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TAKAFUL
&
RISK MANAGEMENT

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3	6th AICIF: 072-060	The Impact of Culture on Quality of Internal Shariah Audit	Lisa Kartikasari, Fuad	Universitas Islam Sultan Agung (UNISSULA), Indonesia

The Impact of Culture on Quality of Internal Shariah Audit

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Abstract

The internal Shariah auditor should satisfy himself and formulate accurate judgment that the transactions and controls, he examined during his audit process comply with Islamic Shariah rules and principles. This study provides empirical evidence of the impact of culture on quality of internal shariah audit. Using data from a survey of chief internal auditors from the Islamic of Financial Institution in Central Java Province of Indonesia, the study finds that variables of uncertainty avoidance and power distance negatively affect the quality of internal Shariah audit. Shariah rules, especially in Islamic banking operations, have a role to reduce uncertainty in the environment where internal auditors carry out their duties. Other variables of cultural dimension, such as individualism/collectivism and femininity/masculinity do not affect the quality of internal shariah audit.

Keywords: Culture, Quality of Internal Shariah Audit, Shariah rules, Islamic of Financial Institution

1. Introduction

The existence of internal auditors in the company is very necessary. Therefore, to find out whether the provisions of top management in the form of policies and procedures have been adhered to and to oversee the wealth of the organization and the reliability of the information produced by the parts in the organization (Mulyadi, 2002). In order to make good performance of internal auditors, it is necessary to improve quality. In some developed countries, the quality of internal shariah audits is heeded. Where International Standards for the Professional Practice of Internal Auditing (ISPPIA) is fulfilled through the actions of the Chief Audit Executives (CAE) that facilitate internal auditor functions in various ways. CAEs have instilled professionalism in internal auditors and implemented an organizational structure that allows internal auditors to work without a hitch to realize effective and transparent internal controls. The actions taken by the CAEs in developing countries will be different, thus will create obstacles to the effectiveness of the internal auditors duties implementation (Alzeban, 2015). This difference occurs because of cultural differences.

Research that connects the cultural dimension with auditing has been widely carried out (Abdolmohammadi & Tucker, 2002; Heli & Wang, 2009; Hop, Kang, Thomas & Yoo, 2008; Jeffry, Dilla & Weatherholt, 2004; Umar & Anandarajan, 2004; Patel, Harrison & McKinnon, 2002; Sim & Goodwin, 2004; Cohen, Pant & Sharp, 1995; Wingate, 1997). While researches that connects the cultural dimension with the quality of the internal Shariah audit is still small. Research conducted by Dicle and Usluer (2016) shows that the 4 dimensions of Hofstede culture (power distance, uncertainty avoidance, collectivism/individualism and masculinity/femininity) are only a power distance which does not affect the effectiveness of internal auditor functions. Although the power distance culture results are different from the hypotheses, but in the sub-item which states that "employees in the lower position do not have to disagree with employees' decisions in a higher position", this has a negative effect. Those statements are in accordance with the effectiveness of the internal auditor function. So that professionalism is more meaningful than the hierarchy of position. Sarens and Abdolmohammadi (2010) stated that the relationship

between internal auditor professionalism and cultural context exists in each country and uniformity of internal auditor practices. Countries that have a low score on the cultural dimension of uncertainty avoidance, collectivism and assertiveness are more found in their internal auditor profession compared to countries that have high scores on the cultural dimension. Then, the countries that have low scores on power distance and collectivism will gain uniformity in the practice of internal auditors. Indonesia has a high score on power distance and collectivism and middle score in uncertainty avoidance. It means that in Indonesia, there is no uniform practice of internal auditors, and in fact, not all large and small companies have internal auditors. The study that correlates the cultural dimension to the use and compliance of internal auditor standard is performed by Sarens and Abdolmohammadi (2011), with uncertainty avoidance culture results in contrast to the use of standard when assertiveness and human orientation have an effect on standard compliance with positive direction. Research conducted by Alzeban (2015) conducted in Saudi Arabia with a sample of companies listing in Saudi Stock Exchange TADAWL by using 3 dimensions of Hofstede culture (power distance, uncertainty avoidance, and individualism/collectivism) on the quality of internal Shariah audit. The results of the study stated that the dimensions of power distance and uncertainty avoidance culture have a negative effect on the quality of internal shariah audit but it has high individualism culture, and this actually increases the quality of internal shariah audit. The Saudi Arabian state through a prosperous country with many sources of crude oil, but the culture of collectivism is low. Unlike the United Kingdom, the society is prosperous but it has high culture of collectivism.

