous studies have shown various results regarding the influence of auditor competence and independence on audit quality. For example, Pattiasina et al., (2021) found that auditor competence and independence have a positive and significant impact on the audit quality of commercial banks. However, other studies, such as the one conducted by Lubis & Mulya, (2021), indicate that auditor independence does not always have a positive impact on audit quality, suggesting that this variable is not always a primary determining factor (Kau et al., 2024).

The RBIA approach, as an intervening variable in this research, emphasizes the importance of considering risks in the audit process (Amelia et al., 2024). This reflects a paradigm shift in internal auditing, where auditors are not only required to have competence and independence but must also be capable of managing risks that may affect audit outcomes (Saputra et al., 2024). This approach provides a more comprehensive understanding of how these factors interrelate and influence each other within the context of internal auditing (Ardianingsih & Setiawan, 2023).

Therefore, this study will delve into the influence of auditor competence and independence on audit quality in the banking sector, particularly in BPR, while considering the role of RBIA as an intervening variable. It is hoped that this will contribute to improving audit quality in this critical sector.

RESEARCH METHOD

The research method utilizes primary data collected from BPR internal auditors through a Likert-scale questionnaire distributed online via Google Forms. The model evaluation employs the Partial Least Square (PLS) approach using smartPLS 4.0 software. The research sample was selected using a purposive sampling technique, consisting of 99 Internal Audit Executive Officers from 253 BPRs in West Java. The collected data was analyzed using descriptive and inferential statistics, including regression analysis, to examine the relationships between variables and identify the extent to which Auditor Competence and Independence affect Audit Quality through the Risk-Based Audit approach.

RESULTS AND DISCUSSION

This study reveals the relationship between auditor competence, auditor independence, and internal audit quality through risk-based auditing at Bank Perekonomian Rakyat (BPR) in West Java. From 99 certified internal audit executive officers, it was found that the majority of auditors possess good competence with an average rating of 3.87. However, there is room for improvement in specialized training. In terms of independence, the average score of 3.71 indicates that the internal audit program is fairly independent, although some aspects, such as freedom from managerial interference, still require attention. These findings underscore the importance of ongoing improvements to strengthen the quality of internal audits.

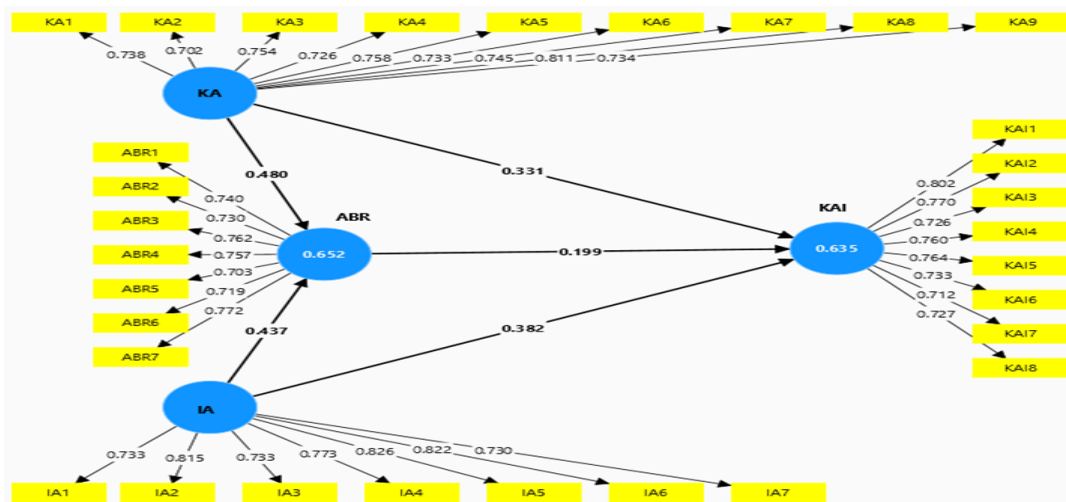


Figure 1
 Outer Model

The evaluation results of the measurement model (outer model) indicate strong validity and reliability for the constructs used. All indicators on the four main constructs, Auditor Independence (IA), Auditor Competence (KA), Risk-Based Audit (ABR), and Internal Audit Quality (KAI), have outer loading values greater than 0.70, demonstrating good convergent validity. The discriminant validity test using the Heterotrait-Monotrait (HTMT) ratio shows that the HTMT values for all construct pairs are below 0.90, indicating adequate discriminant validity.

Table 1
Discriminant Validity HTMT

Category	ABR	IA	KA	KAI
ABR				
IA	0.795			
KA	0.810	0.603		
KAI	0.801	0.781	0.751	

Source: Processed Primary Data (2024)

Convergent validity was tested using the Average Variance Extracted (AVE) values. All constructs in this study (ABR, IA, KA, KAI) have AVE values greater than 0.50, which means each construct has adequate convergent validity. This indicates that the indicators used can explain more than half of the variance in each construct.

