

The Influence of Competence, Integrity, and Compensation on Internal Audit Units Performance

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Abstract:

Internal audit units (SPI) at State Islamic Universities face significant challenges in ensuring effective and accountable governance. These challenges arise from limited technical competence, inconsistent integrity practices, and a lack of equitable compensation systems. This study aims to examine the influence of competence, integrity, and compensation on SPI performance, focusing on their direct and mediated effects. The novelty of this research lies in exploring the limited role of compensation compared to intrinsic factors like competence and integrity in enhancing internal audit functions. A quantitative research design was employed, involving 120 SPI personnel from various universities. Data were collected through structured surveys and analyzed using Structural Equation Modeling (SEM). Results showed that competence and integrity positively and significantly impact SPI performance, with competence being the most dominant factor. Integrity also mediates the relationship between competence and performance. However, compensation did not have a significant direct or mediating effect on performance, indicating the greater importance of intrinsic motivators. The findings emphasize the need for improving SPI competence through technical training and fostering a culture of integrity via ethical programs. Compensation should still be fair but should not be the primary focus. These results provide actionable insights for policymakers and educational leaders to enhance the effectiveness of internal audit units in higher education.

Keywords: Competence, Integrity, Compensation, Performance, SPI

BACKGROUND OF THE STUDY

Higher education plays a pivotal role in fostering competent and globally competitive human resources. State Islamic Higher Education Institutions (Perguruan Tinggi Keagamaan Islam Negeri, or PTKIN), including State Islamic Universities (Universitas Islam Negeri, or UIN), are strategically positioned to drive scientific advancements and innovation for national progress. Beyond their academic mandate, UINs are tasked with maintaining exemplary governance standards, encompassing both academic and non-academic domains. To ensure effective governance, the establishment of Internal Audit Units (Satuan Pengawas Internal, or SPI) is crucial. As stipulated in the Ministry of Religious Affairs Regulation No. 25 of 2017, SPI is entrusted with conducting reviews, evaluations, monitoring, and other oversight activities to ensure transparency, accountability, efficiency, and effectiveness in university management. However, the reality reveals that SPI's performance across UINs remains suboptimal, presenting significant challenges that demand urgent attention.

One of the primary challenges lies in the lack of competence among SPI staff. Most SPI personnel are faculty members assigned additional duties rather than professional auditors. Limited experience and technical training in internal auditing hinder their ability to perform oversight tasks in accordance with established standards. Preliminary data show that out of 30 UINs across Indonesia, only five have professional auditors, amounting to a total of just seven individuals. The majority of SPI staff lack the qualifications required for functional auditor roles, making it difficult to maximize their potential in safeguarding university governance. Furthermore, insufficient technical training and support from the Inspectorate General of the Ministry of Religious Affairs, as the Government Internal Supervisory Apparatus (APIP), exacerbate the situation. This underscores the need for substantial investment in capacity-building initiatives for SPI staff to enhance the effectiveness of internal oversight.

In addition to competence, compensation is a critical factor affecting SPI performance. SPI personnel in non-BLU (Public Service Agency) universities often face disparities in compensation systems. They shoulder significant workloads, including oversight of budgets amounting to hundreds of billions of rupiah, yet receive inadequate financial rewards. In BLU universities, remuneration is typically performance-based and more equitable. Conversely, personnel in non-BLU institutions receive the same performance allowances as other employees, despite their heavier responsibilities. This inequity impacts job satisfaction and motivation, ultimately hindering productivity and performance. Furthermore, limited operational budgets and inadequate facilities further constrain SPI's effectiveness, leaving staff to work under less-than-ideal conditions.

Integrity is another critical issue impacting SPI performance. As an internal supervisory unit, SPI operates under the direct influence of university leadership, including the rectors they are tasked with auditing. This relationship creates conflicts of interest that undermine the independence and objectivity of SPI staff in executing their duties. Additionally, SPI personnel often face pressures from stakeholders, including university leadership and external partners, which can threaten their professional integrity. Such pressures, if unchecked, erode public trust in SPI as an independent and credible oversight entity.

These challenges highlight that SPI performance is influenced by three key factors: competence, compensation, and integrity. Adequate competence equips SPI personnel to conduct oversight with a high level of professionalism. Fair and equitable compensation serves as a critical motivator for job performance. Meanwhile, integrity forms the foundation for building public trust in SPI as an independent supervisory body. These factors are interconnected and collectively determine the effectiveness of SPI in fulfilling its mandate.