This study refers to Alzeban research (2015), it is done by extending the relationship between variables. In Alzeban's research (2015) the cultural dimension of Hofstede used are only 3 dimensions. They are power distance, uncertainty avoidance, and individualism/collectivism. This research adds one dimension more, namely the cultural dimension of masculinity/femininity as suggested by Alzeban (2015). Alzeban (2015) examined in the State of Saudi Arabia, where the score of Hofstede dimension culture was different from the score of the Indonesian cultural dimension. Besides that the measurement of independent variables in this study is adopted by Yoo et al (2011). Yoo et al (2011) used a new measurement instrument developed by the Hofstede cultural dimension, with reference to individual levels. It is different from the measurement of the independent variables used by Alzeban (2015).

2. Literature Review

2.1. Indonesia in the Hofstede Cultural Value Dimension

Indonesia as a country with the highest power distance value of 78 in accordance with the results Hofstede (2005). The higher power distance culture value creates the power and welfare of society uneven as a whole. The average value of the cultural dimension of uncertainty avoidance in Asia is 58, while the world average is 64. In Indonesia, this dimension value is 48. For the uncertainty avoidance cultural dimension, Indonesia is described as people who have a low tolerance for uncertainty. Uncertainty can be reduced by efforts to implement regulations and laws and policies with no weakness. It aims to anticipate the things that are not desirable. The result of high uncertainty avoidance is that the community is almost unprepared for changes and risks. Indonesian society has more collectivism than individualism. The results are proven by Hofstede value for individualism of 14 with world average is 43 and 23 for Asia.

2.2. Quality of Internal Shariah Audit

Quality of internal Shariah audit is the auditor's ability to maintain the quality of understanding of the contextual and managerial conduct of audits through academic levels in applied accounting. Internal auditors are interested in producing quality audits. In accordance with the Professional Standards for Public Accountants, the provisions and auditing standards implemented by the auditor indicate that it has high quality. The indicator of internal shariah audit quality is while the accountability and responsibility increase. In addition, there is evidence of information whether there is or not a deviation from the company's audit standards, the company management provides responses and reviews of audit activities that are conducted fairly and provides planned corrective actions.

2.3. Hypothesis Development

2.3.1. The relationship between power distance culture dimensions and quality of internal shariah audit

In a company, the dimension of power distance culture can influence the relationship between superiors and subordinates. High low power distance culture will provide a work environment that greatly affects the quality of work employees. Companies with a high power distance culture have strong centralization (Wong & Birnbaum-More, 1994). Subordinates are not free to consult with superiors so that subordinate relationships with superiors often result cross-opinions. If the power of centralization is only in a few people, it will risk the creation of high material misstatement in the financial statements (Haskins, 1987). Auditors in high power distribution environments must be able to anticipate the high misstatements made by employees and try to ensure an effective internal control structure (Hell & Wang, 2009). Most companies that are in a high power distance culture have a number of employees with low levels of education where the internal auditors are also part of the company's employees. This affects the internal shariah audit's quality because it will be good if it has a high level of education and the need for competencies are adequate, such as the implementation of training, seminars, and others. It will be different if the internal auditor is in a company that has a low power distance culture. Employee competence in companies with a low power distance culture is very good. It is because the relationship between superior and subordinates have comfortable feeling for discussing. The need for training, seminars and the level of internal auditor education in companies with a low power distance culture is noticed by the company. So that it will improve the quality of internal Shariah audit. Saren and Abdolmohammadi (2010) found that uniformity in internal auditor practices was formed significantly in companies with a low power distance culture. In companies with a low power distance culture will improve the quality of internal Shariah audit. Alzeban's research (2015) found that the dimension of power distance culture has a negative effect on the quality of internal Shariah audit. The hypothesis proposed as follows:

H1. Power Distance negatively affects the quality of internal shariah audit

2.3.2. The relationship between cultural dimensions of uncertainty avoidance and quality of internal shariah audit

If a country has a high value of uncertainty avoidance, so lifetime employment is more common than a country with a low value of uncertainty avoidance (Hofstede, 2001). The standards of Internal Auditor Function (IAF) state that the internal auditor's function is to reduce uncertainty and ambiguity in practice because this will create the predictability, consistency, and uniformity (Alzeban, 2015). Companies with low uncertainty avoidance cultural values are companies that are ready to face change. If an internal auditor is in a company that is ready to face change so that this internal auditor is in a competitive environment. Companies with a competent Environment will support for professional training, education and certification activities. So companies that have low uncertainty avoidance culture will produce high quality of internal shariah audit. Alzeban (2015), in his research in Saudi Arabia found that Uncertainty Avoidance negatively affects the quality of internal shariah audits. Dicle and Usluer (2016) stated that Uncertainty Avoidance has a negative effect toward the internal auditor's effective function on internal audit professions in several countries. The hypothesis proposed as follows:

H2. Uncertainty Avoidance negatively affects the quality of internal shariah audit

2.3.3. The relationship between the cultural dimensions of Collectivism vs Individualism and the quality of internal Shariah audit

In a company with a strong individualism, the organizational culture will give more individual rewards and the relationship between employees and company owners is based on mutually beneficial relationships. This is inversely proportional to a company with a strong collectivism culture, the relationship between employees and company owners is based on togetherness to gain mutual benefit. Employees who are in a company with a collectivism culture will show high loyalty to the department and organization as a whole (Hofstede, 2001). Among internal auditors, collectivism culture in this case is that strong professionalism will provide strong

professional behavior towards the use and fulfillment of standards (Abdolmohammadi & Sarens, 2011), thereby it increases the quality of internal Shariah audits (Alzeban, 2016). The hypothesis proposed is as follows:

H3. Collectivism positively affects the quality of internal shariah audit

2.3.4. The relationship of masculinity/femininity culture to the quality of internal Shariah audit

The culture of masculinity/femininity emphasizes the purpose of the organization towards results or processes. If a company has an employee character that most dares to take risks and extrovert then it can be sure masculinity level at the company is high. So if a company is dominated by men, it will be more objective. The objectivity principle requires employees who are firm, honest and cannot be influenced by other parties. Men use more logic while women use more feelings, so women are less objective. One of the measurements of the internal shariah audit's qualities is objective. So, the culture of masculinity in the company will improve the quality of internal Shariah audit.

H4. Masculinity culture positively affects the quality of internal shariah audit

3. Research Methodology

3.1. Population and Sample

The population of this study was all internal auditors working in Islamic Financial Institutions (IFIs) in Central Java. If the subject is less than one hundred, it is better to take it all. Therefore, the intended population is the sample in this study that is done by taking all internal auditors working in Islamic Financial Institutions (IFIs) in Central Java as an analytical unit.

3.2. Variable operations and Measurement

The dependent variable in this study is Quality of Internal Shariah Audit. Quality of internal Shariah audit is a reflection of reliable audit results from the attitude of internal auditors in carrying out their duties in accordance with applicable standards. The variable of Quality of internal Shariah audit is measured by the number of major Shariah audit findings that is reported, internal sharia audit plan achieved, acceptance of sharia internal audit recommendations, and implementation of Sharia internal audit improvements.

The independent variable in this study is the cultural dimension of Hofstede. There are five cultural dimensions of Hofstede. They are Power distance, uncertainty avoidance, collectivism/individualism, masculinity/femininity and long-term / short-term orientation. For research related to the quality of internal Shariah audits that are appropriate are four dimensions, namely Power distance, uncertainty avoidance, collectivism, and masculinity. The measurement of the independent variables in this study adopted from Yoo et al (2011). Yoo et al (2011) used a new measurement instrument developed from the Hofstede cultural dimension, with reference to individual levels. The Likert scale with 7-scale was used in this study with 1 for disagree with a scale of 7 for strongly agree. Power distance emphasizes the distance of leaders with high or low employees. The indicator in the power distance variable is 5 which is related to the relationship between leaders and employees in terms of decision making, social life and interaction. The uncertainty avoidance variable uses 5 indicators by referring to task or job certainty through instructions and procedures. The collectivism/individualism variable is measured by 6 questions that are related to indicators that more put group interests than individual interests. The variables of masculinity/femininity are measured by 4 indicators of questions that lead to the differences between men and women in decision making, job characteristics, and problem-solving.

3.3. Data Types and Sources

In this study, the type of data collection used is primary data. Data obtained or collected directly from the data source. Data collection techniques used questionnaires and interviews.