Table 2
Construct Reliability

Category	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
ABR	0.863	0.864	0.895	0.548
IA	0.890	0.893	0.914	0.604
KA	0.900	0.903	0.918	0.555
KAI	0.889	0.891	0.911	0.562

Source: Processed Primary Data (2024)

Furthermore, all constructs have Cronbach's Alpha values greater than 0.70, indicating high consistency and reliability in the measurements (ABR: 0.863, IA: 0.890, KA: 0.900, KAI: 0.889). Additionally, the Composite Reliability (ρ_c) values are also greater than 0.70 for all constructs, demonstrating good internal consistency (ABR: 0.895, IA: 0.914, KA: 0.918, KAI: 0.911).

Table 3
Goodness of Fit

Category	Saturated Model	Estimated Model
SRMR	0.075	0.075
d_ULS	2.789	2.789
d_G	1.370	1.370
Chi-square	657.575	657.575
NFI	0.693	0.693

Source: Processed Primary Data (2024)

Based on the results of the Goodness of Fit test, it can be said that the model used has a good fit with the existing data. The SRMR value, which is less than 0.10 (specifically 0.075), indicates that the model has a good fit. Although the Chi-square value is relatively high, this does not diminish the overall validity of the model since a large sample size can influence this value. The NFI value of 0.693 indicates a moderate fit, making this model adequate for further analysis.

The F Square test results reveal the magnitude of the influence between variables in this study. The IA variable shows a large effect on ABR (f-square 0.385), while KA also has a significant effect on ABR (f-square 0.463). Conversely, the influence of IA on KAI is moderate (f-square 0.202), indicating a moderate relationship between these two variables. The effects of ABR and KA on KAI show low effects with f-square values of 0.038 and 0.144, respectively. This analysis highlights the variables with the strongest and weakest effects, providing important guidance for future research strategies.

Thus, the results show that the model used is reliable and valid for evaluating the influence of Auditor Competence and Auditor Independence on Audit Quality through the Risk-Based Audit approach in People's Credit Banks (BPR) across West Java. The data testing results provide a strong basis for the interpretation and conclusions that will be drawn from this research.

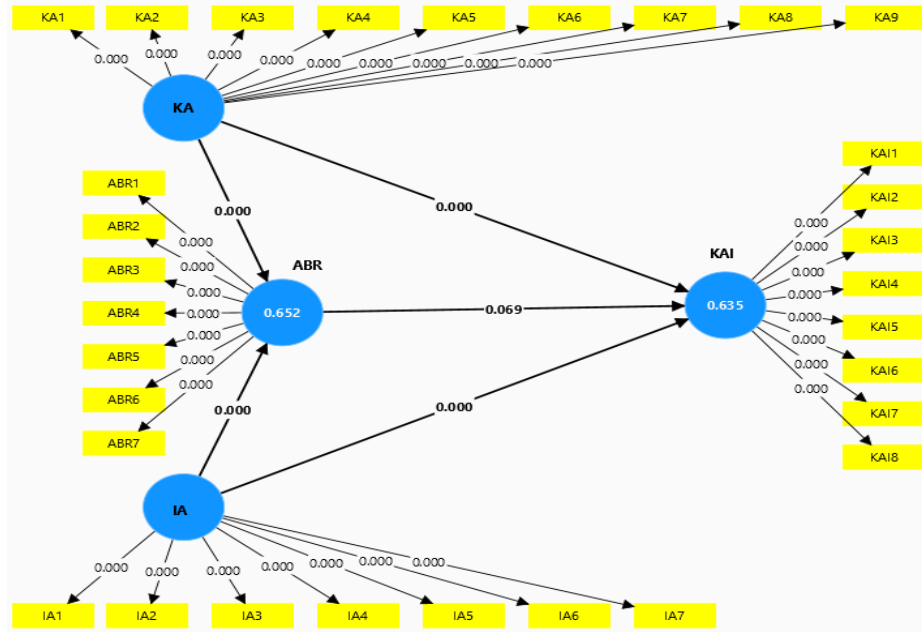


Figure 2
Hypothesis Testing Results

Results of Hypothesis Testing Figure 2. In this study, the bootstrap resampling method was used with a p-value criterion of < 0.05 to accept the alternative hypothesis (H_a) and reject the null hypothesis (H_0). The statistical test diagram with bootstrapping shows the relationships between the variables Auditor Competence (AC), Auditor Independence (AI), Risk-Based Audit (RBA), and Internal Audit Quality (IAQ), as well as the contribution of indicators to latent variables. Overall, the significant relationships between these variables provide insight into the existing dynamics.

