

Variables Affecting Audit Hours in Indonesia

Muh. Fikri Hakiki¹, Moh.Nasih², Muslich Anshori³, Sri Herianingrum⁴, Sri Iswati⁵

Department of Accounting, Faculty Economics and Business, Universitas Airlangga, Surabaya, Indonesia

¹muhfikri@gmail.com, ²mnasih@feb.unair.ac.id, ³slich@unair.ac.id, ⁴sri.herianingrum, ⁵iswati@feb.unair.ac.id

Keywords: Accounting Expertise, Adequacy Of Internal Audit Resources, Audit Hours, Legal Expertise, Long Service As The Head Of Internal Auditor.

Abstract: This study aims to examine some variables that affect audit hours. The population of this study is a banking company listed on the Indonesia Stock Exchange (IDX). Sampling in this study was carried out using the purposive sampling method. The results of this study found variables in the adequacy of internal audit resources, Accounting expertise and legal expertise have a negative and significant effect on audit hours. The variable relating to long service as the head of internal auditors is not proven.

1 INTRODUCTION

Within a company, the audit process does not only depend on external auditors. There are internal auditors employed by the company itself to conduct internal audits. According to Gay and Simnett (2007), cited in Singh and Newby, it was claimed that traditionally, the internal audit function is designed to protect corporate assets and assist in generating accounting information that is reliable for decision making.

The Institute of Internal Auditors (IIA) defined an internal audit as an objective assurance activity and an independent consultation designed to give added value and improve a company's operations. Internal audit practices are different in each environment. This difference occurs because of differences in law and culture, differences in purpose, size, and structure of the company, and the difference in people outside of the organization.

This research focuses on an internal company in which the existence of internal auditors is very important. The internal auditors' expertise in accounting and financial reporting, internal controls, and audits affects the capability of internal controls (POB, 1993). The knowledge of internal auditors can support external auditors. Previous research has found a positive relationship between internal audit quality and internal auditors' contributions to external auditing (Abdel-khalik et al., 1983; Brown, 1983; Clark et al., 1980; Felix et al., 2001; Maletta, 1993; Schneider, 1984, 1985).

Other research on the adequacy of resources, internal audit competence and audit hours was conducted by Ho-Young Lee and Hyun-Young Park (2016), in their journal "Characteristics of the Internal Audit and External Audit Hours: Evidence from S. Korea", mentioning that the determining factor of the adequacy of internal audit resources is divided into two and internal auditor competence is divided into three. Ho-Young Lee and Hyun-Young Park (2016) mention that each of these characteristics refers to the higher number of internal auditors and the large amount of compensation for internal auditors (Higher Internal Audit Compensation). This research also mentions internal auditor competency related accountancy expertise, legal expertise, and short-term internal audits (short tenure). The fifth such characteristic associated with the length of time is the audit hours.

The importance of internal controls within a company has been highlighted by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO identifies risk assessment as one of the five components of internal control (COSO, 1992; COSO, 2013). Internal audits have evolved from a narrow focus of surveillance to include risk management and corporate governance principles (Brody & Lowe, 2000; Spira & Page, 2003). Internal auditors have a key role in the risk management of a company and their contribution to internal control is also very influential. For example, large-scale research conducted by Leung et al. (2004) in the Australian Company, revealed that most of the internal auditors' were highly influential

against risk management (74%) and internal control (91%) as an important destination within internal audits.

Based on the above description, relating to the importance of resource adequacy and the competence of internal audits against the hours in banking companies to minimize the risk of material misstatement, the problems in this research are: Does the adequacy of internal audit resources affect external audit hours? Does the internal auditors' competence influence external audit hours?

2 LITERATURE STUDY

2.1 The Influence of the Adequacy of Internal Audit Resources on Audit Hours

The function of the internal auditor can affect the scope of work carried out by external auditors by lowering limits and the need to carry out detailed testing. Coordination between the function of internal and external auditors is important because it has the potential to increase the economic value, efficiency, and effectiveness of the audit activity of the whole company.

