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The Effect of Auditor's Competence, Professionalism, and Organizational Culture on the Quality of Financial Statements

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ABSTRACT

Human resources have a significant role in the quality of financial reporting. The existence of competent and independent human resources has a wide level of description of the company's financial management. This study purposes to analyze the factors that affect the quality of company financial reporting in some industries in Bandung, by observing at organizational culture and internal audit quality as seen from the auditor professionalism and competence. This research was conducted on 95 employees of the finance department at a private company in Bandung. The data in this research applied primary information in the form of observation and distribution of questionnaires to individuals' respondents. The findings of this study indicate that the competence and professionalism of the auditor, as well as the organizational culture of the company, will determine the quality of the company's financial reporting. The better the competence and professionalism of the auditor, the higher the quality of the financial reporting. In addition, the existence of a conducive and supportive organizational culture will increase the quality of financial reports.

Keywords: Financial Report Quality, HR Competence, Internal Audit Professionalism, Organizational Culture

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INTRODUCTION

Financial statements are one of the things that must be owned by the company. The existence of financial reports will help the company to find out how much operational costs require to be spent every day, how much profit is obtained, and the initial capital used for the business until its development (Dewanto, 2022). In addition, to knowing some of these basic conditions, financial reports will also facilitate business owners to evaluate their business capabilities and capacities. This can be their basis for planning business development, so they can really adapt it to their financial condition (Romero et al., 2019).

Good financial reports are also found to positively affect the business itself. The study conducted by Lin et al. (2018) shows that a good financial management system will provide opportunities for companies to run their business more effectively, close the gap for fraud, and minimize errors. In addition, financial reports were also found to be able to influence good governance (Safkaur et al., 2019), investment efficiency (Al-Alam & Firmansyah, 2019), and sustainability of information disclosure (Martinez-Ferrero et al., 2015; Souza et al. , 2020).

In Indonesia, financial reports are currently still considered less important, especially for micro, small and medium enterprises. Based on data from the quality of MSME financial management, the majority of MSMEs as much as 77.5% do not have financial reports. Meanwhile, as many as 22.5% have financial statements, but they still revolve around basic reports such as balance sheets, profit and loss, cash flows, and inventories of goods and services (Dewanto, 2022). The high number of businesses that have not made financial reports on the one hand explains the condition of MSMEs which are sometimes difficult to develop and stagnant. This is because these business actors do not yet have the basis for making appropriate decisions regarding the business development they will undertake. In fact, an understanding of the financial statements and financial condition itself will open up opportunities for MSMEs to consider alternative financing or the capital they need (Kuncoro, 2022).

This research itself was conducted on several private companies in Bandung. Based on the results of initial observations made by researchers, it appears that some of these companies have poor quality financial reports. Numerous factors, including truthful portrayal, applicability, understandability, timeliness, comparability, and verifiability, can be used to gauge the quality of financial reports (Bananuka et al., 2021). In addition, good financial reports are also characterized by completeness, measurement that is free from bias, and clear presentation (Singh et al., 2022; Yuan et al., 2020; Furgan et al., 2021).

In addition, this is caused by the lack of ability and professionalism of the individual, or the internal auditor who handles the financial reporting system. The incompatibility of educational background with the responsibilities of employees in the company is one of the conditions behind this research. This shows the lack of professionalism of employees, because they should be responsible for their work. A number of previous studies have emphasized the significance of the professionalism of auditors in influencing the financial report quality (Mardijuwono & Subianto, 2018; Kaawaase et al., 2019). Then, prior studies also highlighted the necessity of considering the competencies of internal auditors in making financial reports (Gebrayel et al., 2018; Kaawaase et al., 2021). Auditors who have competencies will be able to evaluate the financial reporting process efficiently without bias, as well as to monitor and enhance the integrity of financial reporting (Alzeban, 2019).

In addition, a less supportive organizational culture is another cause of the poor condition of financial report quality in companies. A good organizational culture will ensure that the organization's performance is also good overall, because this allows the organization and the individuals in it to be in a stable condition to accomplish the set objectives (Hassan et al., 2021; Pressgrove et al., 2022). Organizational culture, which includes beliefs, norms, and values set by the organization, was found to influence the quality of financial reporting (Rahayuni et al., 2018). However, Kuraesin et al. (2022) mention that there is still a need to deepen understanding of how this influence occurs.

Considering the previous explanation, we aim to answer the suggestions from prior studies by combining personal factors from individuals and contextual factors from organizations in influencing the quality of financial reports. Specifically, we will examine the interrelationships of organizational culture and internal audit quality, which is represented by internal audit professionalism and internal audit competencies on the quality of the company's financial statements.