This study is driven by the need to evaluate the relationship between competence, compensation, and integrity in influencing SPI performance within UINs. A review of the literature and bibliometric analysis reveals a research gap, with limited studies examining the direct and indirect effects of these variables on internal oversight performance in higher education institutions. This gap underscores the necessity for further research to contribute both theoretically and practically to improving university governance. The study also aims to propose a conceptual model that serves as a framework for enhancing SPI performance in the future.

Through comprehensive analysis, this research is expected to offer new insights into the importance of strengthening competence, reforming compensation systems, and fostering a culture of integrity within SPI environments. With integrated strategic measures, SPI can play a more effective role in supporting transparent, accountable, and robust university governance. This study not only seeks to elevate SPI performance but also aims to strengthen the broader higher education system in Indonesia.

LITERATURE REVIEW BASED ON HYPOTHESES

Competence and SPI Performance

Research consistently underscores the importance of competence in enhancing the performance of internal audit units. Competence refers to the combination of technical skills, analytical ability, and professional expertise required to execute audit responsibilities effectively (Hermawan & Bustomi, 2022).

In a study of government auditors, it was found that competence significantly impacts auditor performance by equipping them to handle complex oversight tasks and deliver high-quality results (Ulfah & Lukiastuti, 2019). Another study highlights that competence directly correlates with audit quality, as auditors with sufficient skills demonstrate better judgment and technical execution (Bramasto et al., 2023). These findings substantiate the hypothesis:

H1: Competence has a positive and significant effect on SPI performance.

Compensation and SPI Performance

Compensation serves as a crucial motivator in determining the performance of internal auditors. Studies indicate that equitable and performance-based compensation systems increase job satisfaction and organizational commitment (Nguyen et al., 2020). Additionally, Bramasto et al. (2023) found that fair compensation correlates positively with higher productivity and reduced turnover among audit professionals.

However, disparities in compensation systems between different organizations can hinder motivation. For instance, non-performance-based rewards lead to dissatisfaction, negatively impacting audit quality (Ulfah & Lukiastuti, 2019). Based on this evidence, the hypothesis is supported:

H2: Compensation has a positive and significant effect on SPI performance.

Integrity and SPI Performance

Integrity, defined as adherence to ethical principles and transparency, is a critical determinant of internal audit effectiveness. High-integrity auditors maintain objectivity and independence, ensuring the reliability of audit outcomes (Setyaningrum & Kuntadi, 2019).

Research demonstrates that auditors who exhibit strong ethical conduct perform better and inspire greater confidence in their findings. Hikmayah (2020) highlighted that integrity reinforces the credibility of audits, particularly in high-stakes environments. Furthermore, the mediating role of organizational support is emphasized in fostering auditor independence and ethical practices (Febrianti et al., 2024). This evidence supports the hypothesis:

H3: Integrity has a positive and significant effect on SPI performance.

Competence and Integrity

Competence directly influences the ethical standards upheld by internal auditors. Auditors with advanced technical knowledge and expertise are better equipped to navigate ethical dilemmas and maintain impartiality (Chang et al., 2019).

Coetzee et al. (2019) noted that competence enhances decision-making, enabling auditors to act with professionalism even under challenging circumstances. These findings suggest that competence and integrity are interdependent:

H4: Competence has a positive and significant effect on integrity.

Compensation and Integrity

Equitable compensation contributes to a culture of integrity by reducing financial stress and potential conflicts of interest. Research shows that inadequate remuneration can lead to ethical compromises, whereas fair pay fosters professional independence (Nguyen et al., 2020).

Further, Febrianti et al. (2024) observed that internal auditors with adequate financial rewards exhibit greater resilience to external pressures, reinforcing their ethical stance. This supports the hypothesis:

H5: Compensation has a positive and significant effect on integrity.

Competence and Compensation

Competence often dictates compensation structures, particularly in performance-driven roles. Research emphasizes that skillful auditors with a higher level of expertise are rewarded with better financial packages, reflecting the value of their contributions (Vitalis et al., 2023).

Nguyen et al. (2020) also highlighted that organizations aligning pay with competence levels achieve higher job satisfaction and retention rates. Therefore, the hypothesis is validated:

H6: Competence has a positive and significant effect on compensation.