First, the effect of Auditor Competence (AC) on Risk-Based Audit (RBA) has a path coefficient value of 0.652 with a p-value < 0.05 , indicating a significant and strong influence. Then, Auditor Independence (AI) on Internal Audit Quality (IAQ) is also significant with a path coefficient of 0.635, indicating a strong relationship between the two. Meanwhile, the effect of RBA on IAQ, although statistically significant (assuming a p-value < 0.05), has a small path coefficient (0.069), indicating a weak impact. Finally, the tests showed no direct effect of AC on IAQ and AI on RBA, with path coefficients of 0.000 and p-values > 0.05 , meaning the hypotheses are rejected.

Table 4
Path Coefficient

Category	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Value
ABR-KAI	0.199	0.203	0.110	1.817	0.069
IA-ABR	0.437	0.435	0.083	5.257	0.000
IA-KAI	0.382	0.384	0.104	3.672	0.000
KA-ABR	0.480	0.480	0.092	5.221	0.000
KA-KAI	0.331	0.332	0.080	4.137	0.000
IA-ABR-KAI	0.087	0.086	0.048	1.825	0.068
KA-ABR-KAI	0.095	0.100	0.061	1.556	0.120

Source: Processed Primary Data (2024)

The direct influence of Auditor Competence on Audit Quality shows a path coefficient value of 0.331 with a p-value of 0.000, indicating a significant influence. This means that the higher the auditor's competence, the better the quality of the audit produced. In addition, Auditor Independence also has a significant direct effect on Audit Quality, with a path coefficient of 0.382 and a p-value of 0.000. This indicates that a high level of auditor independence significantly enhances audit quality. For the influence of Auditor Competence on Risk-Based Audit, the path coefficient value of 0.480 with a p-value of 0.000 indicates a strong and significant relationship. Similarly, the influence of Auditor Independence on Risk-Based Audit is also significant, with a path coefficient of 0.437 and a p-value of 0.000. This shows that both auditor competence and independence greatly contribute to the implementation of risk-based auditing in West Java Rural Banks (BPR).

Indirect influence through Risk-Based Audit, the influence of Auditor Competence on Audit Quality through Risk-Based Audit has a p-value of 0.120, indicating that this indirect effect is not significant. Thus, although auditor competence has a strong direct impact on Audit Quality, its indirect influence through Risk-Based Audit is not as prominent.

Conversely, the indirect influence of Auditor Independence on Audit Quality through Risk-Based Audit shows a p-value of 0.068, which is close to the significance threshold of 0.05. This suggests that this indirect influence tends to be significant, though not as strong as its direct effect.

Overall, these results indicate that both Auditor Competence and Auditor Independence have a significant direct impact on Audit Quality in West Java Rural Banks

(BPR). However, the indirect influence through the Risk-Based Audit approach is weaker, particularly for Auditor Competence. The Risk-Based Audit approach may still require further optimization to significantly improve audit quality.

Based on RSquare, an R^2 of 0.635 (63.5%) was obtained. With 3 independent variables (k) and 99 research samples (n), with a significance level α of 5%, the following Fhitung and Ftable values can be obtained:

$$\begin{aligned} F_{count} &= (R^2(n - k - 1))/(k(1 - R^2)) \\ F_{count} &= (0,635(99 - 3 - 1))/(3(1 - 0,635)) \\ F_{count} &= 60,3250/1,095 \\ F_{count} &= 55,0913 \\ \text{and,} \\ F_{table} &= F_{\alpha}(k, n - k - 1) \\ F_{table} &= F_{0,05}(3, 99-3-1) \\ F_{table} &= F_{0,05}(3, 95) \\ F_{table} &= 0,1975 \text{ (obtained from Table F).} \end{aligned}$$

Since F_{count} is $55,0913 \geq F_{table}$ of $0,1975$ H_0 is rejected, which means there is a combined influence of the variables Auditor Competence, Auditor Independence, and Risk-Based Audit on Internal Audit Quality.

CONCLUSION

This study aims to examine the influence of auditor competence, auditor independence, and risk-based auditing on the quality of internal audits in People's Credit Banks (BPR) across West Java. Descriptive analysis shows that, overall, auditors possess a high level of competence with an average score of 3.87, while their independence in performing audit tasks reaches an average of 4.26. Risk-based auditing is also considered fairly effective, with an average score of 3.95, contributing to the improvement of internal audit quality. Inferentially, auditor competence and independence are proven to have a significant effect on audit quality, both partially and simultaneously, with risk-based auditing acting as a mediator that strengthens this relationship. The findings of this study affirm that enhancing auditor competence and independence, as well as implementing risk-based auditing, are key factors in ensuring effective and reliable internal audits in BPRs across West Java.

This study has limitations, including the use of a sample of auditors from BPRs in West Java, which may not represent other regions or different types of banks. The quantitative method employed also lacks depth in exploring qualitative factors that could influence audit quality. The Risk-Based Audit (RBA) approach as a mediating variable may not fully capture the complexities of auditing in BPRs. These findings should be interpreted considering these limitations, and further research is recommended to expand the sample scope and methods.

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