

The Effect of Human Capital and Structural Capital on Audit Quality in the Audit Board of the Republic of Indonesia the Representative of Southeast Sulawesi Province

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This research aims to know and analyze the influence of human capital and structural capital on audit quality in the Audit Board of the Republic of Indonesia, Southeast Sulawesi Province Representative. Respondents in this study are 72 active auditors who have been involved in examination assignments working at Audit Board of the Republic of Indonesia. The respondents are chosen based on the method of saturated sampling and the method used in this study is descriptive statistical analysis with an approach of multiple linear regression. The results of this study indicated that human capital and structural capital have a significant effect on audit quality.

Key words: Human capital, structural capital, audit quality.

Introduction

Financial statements are a form of government administration responsibility that aims to provide useful information for fund providers and other users, in making rational decisions about the allocation of funds to the organization. Comprehensive financial statements as a form of responsibility must be examined by the Audit Board (BPK). The BPK is mandated by the 1945 Constitution to examine the management and responsibilities of use of state finances freely and independently, which means that the BPK has freedom and independence in planning, implementing, reporting and monitoring of financial statements and following up

on audit results. The WTP opinion on financial statements should indicate that fraud or corruption in the public sector in Indonesia is only "small" or rare, but in reality does not imply the same conditions, so there is a mismatch between the two things.

Audit quality is defined as the possibility that the auditor will find and report violations in the client's accounting system (De Angelo, 1981). Audit quality is influenced by various factors in each stage. This can occur in the audit process, both from the stages of planning the audit, conducting the audit and reporting the results of the audit to the follow-up of the audit results. Audit quality is influenced by human capital (HC). Human capital is a combination of knowledge and ability, which can improve the quality of work produced through a competency. Auditors with good human capital will be able to find errors in the financial statements, so that the financial statements avoid material misstatements and provide high quality audit results. This can be proven in the research of Cheng et al (2009) in Naslmosavi et al (2013) where there was a positive relationship between human capital and auditor quality in public accounting firms. Aisyah (2014) in her research found there was a positive relationship between human capital and audit quality. Structural capital is very important for organizations to support quality improvement and take competitive advantage. Bontis et al (2000) stated that structural capital is knowledge created by an organization and cannot be separated from entities. Chen et al (2004), structural capital relates to the mechanism and structure of the company that can help to support employees in their search for optimal intellectual performance and overall business performance that can be achieved. In his research Cabrita (2006) which proved that structural capital positively moderates the relationship between human capital and organizational performance. This means that with structural capital it will support the human capital owned by the auditor to produce quality audits. But Gazor et al (2013) found the opposite.

The majority of regional governments in Southeast Sulawesi have consistently obtained WTP opinion in recent years. However, there are still a number of districts obtaining WDP opinion. While on the other hand local governments are required to be able to manage finances transparently and accountably in order to achieve good governance. In addition, improving the quality of audits through various ways also needs doing, such as mastery of IT audits in financial statements (BPK Press Release, 2019) so that something which is undesirable does not occur such as a false opinion, or it is not in accordance with the results of the audit of the financial statements that it should be. From the phenomenon of LKPD opinion and the statement from BPK itself related to WTP opinion is not a guarantee of a corruption-free entity, it becomes an interesting topic to examine human capital and structural capital affecting the quality of BPK's audit.

The Research Problem Formulation

Based on the background, the formulation of the problem in this study is: Does human capital and structural capital have a significant effect on audit quality on BPK RI, Southeast Sulawesi Province Representatives?

Research Purposes

Based on the aforesaid research problem formulation, the purpose of this study is to look for empirical evidence about the effect of the auditor's personal characteristics on audit quality, with the following details:

1. To know and analyze the influence of human capital on audit quality in the Audit Board of the Republic of Indonesia, Southeast Sulawesi Province Representative.
2. To know and analyze the influence of structural capital on audit quality in the Audit Board of the Republic of Indonesia, Southeast Sulawesi Province Representative.

Literature Review and Hypothesis

Literature Review

Agency Teory

Agency theory in the context of governance is seen in the perspective that local government is an agent for the public or society, so in this case the community or public is positioned as the principal. It is this asymmetric information that makes agents to behave opportunistically over existing opportunities that can lead to fraud and abuse. Agency conflict also has a role as a mover of audit quality. Where the audit function is one mechanism to reduce agency conflict between agent and principal. Specifically, mechanisms that increase the possibility of auditors reporting violations in contracts to be monitored, mechanisms are designed to provide incentives for auditors to maintain their independence from principals and agents (Zimmerman & Watts: 1983). The auditor is considered as an independent party between the government (agent) as the provider of information (financial statements) and the stakeholders as users of information, so that it can reduce asymmetry information between the two parties. The greater the agency conflict, the higher the agency costs and the higher the demand for qualified auditors (Tandiontong, 2015).