For some companies, the internal audit function can be arranged so it can generate sufficient resources to assist external auditors, while for other companies, most information regarding internal auditing may not be available (Felix et al., 1998). The availability of internal auditors to assist external auditors, will affect the ability to complete audited financial statements in a timely manner (Felix et al., 2001). Support from an internal auditor given to an external auditor impacts on the magnitude of audit efficiency (Abott et al., 2012b). Also, adequate internal audit functions may impact on the external auditors' perceptions of the power of internal audit functions, which could result in their low judgement of risk levels of material misstatements. Therefore, external auditors may regulate the situation, timing, and extent of audit procedures to obtain greater audit efficiency.

This research uses several available internal audit employees as a variable to capture the resource levels allocated to the internal audit function. When determining the number of internal auditors, this research considers whether employees work full or part time. This variable has a significant effect on the internal availability of auditors in the company. Therefore, the availability of internal auditors to

assist external auditors may increase with the number of internal auditors in relation to the size of the entity.

The researcher hopes that internal audit involvement with adequate resources can influence external audit hours. So, the hypothesis is as follows:

H1: The influence of internal audit resources are adequate for audit hours.

2.2 The Influence of Internal Auditors' Competence on Audit Hours

Competencies include capabilities, skills, experience, attitudes, and existing knowledge. When an auditor's knowledge grows, it develops the knowledge structure of an internal auditor (Badara & Saidin, 2014).

POB (1993) states that the effectiveness of internal audits is influenced by the expertise of internal auditors in the areas of accounting and financial reporting, internal control, and audits. The knowledgeable internal auditor is more prepared to understand the auditor's judgment and look at the substance of disagreement between management and the external auditor (Abbott et al., 2003). The results of previous studies support a positive relationship between the quality of internal audits and the internal auditor's contribution to external auditing (Abdel-khalik et al., 1983; Brown, 1983; Clark et al., 1980; Felix et al., 2001; Maletta, 1993; Schneider, 1984, 1985).

This research compares the head of internal auditors with accounting and legal expertise and newly incorporated heads of internal auditors to gain a level of internal auditor competence. An internal auditor will be considered as an accounting expert if there is evidence of an accounting field and CPA/CPT certification or at least a certain amount of experience in accounting. An internal auditor with accounting expertise is expected to have knowledge in financial reporting procedures and be proficient in the field of auditing. This research hopes that an internal auditor with accounting expertise can judge the risk levels of material misstatements more accurately and external auditors will be better able to take advantage of internal auditor performance. Internal auditors with accounting expertise can potentially assist external auditors when discussing or negotiating the issuance of audit reports to management. In addition to raising efficiency, internal auditors with strong accounting expertise can influence external audit hours.

H2: The influence of the competence of the internal auditor's response to audit hours.

3 METHODOLOGY

3.1 Research Approach

This research is carried out by quantitative and descriptive methods along with explanatory associative research methods. Associative research aims to determine the correlation and causal relationships between variables (Sulistyanto, 2006, p. 14). Associative research aims to determine the relationship between two variables or more (Sugiyono, 2005, p. 11).

3.2 Sample and Population Research

3.2.1 Population Research

According to Anshori and Iswati (2009, p. 92) population is a generalized region consisting of objects or subjects that have specific qualities and characteristics set by researchers who will then study them and draw conclusions. The population in this study is a banking company listed on the Indonesia Stock Exchange (IDX) during the period 2012–2016.

3.2.2 Sample Research

The sample is part of the number and characteristics possessed by the population (Anshori & Iswati, 2009, p. 94). The sample used is taken from the population using a purposive sampling of banking companies listed in the BEI (Indonesia Stock Exchange) and which published financial reports during the period 2012–2016. The criteria used in selecting samples are as follows:

- a. banking companies consistently listed on the Indonesia Stock Exchange (IDX) during the period 2012–2016
- b. banking companies that do not issue reports on the IDX
- c. banking companies that do not provide data on the number of internal auditors
- d. companies that do not provide internal auditor competency data
- e. selected banking companies to be sampled during the period 2012–2016

3.3 Data Collection Procedures

Data collection procedures conducted by the authors in this research will examine records contained in the company's annual report as a sample of research, including information regarding the number of internal auditors within the company, internal auditor competence, external auditor work hours, and other necessary data.