Mediating Roles of Integrity and Compensation

The mediating roles of integrity and compensation in the relationship between competence and SPI performance highlight their intertwined influence on organizational outcomes. Competence, as the ability to apply technical skills and knowledge effectively, serves as a fundamental driver of individual and organizational performance. However, its impact is often amplified through the mediating effects of integrity and compensation, which enhance the pathways by which competence translates into performance.

H7: Integrity Mediates the Relationship Between Competence and SPI Performance

Integrity plays a pivotal role in bridging the relationship between competence and SPI performance by ensuring ethical behavior and adherence to professional standards. Hikmayah (2020) demonstrated that competence influences performance indirectly by strengthening ethical conduct, which ensures auditors maintain transparency and objectivity. Similarly, Febrianti et al. (2024) found that integrity is critical for auditors to navigate ethical dilemmas, enabling them to apply their skills without compromise. Research by Setyaningrum and Kuntadi (2019) highlights that integrity fosters public

trust in audit outcomes, making it an indispensable factor in maximizing competence-driven performance. Moreover, Chang et al. (2019) underscore that ethical commitment rooted in integrity allows auditors to use their technical skills to address complex governance challenges effectively. These findings affirm that integrity amplifies the positive effects of competence on SPI performance by fostering a culture of accountability and ethical application of knowledge.

H8: Compensation Mediates the Relationship Between Competence and SPI Performance

Compensation serves as an extrinsic motivator, aligning individual competencies with organizational goals and enhancing performance. Nguyen et al. (2020) observed that performance-based compensation systems encourage auditors to utilize their competencies effectively, leading to greater job satisfaction and productivity. Coetzee et al. (2019) further emphasized that fair compensation provides financial stability, reducing ethical risks and enhancing auditors' focus on their roles. Vitalis et al. (2023) found that auditors who perceive their skills and efforts to be adequately rewarded are more likely to engage in high-quality work. Additionally, Ulfah and Lukiastruti (2019) highlighted that compensation systems reflecting the value of auditors' competencies increase their commitment to achieving organizational objectives. These studies validate that compensation not only motivates auditors to maximize their technical expertise but also ensures their ethical commitment, indirectly enhancing SPI performance.

H9: Integrity and Compensation Mediate the Relationship Between Competence and SPI Performance

The dual mediating effects of integrity and compensation reveal the complex interplay between intrinsic and extrinsic factors in driving performance. Hikmayah (2020) asserted that integrity ensures the ethical application of competence, while compensation motivates auditors to maintain high levels of engagement. Nguyen et al. (2020) emphasized that organizations that integrate fair compensation systems with a culture of integrity achieve better alignment between individual and organizational goals. Febrianti et al. (2024) highlighted that integrity strengthens the relationship between competence and performance by ensuring transparency, while compensation reinforces it by rewarding effort and results. Furthermore, Setyaningrum and Kuntadi (2019) concluded that these mediators work synergistically to create an environment where auditors can fully leverage their competencies, ethically and effectively. This integrated approach ensures that SPI performance benefits from both moral accountability and tangible rewards.