Auditing Theory

Tandiontong (2015) in his book "Audit Quality and Measurement" explained that the responsibilities of public accountants are very heavy because they are required to satisfy the

interests of stakeholders, so that public accountants must have professional commitment and high organizational commitment. Auditing theory deals with financial statement audits (general audit). Agoes (2017) stated that auditing is an examination carried out critically and systematically by an independent party to the financial statements that have been prepared by management, along with the accounting records and supporting evidence, with the aim of being able to provide an opinion on the reasonableness of the finance report. In the 2017 State Financial Audit Standar (SPKN) stated that the examination of state finances is a process to identify, to analyze and to evaluate problems carried out independently, objectively and professionally based on inspection standards, to assess the truth, accuracy, credibility and reliability of information regarding management and state financial responsibility. Thus, an examination of state finances provides adequate confidence.

De Angelo (1981) in Bouhawia (2015) said that audit quality is a combination of the probability of competent auditors to find violations in the client's accounting system and to report their findings independently. Boynton et al (2006) argued that each profession is consistently related to the quality of the services it provides, including auditors where the quality of service is very important to ensure that this profession is accountable to clients, people and regulations. Audit quality refers to standards regarding criteria or measures of the quality of implementation and is also related to the objectives to be achieved by implementing the related procedures.

Bontis et al (2000) stated that human capital is a combination of knowledge, skills, the ability to innovate and the ability to complete tasks, including corporate values, culture and philosophy. Ismail (2005) human capital is an asset of thought, such as knowledge, skills and abilities of individual employees to provide solutions to customers and human capital is individual knowledge of an organization, as well as human capital is the collective ability of companies to extract the best solutions from individual knowledge. Cheng et al (2009) explained in his research that human capital (HC) is the most important asset of Public Accounting Firm (KAP). According to Naslmosavi et al (2013) components of human capital are: expertise, experience, values, thinking abilities, knowledge and abilities of each individual. Public accountants must ensure that they have sufficient personnel and they are equipped with the required competencies and professional characteristics so they can perform in accordance with standards, legal requirements and community expectations.

Bontis et al (1998) mentioned that structural capital consists of relationships, organization and renewal or development. Christa (2013) stated that structural capital is the ability of companies to utilize intellectual and human innovation (HR) to create actualized wealth as the value of procedures, technology, routines and systems within the company and is also the ways in which components within the company systematized, internalized and processed. In the context of managing intellectual capital, the role of structural capital occupies a strategic

position. The role of structural capital is said to be very strategic because it can provide various possibilities for the creation of value / assets (wealth) for the organization / company through the transformation of work results of human capital.

Hypothesis

Research hypotheses can be interpreted as a temporary answer to the research problem, until proven through the data collected and must be tested empirically.

The results of the study of Cheng et al (2009) and Bouhawia (2015) had the same evidence that human capital simultaneously has a positive effect on an auditor's audit quality. The higher the level of human capital, the better the quality of audits produced. Then the hypothesis in this study was formulated as follows:

H1: Human capital has a significant effect on audit quality.

The results of the study (Christa: 2013; Fiona, Jill and H 2018) structural capital is operationally defined as the ability of internal resources (physical) owned by the organization, facilitating the transformation process of individual employee knowledge in the process of value creation. Based on a review of previous research and the definition of structural capital, it can be concluded that structural capital plays an important role in the progress of the company, because if everything is structured and organized, then the work will be more easily and quickly completed. So the following hypothesis was put forward:

H2: Structural capital has a significant effect on audit quality.

Method

This study used a causal relationship. A causal relationship is relationships that are cause and effect, where there are independent variables (variables that affect) and dependent variables (variables that influenced) (Sugiyono: 2017). This study was intended to determine the effect of human capital and structural capital as independent variables and dependent variables on audit quality. The population in this study are all auditors at the Audit Board of The Republic of Indonesia (BPK RI), Southeast Sulawesi Province Representatives, who are active and have been involved in audit assignments totalling 72 auditors. The method for selecting samples used is method of the saturated sampling. The type of data in this study is primary data obtained using a list of questions or statements (questionnaire).

Descriptive Statistical Analyzis

Descriptive statistics are statistics used to analyze data by describing data that has been collected as it is without intending to make useable conclusions to the public or generalization, such as presenting data through tables, graphs, pie charts (pie charts), calculating data dissemination through calculations average and percentage (Sugiyono: 2017). Descriptive statistics in this study will describe the research variables X (Human Capital), X (Structural Capital) and Y (Quality Audit) in accordance with the average value and presentation based on the criteria for evaluating of respondents' answers, which are spelled out with indicators of each variable and item statement of each indicator forming the research variable.