3.4 Data Analysis Techniques

3.4.1 Descriptive Statistics

Descriptive statistics relate directly to data collection and data centering measures as well as the presentation of results regarding the data centered size. Descriptive statistics will be used to describe and provide a general overview of statistical research data for each variable in the research. Measures of central tendency of data to be used in this research is the average value (mean), maximum value, minimum value, and standard deviation. SPSS will be used for processing data in this research.

4 DISCUSSION

4.1. Effect of the Adequacy of Internal Auditors on Audit hours

Internal auditors have a different standard of work to an external auditor. Tests that have been carried out for internal auditors cannot be directly used, so there is a need for retesting to minimize the risk of material misstatement. Banking companies that have many internal audits will certainly minimize the external audit hours.

The adequacy of internal audits has a great influence in determining audit hours, but to find information about the number of internal audits is not easy because there are many companies that are not included in the annual report. Internal audits based on the concept of the agency theory, including bonding costs, which requires an agent to establish and adhere to a mechanism that ensures that they will act in the interests of the principal. The results of this study based on the significance of regression coefficients to calculate and evidence the impact of the number of internal audits on audit hours, it can be concluded that the number of internal audits significantly and negatively affects audit hours.

Research conducted by Ho-Young Lee and Hyun-Young Park (2016) shows that the number of

internal audits significantly and negatively affected audit hours. This indicates that the number of internal audits is considered a complementary external audit function, which is to improve overall corporate oversight and minimize the risk of material misstatement. Coordination between the functions of internal and external auditors are important because of the potential to increase economic value, efficiency, and effectiveness of all activities within auditing firms. The greater availability of internal auditors to assist external auditors, the greater the chance of completing the audit of financial statements on time. The strength of complementary relationships between internal audit function and audit hours demonstrate that strong corporate governance indicates a higher level of internal auditors to minimize audit hours and promote the efficiency of financial statements.

4.2. The Effect of Internal Auditor Competence on Audit Hours

Internal audit competency has a great influence on the number of audit hours, but to find out information about the number of internal auditors is difficult because there are many companies that are not included in the annual report. The internal audit competencies used in this study are accounting expertise, legal expertise, and the duration of internal audit positions. Internal audit competency according to Abbott et al. (2003) may be used for defining the scope of audits and may affect the efficiency of audit hours, but expertise in accounting and finance courses in this study cannot contribute to the understanding of the problem of risk and presentation of financial statements. The expertise of internal auditors in the form of education in economics or accounting, requires higher levels of insurance through further conduction of tests to avoid risks that lead to poor audit quality, while also allowing effective governance and environmental controls, external auditors with more confidence in internal controls, reliability of audit evidence, and the efficiency of external audits to increase. The results of this study based on the significance of the regression coefficient is calculated to see the impact of internal auditors on the competency of audit hours. It can be concluded that internal audit competency significantly and negatively affects audit hours. Research conducted by Ho-Young Lee and Hyun-Young Park (2016) indicates that internal audit competency negatively affects audit hours. This research also shows that internal audit competency requires a higher level of assurance and

a faster retrieval of audit results, which can be audited in a timely manner, minimizing the audit hours.

5 CONCLUSION

Based on the results of the research discussions that have been described, the following can be concluded:

- 1) Tests and analysis indicate that the number of internal auditors significantly and negatively influences audit hours. These findings support the research of Ho-Young Lee and Hyun-Young Park (2016) and indicate that the number of internal auditors may reduce audit hours. This is because the number of internal auditors that demonstrate improved corporate governance is significant in minimizing audit hours and receiving timely audited reports. The number of internal audits that are relatively uniform in each company means that the internal auditors have different approaches to influence the decision of the external auditor in determining audit hours.
- 2) The test results and analysis indicate that the competence of internal auditors significantly and negatively affects audit hours. These findings support the research of Ho-Young Lee and Hyun-Young Park, (2016) and indicate that internal auditor competence may reduce audit hours. This is because the competence of internal auditors requires a higher level of assurance and audit results need to be obtained more quickly. The relatively uniform internal auditor competencies demonstrate that almost all companies require timely audit reports.