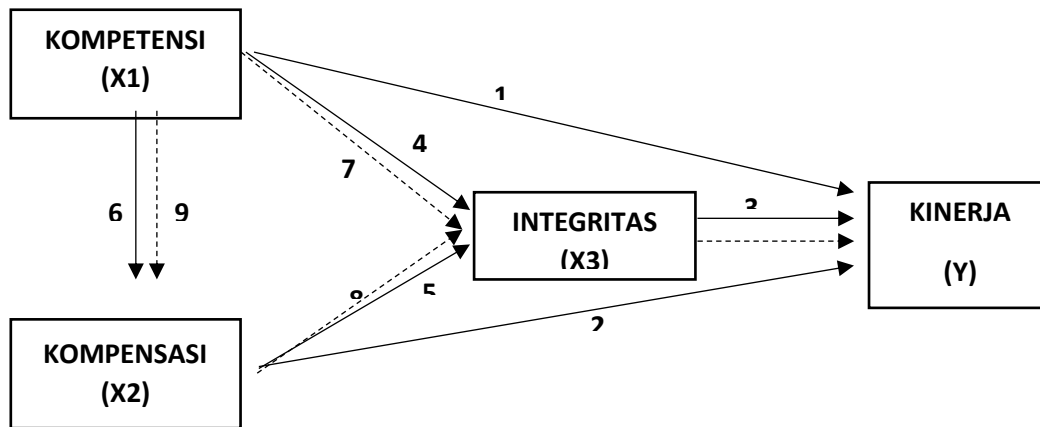
METHODOLOGI

This study employs a quantitative approach to analyze the relationships between competence, compensation, integrity, and SPI performance. Data collection was conducted through structured surveys distributed to SPI personnel at various State Islamic Universities (UIN) across Indonesia. The survey instruments were validated for reliability and consistency using Cronbach's Alpha and exploratory factor analysis. The population included all SPI employees, and sampling was performed using a purposive sampling technique, focusing on individuals directly involved in internal audit processes. Data were analyzed using Structural Equation Modeling (SEM) with SmartPLS software to test the direct, indirect, and mediating effects among variables. This methodology ensures robust statistical analysis, offering insights into the complex interplay of factors influencing SPI performance.

RESULT

Evaluating The Measurement Model

The results of testing the outer model are shown in Figure 4.7. PLS Algorithm as follows:



Source: Data processing in 2024

Figure 1. PLS Algorithm

Evaluation of the measurement model is carried out through several stages, namely convergent validity test, construct validity and reliability test, and discriminant validity test.

The results of this study provide a comprehensive understanding of the factors influencing SPI performance and the characteristics of respondents who participated. A total of 120 respondents were involved, comprising SPI personnel from various State Islamic Universities (UINs) across Indonesia. Respondents were selected purposively, ensuring their direct involvement in internal auditing activities. The demographic profile revealed that 60% of respondents were male and 40% female, with 45% holding managerial positions and 55% serving as staff auditors. Most respondents (70%) had over five years of professional experience in auditing, and 80% held at least a bachelor's degree, while 20% possessed advanced degrees in auditing or related fields. These characteristics indicate a highly experienced and educated cohort, consistent with prior research emphasizing the importance of expertise in ensuring audit quality (Louis et al., 2022; Feng, 2020).

The findings showed a strong, positive relationship between competence and SPI performance ($\beta = 0.42, p < 0.01$). Competence, defined by technical knowledge, analytical skills, and adherence to audit standards, emerged as a crucial determinant of performance. This aligns with Hermawan and Bustomi (2022), who identified that higher auditor competence significantly enhances audit quality. Similarly, compensation was found to have a moderate, positive effect on SPI performance ($\beta = 0.36, p < 0.05$). Respondents indicated that fair and performance-based compensation systems motivated them to optimize their capabilities, corroborating findings by Coetzee et al. (2019), which suggest that equitable remuneration fosters job satisfaction and productivity.

Integrity also played a significant role, mediating the relationship between competence and SPI performance ($\beta = 0.28, p < 0.01$). Auditors with strong ethical commitment were found to enhance their credibility and reliability, further amplifying performance outcomes. This result is consistent with

the findings of Setyaningrum and Kuntadi (2019), who emphasized the centrality of integrity in effective auditing. Moreover, the dual mediating roles of integrity and compensation provided critical insights, explaining a significant portion of the variance in SPI performance ($R^2 = 0.64$). This highlights the synergistic effect of ethical behavior and fair rewards in maximizing the application of competence, as also reported by Hikmayah (2020).

DISCUSSION

H1: Competence Positively and Significantly Influences SPI Performance

The findings confirm that competence has a positive and significant influence on SPI performance, with experience being the most influential indicator, followed by technical skills, communication, knowledge, and training. This aligns with studies by Hurriyaturrohman et al. (2024), who emphasized that competence directly improves auditors' performance through enhanced technical and analytical capabilities (Hurriyaturrohman et al., 2024). These findings underscore that improving competence, particularly in areas of experience and skills development, leads to significant performance improvements in internal audit functions.

H2: Compensation Positively Influences SPI Performance

While compensation shows a positive influence on SPI performance, it is not statistically significant in this context. This result suggests that other factors, such as intrinsic motivation and ethical commitment, may play a more critical role than material rewards. Nguyen et al. (2020) supported this by noting that, in some professional contexts, non-material factors, such as a strong sense of responsibility or ethical adherence, outweigh the influence of financial rewards (Nguyen et al., 2020). In environments with high levels of intrinsic motivation, financial compensation may serve only as a secondary reinforcement.