Data Quality Test

Validation Test and Reliability of Data

Based on the results of the validity test of all variables consisting of 32 (thirty two) statement items are valid, where values $r_{hitung} > \text{values } r_{tabel}$, and have a significance value of less than 0.05. This means that all the statements in this study are worth to be used. Then the reliability test results showed that the Cronbach's Alpha (α) value for each variable is greater than 0.70. Thus, it can be concluded that all statements in this questionnaire are said to be reliable.

Result and Discussion

Result

Coefficient of Determination

Based on Table 1 below, the results of the determination coefficient test show that the value of adjust R Square (R²) is 0.487 or 48.7%. This means that 48.7% of the audit quality variable can be explained by the variable human capital and structural capital. While the remaining 51.3% is explained by other variables not included in this research model.

Table 1: Determination Coefficient Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.710 ^a	.504	.487	3.018	1.879

a. Predictors: (Constant), X2,X1

b. Dependent Variable: Y

Source: Primary Data Processed, 2019

Hypothesis Test

Partial Test (t-test)

Table 2: Partial Test Result (t-test)

Model	Unstandardized Coefficients		t	Sig.	Collinearity Statistic	
	B	Std. Error			Tolerance	VIF
1 (Constant)	14.506	5.053	2.871	.006		
X1	.423	.095	.440	.000	.882	1.134
X2	.555	.128	.426	.000	.882	1.134

Source: Primary Data Processed, 2019

Based on Table 2 above, the partial test results (t-test) between the dependent variable and the dependent variable can be explained as follows:

1. Hypothesis 1 Test : Human Capital Has a Significant Effect on Audit Quality

Hypothesis 1, Human capital test results can be seen in Table 2 which shows the t_{count} of $4.470 > t_{table}$ of 2.00247 and has a significance value of $0.000 < 0.05$. The correlation coefficient has a positive direction of 0.423 and this has a significant effect on audit quality. Thus, hypothesis 1 is accepted.

2. Hypothesis 2 Test : Structural Capital Has a Significant Effect on Audit Quality

Hypothesis 2, structural capital test results can be seen in Table 2 which shows the value of t_{count} of $4,329 > t_{table}$ $2,00247$ and has a significance value of $0,000 < 0.05$. The correlation coefficient has a positive direction of 0.555 and it has a significant effect on audit quality. Thus, hypothesis 2 is accepted.

Simultaneous Test

Based on Table 3 below which shows that $F_{\text{count}} = 29.471 > F_{\text{table}} = 3.16$ with a significance value of $0.000 < 0.05$. This means that human capital (X1) and structural capital (X2) simultaneously or jointly have a significant effect on audit quality at BPK RI Representatives of Southeast Sulawesi Province.

The simultaneous test results can be seen in the following table.

Table 3: Simultaneous Test Result (F)

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	536.802	2	268.401	29.471	.000 ^b
Residual	528.215	58	9.107		
Total	1065.016	60			

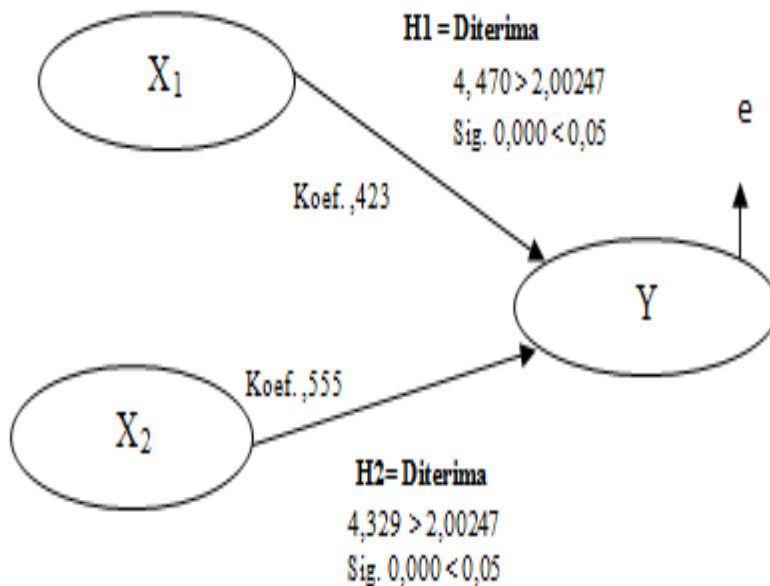
a. Dependent Variable: Y

b. Predictors: (Constant), X2, X1

Source: Primary Data Processed, 2019

The test results above can be illustrated in the following scheme.