REFERENCES

- Abbott, L. J., Parker, S., and Peters, G. F. (2012a). Audit fee reductions from internal audit provided assistance: the incremental impact of internal audit characteristics. *Contemporary Accounting Research*, 29(1), 94-118.
- Abbott, L. J., Parker, S., and Peters, G. F. (2012b). Internal Audit Assistance and External
- Abdel-Khalik, A. R., Snowball, D., and Wragge, J. H. (1983). The effects of certain internal audit variables on the planning of external audit programs. *The Accounting Review*, 215-227
- Agoes, Sukrisno. (2000). *Auditing (Pemeriksaan Akuntan) oleh Kantor Akuntan Publik*. Edisi keempat. Penerbit Salemba Empat

- Anshori, Muslich dan Sri Iswati. 2009. *Metodologi Penelitian Kuantitatif*. Surabaya: Universitas Airlangga.
- Arens, Alvin A. Elder, Randall J & Mark S. Beasley. (2015). *Auditing and Assurance Services: An Integrated Approach. 14th edition*. New Jersey: Pearson – Prentice Hall Inc.
- Aryati, Titik dan Maria Theresia. 2005. Faktor-Faktor yang Mempengaruhi Audit Delay dan Timeliness. *Media Riset Akuntansi, Auditing dan Informasi*. Vol.5, No. 3, Desember, hal 271-287.
- Audit Timeliness. *Auditing: A Journal of Practice & Theory*, 31(4), 3-20
- Bapepam No.KEP 36/PM/2003
- Boynton, W.C. & R.N. Johnson. (2006). *Modern Auditing: Assurance Services and the Integrity of Financial Reporting*, 8th Edition. New York: John Wiley & Sons, Inc
- Brown, P. R. (1983). Independent auditor judgment in the evaluation of internal audit functions. *Journal of Accounting Research*, 21(2), 444-455
- Brody, R. G., and Lowe, D. J. (2000). The new role of the internal auditor: Implications for internal auditor objectivity. *International Journal of Auditing*, 4(2), 169-176.
- Committee of Sponsoring Organizations of the Treadway Commission. (COSO). (1992). Internal control—integrated framework (COSO Report).
- Committee of Sponsoring Organizations of the Treadway Commission. (COSO). (2013). Internal control integrated framework executive summary
- Donald, R., Deir Jr., and Gary Giroux. (1996). The Effect of Auditor Changes on Audit Fees, Audit Hours, and Audit Quality. *Journal of Accounting and Public Policy*, 15, 55-76.
- Efendy, M. T. 2010. Pengaruh Kompetensi Independensi dan Motivasi terhadap Kualitas Audit Aparat Inspektorat dalam Pengawasan Keuangan Daerah.
- Felix Jr, W. L., and Gramling, A. A. (2001). The contribution of internal audit as a determinant of external audit fees and factors influencing this contribution. *Journal of Accounting Research*, 39(3), 513-534.
- Felix, W. L., Gramling, A. A., and Maletta, M. J. (1998). Coordinating total audit coverage, The relationship between internal and external auditors. *Institute of Internal Auditors Research Foundation*
- Ghozali, Imam. 2006. *Aplikasi Analisis Multivariate dengan Program SPSS*. Semarang: Badan Penerbit Universitas Diponegoro
- Ho-Young Lee Hyun-Young Park, (2016), "Characteristics of the Internal Audit and External Audit Hours: Evidence from S.Korea", *Managerial Auditing Journal*, Vol. 31 Iss 6/7 pp.
- Indriasari, Desi dan Ertambang Nahartyo. (2008). "Pengaruh Kapasitas Sumberdaya Manusia, Pemanfaatan Teknologi Informasi, Dan Pengendalian Intern Akuntansi Terhadap Nilai Informasi Pelaporan Keuangan Pemerintah Daerah (Studi Pada Pemerintah Kota Palembang dan Kabupaten Ogan Ilir)". Pontianak: Simposium Nasional Akuntansi XI.