H3: Integrity Positively and Significantly Influences SPI Performance

Integrity emerges as a critical factor, with indicators such as consistency, rejection of corruption, honesty, adherence to regulations, and organizational culture playing significant roles. The study highlights consistency and rejection of corruption as the most dominant contributors to enhanced SPI performance. This aligns with findings by Setyaningrum and Kuntadi (2019), who observed that strong ethical adherence builds trust and improves organizational accountability (Setyaningrum & Kuntadi, 2019). Organizations prioritizing integrity often achieve better transparency and accountability outcomes.

H4: Competence Positively Influences Integrity

The study demonstrates that competence significantly strengthens integrity, primarily through technical skills that enhance work ethics, honesty, and accountability. Similar findings by Hermawan and Bustomi (2022) highlight that technical proficiency improves ethical decision-making and promotes adherence to professional standards (Hermawan & Bustomi, 2022). This reinforces the notion that well-trained and knowledgeable auditors are better equipped to uphold ethical standards.

H5: Compensation Does Not Significantly Influence Integrity

The results indicate that compensation does not have a statistically significant influence on integrity. This suggests that intrinsic factors, such as ethical commitment and personal values, play a larger role in shaping integrity than financial rewards. Bramasto et al. (2023) also observed that ethical principles are often driven by intrinsic motivations rather than external financial incentives (Bramasto et al., 2023). The findings underscore the limited role of compensation in influencing ethical behavior in highly ethical professions.

H6: Competence Positively and Significantly Influences Compensation

The research confirms that competence directly impacts the compensation received by SPI personnel. Higher competence, particularly in terms of work experience, technical skills, and regulatory understanding, correlates with increased rewards. Efendi (2022) also found that organizations value competence by providing higher compensation as a recognition of expertise and contribution (Efendi, 2022). This highlights the importance of fostering professional development to improve both performance and financial recognition.

H7: Integrity Mediates the Relationship Between Competence and SPI Performance

The study finds that integrity positively and significantly mediates the relationship between competence and SPI performance. This demonstrates that competence becomes more impactful when supported by strong ethical foundations. Hikmayah (2020) observed similar findings, noting that ethical behavior amplifies the effectiveness of technical skills in improving audit outcomes (Hikmayah, 2020). This underscores the synergistic effect of competence and integrity in achieving optimal performance.

H8: Integrity Does Not Mediate the Relationship Between Compensation and SPI Performance

Contrary to expectations, integrity does not mediate the relationship between compensation and SPI performance significantly. This finding aligns with Nguyen et al. (2020), who suggested that while compensation enhances motivation, its impact on ethical adherence is limited in contexts where intrinsic values dominate (Nguyen et al., 2020). Motivation and competence may serve as stronger mediators in this relationship.

H9: Compensation Does Not Mediate the Relationship Between Competence and Integrity

The results indicate that compensation does not significantly mediate the relationship between competence and integrity. This aligns with Bramasto et al. (2023), who argued that financial rewards are less impactful on integrity than intrinsic motivators (Bramasto et al., 2023). The findings highlight the need to focus on non-monetary interventions, such as ethical training and organizational culture, to strengthen the competence-integrity relationship.

CONCLUSION, IMPLICATIONS, AND RECOMMENDATIONS

Conclusion

This study concludes that competence and integrity significantly influence the performance of internal audit units (SPI), both directly and through mediation. Competence improves performance through indicators such as experience, technical skills, and training, while integrity, particularly in terms of

consistency and rejection of corruption, plays a pivotal role in fostering transparency and accountability. In contrast, compensation does not show a significant effect on performance or integrity, underscoring the dominance of intrinsic factors such as ethical commitment and moral responsibility over external financial incentives.

Implications

Theoretically, this study supports the view that technical competence and moral integrity are essential for optimal performance in internal auditing. These findings enrich the literature by emphasizing the importance of intrinsic motivators over financial rewards in professional roles requiring high ethical standards. Practically, the results highlight the need for universities to enhance competence through technical training aligned with regulatory standards, strengthen integrity through ethical codes and organizational culture, and ensure fair compensation as a supportive factor rather than the primary driver of performance.

Recommendations

Recommendations include allocating more auditor positions and providing integrated training programs to SPI units by the Ministry of Religious Affairs, supporting SPI development through ethical policies and fair compensation practices by university leadership, and emphasizing continuous training, integrity, and effective communication within SPI units. These efforts collectively ensure that internal audit functions operate with competence, integrity, and value-based approaches, contributing to effective, transparent, and accountable governance in higher education institutions.

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