Human Resources Competence and Financial Report Quality

According to Hertati & Zarkasyi (2015), competence is defined as skills, abilities, and abilities. Competency also includes work-related knowledge, skills, and talents. Susanto & Rambano (2022) defines competence as an essential personality trait that can directly affect or foretell the quality of good financial reports. In good financial management, companies must have competent human resources in their fields. Competent in this case is an individual who has an educational background in accordance with his field and has experience in that field. In RBV theory, the company's performance as one of which measured by financial report quality is largely determined by the quality of its internal resources. Susanto's research (2022) states that quality of the company's financial reports may be impacted by the human resources' proficiency.. That is, if the competence is good, then the financial report performance will be good. According to Kusmariyanto et al. (2022) companies that have good resources can be an advantage for the company itself. According to agency theory, the competence of resources in the financial sector will be able to affect the company's financial report performance. Nurcahyanti & Ruscitasari (2022) explained the indicators of human resources consisting of education, training and experience. According to Anggi (2022) these indicators can reflect the skills, knowledge and attitudes of human resources. According to Gumelar et al. (2022) financial managers who understand financial science will be able to facilitate companies in compiling their reports. Naturally, this report was created by human resources, who are highly qualified and are in accordance with their scientific fields. Several studies conducted by Han and Maharani (2022) and Kusuma et al. (2021) state that there is a direct correlation of the competence of human resources on the company's financial report performance.

Internal Audit Professionalism and Financial Report Quality

Internal audit professionalism are widely recognized as critical in securing good corporate governance. According to Kaawaase et al. (2022) internal audit has a responsibility to achieve company goals. Albawwat et al. (2021) mentioned that audit professionalism is a responsibility to act more than just a responsibility to the company. According to Rahmansyah et al. (2022) there are several qualifications in measuring audit professionals, namely having experience according to their field of expertise, having competence in their field, and being responsible. A person can be said to be professional if he has attended certain education which causes him to have special skills or qualifications. Abdulai et al. (2021) defined the notion of professionalism by referring to work standards, namely moral principles and professional ethics. These two principles direct an accountant to behave in accordance with the order of life of a professional. Several previous studies have found that internal audit professionalism can have an influence on company performance, especially in relation to financial report quality. This is because, in general, an internal audit's objectives include aiding all management personnel in carrying out their duties successfully and making suggestions to raise the caliber of financial reports. According to Oladejo et al. (2021) there are several main activities of an internal audit, namely checking the accuracy and correctness of all data, preventing errors or deficiencies, checking and providing recommendations. In addition, Abed et al. (2022) states that an internal auditor who have professionalism must systematically provide information about the control function and prioritize his attention on evaluating the strengths and weaknesses of internal control to achieve good quality of financial reporting. Apandi et al. (2022) stated that an internal audit can be said to be professional if he is independent and objective in each of his assignments. This means that in giving an assessment, they do not see and take sides with anyone. When the auditor carried it out, then he can help the organization to accomplish their objectives through the use of a methodical and organized methodology to evaluate and enhance the effectiveness of the control process on financial report performance (Hama et al., 2021).

Organizational Culture and Financial Report Quality

Human resource competency development and internal audit professionalism will not be realized if it does not have the support of the company or organization. This support is reflected in a culture formed by the company itself. According to organizational culture, it is crucial to achieving both financial and non-financial corporate performance. Using the formation of a good culture will cause members or employees to be more motivated to work so as to produce high performance. According to Putra et al. (2022) the existence of organizational culture can increase high creativity so that employees will be motivated in carrying out their work. Putri et al. (2022) define organizational culture as a set of beliefs, assumptions, values and symbols that are used to determine the way in which organizations do business. According to organizational culture, it might serve as a tool to support the business's strategy in achieving its goals, namely performing well. Several studies conducted by Coelho et al. (2022) and Andari (2022) found that when the company culture is well developed, It will be able to raise business efficiency itself, especially in relation to financial performance. According to Coelho et al. (2022) organizational culture can bind employees to act in a way that is consistent with the culture already in place. If the organization adopts this concept, a set of norms will have developed into a company culture that will influence how well individuals perform on the job. Thus, if the organizational culture is good, the financial report quality will also be good. On the basis of this, the following hypotheses are put forth:

H1. HR competence has a positive effect on financial report quality

H2. Internal audit professionalism has a positive effect on financial report quality

H3. Organizational culture has a positive effect on financial report quality

H4. HR competence, internal audit professionalism, and organizational culture have a positive effect on financial report quality