Picture 1. Search Result



Discussion

The Effect of Human Capital (HC) On Audit Quality at the BPK RI Representative of Southeast Sulawesi Province

The results of testing hypothesis 1 (H1) showed that human capital has a significant and positive effect on audit quality in BPK RI Representatives of Southeast Sulawesi Province. This condition showed that the better the human capital owned by an auditor, the better the resulting audit quality. The results showed that the human capital owned by the BPK RI Representative Southeast Sulawesi Provincial was formed by indicators of expertise (education & experience), competence and interpersonal relationships with the organization. But what should be the main focus of the auditor to be further improved in producing quality audits is the expertise gained through education and experience. The interpersonal relationship with the organization that is still lacking is due to the existence of rules that require auditors who have a working period of 3 to 5 years, must be transferred to representatives of other provinces.

This is due to the consideration of the objectivity of the examination (i.e. to avoid auditee examined by the same person repeatedly). The results of this study confirm the research of Cheng et al (2009) which stated that HC obtained from experience, professional education and continuing professional education has a positive effect on audit quality on public accounting firms; Riswan (2012) in his research also stated that organizational commitment had a significant positive effect on audit quality on KAP in Bandar Lampung; Bouhawia (2015) with the results of her research also stated that experience, competence and

organizational commitment had a positive effect on audit quality on KAP in Libya ;; All of the above research results clearly illustrated that audit expertise (education & experience), competence and interpersonal relationships with organizations that are an inseparable part of human capital in this study have a significant positive effect on the quality of audit results. The results of this study differed from the results of research conducted by Carolita (2012) which stated that competence does not have a significant effect on audit quality, but work experience and organizational commitment significantly influence on audit quality; and Deli (2015) in their research stated that experience had no effect on audit quality in KAP Medan city. So, it was concluded that competency, experience and organizational commitment (part of human capital in this study) did not affect the quality of audit results.

The Effect of Structural Capital (SC) on Audit Quality at the BPK RI Representative of Southeast Sulawesi Province

The results of testing hypothesis 2 (H2) showed that structural capital has a significant positive effect on audit quality at the BPK RI Representative of Southeast Sulawesi Province. This condition showed that the better the structural capital owned by an auditor, the better the resulting audit quality. The results showed that structural capital was formed with indicators of potential for self-development, internal collaboration and management. Structural capital variables with indicators of potential for self-development have a relationship with indicators that dominate the variable of human capital (HC), namely indicators of competence and audit expertise, which in theory as proposed by Bontis et al (2000) that SC is an inseparable part of HC, the more opportunities for self-development available, the better the auditor's skills, knowledge and competence and also more developed, the better the impact on the audit quality result. The results of this study confirmed Cabrita's research (2006) which proves that structural capital positively moderates the relationship between human capital and organizational performance. This means that with structural capital it will support the human capital owned by the auditor to produce quality audits. The results of this study do not confirm the research conducted by Gazor et al (2013) who found a negative result between structural capital and auditor performance that has an impact on audit quality.

Conclusions, Limitations and Suggestions

Conclusion

Based on the results of research and discussion on the influence of human capital and structural capital on audit quality at Audit Board (BPK RI) representative the Southeast Sulawesi Province, it can be concluded that:

1. Human capital has a significant and positive effect on audit quality at the Audit Board of The Republic of Indonesia Representative Southeast Sulawesi Province. This is because

the auditor has the expertise gained by education and experience and good and adequate competence as an auditor and good organizational commitment.

2. Structural capital has a significant and positive effect on audit quality at the Audit Board of The Republic of Indonesia Representative Southeast Sulawesi Province. This is because the BPK organization itself always provides opportunities for its auditors to develop themselves, establishes excellent internal collaboration and manages its management that always supports the auditor's needs.

Limitation

As for the limitations in this study, which may lead to bias or inaccuracies in the results of research that are expected to be developed in future research include:

1. This study used a survey method through a questionnaire, the researcher did not conduct in-depth interviews (interviews in depth) or be directly involved in activities at the Office of Audit Board of the Republic of Indonesia, so that the conclusions drawn were only based on data collected through the use of instruments in writing.
2. There are several weaknesses related to the questionnaire distributed to respondents, including the answers given by respondents sometimes do not reflect the real situation.
3. Based on the research model used, it is known that the coefficient of determination has a low value indicating that in addition to the variables that have been built in this study evidently there are still other variables that affect audit quality.

Suggestion

Based on the results of the research that has been done and the limitations of this study, some suggestions that can be submitted for future research are as follows:

1. Several new variables can be added in future studies to get different predictive results.
2. Future research can develop research questionnaires by increasing references and literature such as the results of previous research, seminar results, reports on activities conducted by the Audit Board, etc., as well as the use of positive and negative statements if necessary, so that later human capital questionnaires and structural capital auditor can describe the real problems in the field that the data can be deeper.

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