- International Standard on Auditing (ISA) No. 315. Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment. *International Auditing and Assurance Standards Board (IAASB)*.
- Jensen, Michael C, & Meckling, William H. (1976). Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics* 3(4): 305-360
- Kumaat, Valery G. (2011). *Intern Audit*. Jakarta: Penerbit Erlangga
- Lastanti, H. S. 2005. Tinjauan terhadap Kompetensi dan Independensi Akuntan Publik: Refleksi Atas Skandal Keuangan. *Media Riset Akuntansi, Auditing, dan Informasi*.
- Leung, P., Cooper, B.J. and Robertson, P. (2004). *The Role of Internal Audit in Corporate Governance and Management*. RMIT Publishing: Melbourne.
- Linting, I. 2011. Pengaruh Kompetensi, Objektivitas, Independensi, dan Kinerja Auditor Internal terhadap Kualitas Audit pada BRI Inspektorat Makassar.
- Maletta, M. J. (1993). An examination of auditors' decisions to use internal auditors as assistants: The effect of inherent risk. *Contemporary Accounting Research*, 9(2), 508-525
- Mulyadi. (2010). *Auditing Buku 2*. Edisi keenam. Jakarta: Salemba Empat.
- Myojung Cho, Eunsun Ki, and Soo Young Kwon. (2015). The Effects of Accruals Quality on Audit Hours and Audit Fees. *Journal of Accounting & Finance* 1–29
- O'Keefe, T. B., Simunic, D. A., and Stein, M. T. (1994). The production of audit services: Evidence from a major public accounting firm. *Journal of Accounting Research*, 32(2), 241-261
- Hours, and Public Oversight Board (POB). (1993). *In the public interest: A special report by the public oversight board of the SEC practice section*, AICPA. Stamford, CT: POB.
- Sugiyono. (2012). *Metodologi Penelitian Kuantitatif Kualitatif dan R &D*. Bandung: ALFABETA.
- Sugiyono. (2014). *Metode Penelitian Pendidikan: Pendekatan Kuantitatif, Kualitatif dan R&D*. Bandung: ALFABETA
- Statements on Auditing Standards No. 65. The auditors' consideration of the internal audit function in an audit of financial statements. *American Institute of Certified Public Accountants (AICPA)*.
- Stephen Ojuka, Ojua Michael, Ogundana Oyebezi, Nwaze Chukwu (2015). *Internal Audit Characteristics and Quality of Information Accounting in Nigeria*.
- Schneider, A. (1984). Modeling external auditors' evaluations of internal auditing. *Journal of Accounting Research*, 22(2), 657-678.
- Schneider, A. (1985). The reliance of external auditors on the internal audit function. *Journal of Accounting Research*, 23(2), 911-919.

- Suraida, I. 2005. Uji Model Etika, Kompetensi, Pengalaman Audit dan Risiko Audit terhadap Skeptisisme Profesional Auditor. *Jurnal Akuntansi* Undang-Undang Republik Indonesia nomor 5 tahun 2011 pasal 4 tentang Akuntan Publik.
- Utami, Wiwik. 2006. Analisis Determinan *Audit Delay* Kajian Empiris di Bursa Efek Jakarta. *Bulletin Penelitian*. No. 09, hal 1-14.
- Widyaningdyah, Agnes. (2001). *Analisis Faktor-faktor Yang Berpengaruh Terhadap Earnings Management Pada Perusahaan Go Public di Indonesia*. Jurnal Akuntansi & Keuangan. November Vol. 3 No. 2.
- Zain, M.M. (2006). Internal Auditors Assessment of Their Contribution to Financial Statement Audits: The Relation With Audit Committee and Internal Audit Function Characteristics. *International Journals of Auditing*, Vol.10, No,1, pp. 1-18, March 2006