METHODS

This research was conducted quantitatively on employees of the finance department who are employed by private businesses in Bandung. Furthermore, 95 participants were used as samples in this study, and they were chosen by the census sample method. This study's data were collected by observation and the distribution of questionnaires to respondents. Respondents were asked to fill out a questionnaire regarding their characteristics such as gender, last education, and age. Furthermore, respondents were asked to rate the statement items according to their condition. This statement item was evaluated using a Likert scale with a score range of 1 (strongly disagree) to 5 (strongly agree). Three independent variables and one dependent variable make up this study. The study's independent variables are HR competence, internal audit professionalism, and organizational culture. Meanwhile, the dependent variable in this study is the quality of financial statements. This study uses HR competencies, internal audit professionalism and organizational culture as independent variables, and quality of financial reporting as the dependent variable. HR competence is evaluated using 4 items taken from Nurcahyanti (2022). Internal audit professionals are measured by 4 items developed by Rahmansyah et al. (2022), organizational culture is measured by 4 items designed by Putri et al. (2022) and lastly financial report quality is measured by 2 items adopted from Putri et al. (2022).

RESULTS AND DISCUSSION

Respondents' Profile

64% of the 95 respondents were female, and 6% were male, according to the data. In this study, respondents between the ages of 20 and 29 made up the majority (38%), followed by those between the ages of 30 and 39 (36%), and those between the ages of 40 and 49 (26%). The majority of responders (39%) had a bachelor's degree or above in their educational background. More detailed explanations regarding the respondents' profile are presented in Table 1.

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Table 1. Profile of Respondents

Respondent Profile		Percentage
Gender	Male	36%
	Female	64%
Age	20 – 29 year	38%
	30 – 39 year	36%
	40 – 49 year	26%
Level of education	Senior High School	16%
	Diploma	39%
	Bachelor	22%
	Master	14%
	Doctor	9%

Source: Data Processed (2022)

The findings of the descriptive analysis are then shown in Table 2, which demonstrates that each research variable has a high average score. In other words, the questionnaire's questions received positive responses from the respondents.

Table 2. Descriptive Analysis Result

No	Variable	Average Score	Standard Deviation	Interpretation
1	HR Competencies	4,4	0,1030	Moderate
2	Internal Audit Professionalism	4,3	0,1594	Moderate
3	Organizational Culture	4,1	0,4594	Good
4	Financial report quality	4,0	0,2279	Good

Source: Data Processed (2022)

Normality Test

Normality test is used in determining whether or not the distribution of data across a set of variables is normally distributed. The normality test's findings are as follows:

Table 3. Normality test

		Unstandardized Residual
N		95
Normal Parameters [a,b]	Mean	0,0000000
	Std. Deviation	2,01047937
Most Extreme Differences	Absolute	0,073
	Positive	0,047
	Negative	-0,073
Test Statistic		0,073
Asymp. Sig (2-tailed)		0,073

Source: Data Processed (2022)

As can be seen from the table above, Asymp Sig (2-tailed) has a value of 0.073. as a result of the Asymp value. The unstandardized residual data can be inferred to have a normal distribution if Sig (2-tailed) is bigger than the defined significance level (0.073 > 0.05).

Multicollinearity Test

The purpose of multicollinearity testing, according to Ghozali (2016), is to ascertain whether the regression model identified any intercorrelation or collinearity between variables. Following is the output of the tests:

Table 4. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
HR Competencies	0,594	1,682
Profesional internal audit	0,682	1,466
Organizational Culture	0,573	1,529

Source: Data Processed (2022)

From the output in Table 4, the results obtained regarding the variables of HR Competence, Internal audit professionalism, and organizational culture have tolerance values of 0.594, 0.682 and 0.573 with VIF values of 1.682, 1.466, and 1.529, respectively. Since the tolerance is larger than 0.10 and the VIF is less than 10.00, these results can be taken as proving that there is no multicollinearity between the independent variables and that they satisfy the requirements of the traditional multicollinearity assumption.

Multiple Regression Test

The impact of organizational culture, internal audit professionalism, and HR competency on financial report quality was quantified using multiple regression analysis. These are the processing results:

Table 5. Multiple Regression Test

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	sig.
(Constant)	6,046	1,497		4,038	0,000
HR Competencies	0,208	0,064	0,250	3,234	0,001
Profesional internal audit	0,182	0,073	0,179	2,480	0,014
Organizational Culture	0,227	0,104	0,119	2,470	0,035

Source: Data Processed (2022)

Since the results in Table 5 provide the intercept and regression coefficient values, the following multiple linear regression equations can be created:

$$Y = 6,046 + 0,208\ X1 + 0,182\ X2 + 0,227\ e$$

The following is how these equations are interpreted:

a = 6.046 means that if the competence of HR, internal audit professionalism, and organizational culture is zero, the financial report quality variable will be worth 6.046 units, thus it is obvious that the regression lines cross the Y axis at the value of 6.046.

B1 = 0.208 means that if the internal audit professionalism increases by one unit while the other variable is constant, then the financial report quality will increase by 0.208 units.

B2 = 0.182 means that the financial report quality variable will increase by 0.182 units if the organizational culture variable grows by one unit and the other variable remains constant.

According to the numbers in Table 5, it appears that the HR competency's t-count value was 3.234 > table (1.97214), which meets the conditions for the hypothesis testing that Ho is rejected and Ha is accepted. This implies that partially, HR competence variable significantly affects financial report quality. Then, the internal audit professionalism variable obtained 2.480 > t able (1.97214), According to the criteria used in hypothesis testing, Ho is disproved and Ha is accepted. This demonstrates that partially, the internal audit professionalism variable has a significant effect on financial report quality. Finally, the organizational culture variable was obtained 2.470 > t table (1.97214), in accordance with the hypothesis testing criteria that Ho is rejected and Ha is accepted. This shows that partially, the organizational culture variable has a significant effect on financial report quality, thus the hypothesis proposed in this study can be accepted.

Simultaneous Hypothesis Test

Table 6. F test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	352,657	3	117,552	28,744	0,000[b]
Residual	804,363	196	4,104		
Total	1157,020	199			
R^2 = 0,694					

Source: Data Processed (2022)

As presented in table 6 above, according to the ANOVA test, the calculated F value is 28.644 with a significant value of 0.000. If compared, the F count > F table is 28,744 > 2.65, so it can be concluded that the competence of HR, internal audit professionalism, and organizational culture simultaneously affect the financial report quality in the company. This shows that the last hypothesis can be accepted.

Determinant Coefficient

The determinant coefficient (R2), according to Ghozali (2016), is a method to assess how well the model can account for variations in the dependent variable.

Table 7. Determinant Coefficient Test

Model	R	R-Square
1	.815[a]	.694

Predictors: (Constant), Organizational Culture, Internal Audit Professionalism, HR Competence
Dependent Variable: Financial Report Quality

Discussion

The results of this study indicate that the first hypothesis proposed, namely regarding the competence of human resources or auditors on the quality of financial reports is accepted. In other words, it can be seen if the competence of human resources has a significant influence on the quality of financial statements. The results of this study support the findings of previous research conducted by Gumelar et al. (2022). HR, or auditors who have adequate competence, including knowledge, skills, and abilities regarding finance are proven to be able to improve the quality of the financial reports they make. The better the competencies possessed by the auditor in the company, the better the quality of the financial statements produced. When the auditor has good competence, this will lead to good quality of financial reports.

Furthermore, this study also confirms that the second hypothesis proposed, namely regarding the positive influence of internal audit professionalism on the quality of financial reports, is accepted. In other words, it can be seen if the professionalism of internal audit has a significant influence on the quality of financial statements. The results of this study support the findings of previous research conducted by Abdulai et al. (2021) Professionalism of auditors, including the way they complete responsibilities in their work and their objectivity has a positive effect on report quality. the finances they generate. When internal auditors have good professionalism, this will improve the quality of financial reports.

Finally, the results of testing the third hypothesis, namely regarding the positive influence of organizational culture on the quality of financial reports, were found to have a significant effect.

This means that a conducive, good, and supportive organizational culture will facilitate the auditor's performance in producing good quality financial reports. This finding is in line with research conducted by Oladejo et al. (2021), that when organizations have values, beliefs, and norms that are in accordance with individuals, this will make them comfortable and able to produce quality financial reports.

CONCLUSION

This study has shown that HR competence, internal audit professionalism, and organizational culture have a positive effect on the quality of financial reports. This study also mentions the importance of improving the competence and professionalism of auditors, as well as ensuring a supportive organizational culture for improving the quality of the company's financial statements. Therefore, it is important for companies to improve the ability, competence, and professionalism of their auditors, so that they can produce better quality financial reports.

This improvement can be done by the company through the provision of coaching and training to improve the competence and professionalism of the auditors. In addition, the company can also provide socialization about the importance of making good quality financial reports. Regarding organizational culture, leaders and members in it both play an important role in forming a conducive work culture, so as to improve performance, including better quality financial reports. So, it is important for companies to understand and emphasize these three things, so that the quality of financial reports can improve and be able to help companies achieve their goals.

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