3.4. Analysis Techniques

The hypothesis in this research is done by using Multiple Regression analysis. This analysis is used to determine the influences of Hofstede cultural dimension is power distance, uncertainty avoidance, individualism/collectivism, masculinity/femininity to quality of internal shariah audit with firm size as a moderating variable. The regression equation is as follows:

$$Y = a + b_1PD + b_2UA + b_3Coll + b_4Masc + e$$

Note:

- Y : Quality of internal shariah audit
- a : constant
- PD : power distance
- UA : uncertainty avoidance
- Coll : collectivism/individualism
- Masc : masculinity/femininity
- b : regression coefficient
- e : standard error

4. Result and Discussion

A good multiple regression equation models is a model that meets the requirements of classical assumptions, such as data must be normal, the model must be free of multicollinearity, and free from heteroscedasticity. Based on the previous analysis result, it has been proven that the equation model proposed in this research already meet the requirements of classical assumption so that the equation model in this research is good.

Table 4.1
Regression Results

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
	B	Std. Error				Beta	Lower Bound
(Constant)	3.572	1.347		2.652	.011	.849	6.294
Power distance	-.020	.186	-.016	-.106	.016	-.395	.356
uncertainty avoidance	.378	.170	.333	2.227	.032	.035	.721
Individualism/collectivism	-.129	.159	-.124	-.809	.023	-.451	.193
Femininity/Masculinity	-.125	.152	-.128	-.821	.077	-.433	.183

a. Dependent Variable: Quality of internal shariah audit

The testing variables results indicate that power distance affects the quality of internal Shariah audit. This result is in line with Alzeban's research (2015). Quality of internal Shariah audit will be good if it has a high level of education and the need for adequate competencies, such as training, seminars, and others. Meeting the need of competence for internal auditors is very dependent on the company's financial capabilities and the internal performance of the auditor. The high and low conditions of power distance in a company do not become a problem if the company has sufficient financial ability to increase the need for internal auditor competencies. Besides that, if the internal auditor's performance is good, so the company tends to meet the needs of increasing competence for the internal auditor.

The uncertainty avoidance variable has a negative effect on the quality of internal shariah audit. These results support the Alzeban (2015) and Sarens and Abdolmohammadi (2010) studies. The standard of Internal Auditor Function (IAF) states that the internal auditor's function is to reduce uncertainty and ambiguity in practice, as this will create predictability, consistency, and uniformity. Uncertainty Avoidance measures the level of anxiety of community members or institutions about the uncertainty or ignorance of the future. Institutions such as sharia banking that performs all operational companies both financial and nonfinancial with basing on the rules of sharia supports the condition of uncertainty avoidance. Whereby basing on the rules of sharia will reduce the uncertainty of the internal and external environment.

Collectivism variables do not affect the quality of internal shariah audit. This result is the same as the research of Alzeban (2015) and it is different from the results of Sarens and Abdolmohammadi's (2010) research. The culture of individualism/collectivism emphasizes conditions of independence that allow employees to be active in determining their fate or interdependence in working together in an organization. By Strong collectivism, the relationships between employees and owners of company are based on togetherness to get mutual benefits. Apparently, this does not improve the professionalism of the internal auditors. Professionalism is asosiated by individual abilities and awareness.

The variable of masculinity does not affect the quality of internal shariah audit. Society is stated to be feminine when the separation of roles based on gender is not clearly seen, both men and women must be friendly, gentle and focus on improving the quality of life. Companies with a high level of masculinity which is dominated by men will be more risk-taking and speculative. The culture of masculinity/femininity emphasizes the purpose of the organization towards results or processes. The sharia banking which is the respondent in this research mostly has the internal female auditor.

5. Conclusion

The main focus the quality of internal Shariah audit is the results of financial statements that are able to provide information to the users of financial statements for decision making. Audit quality improvement is based on auditor quality. This study uses Hofstede cultural dimension to see its effect on the quality of internal shariah audits in the Institutional Financial Islamic (IFIs) in Central Java. The results of this study indicate that the variables of uncertainty avoidance and power distance negatively affect the quality of internal Shariah audit. Islamic banks that have low uncertainty avoidance will produce high quality of internal Shariah audit. Sharia rules, especially in Islamic banking operations, have a role to reduce uncertainty in the environment where internal auditors carry out their duties. Other variables of Hofstede cultural dimension, such as individualism/collectivism and femininity/masculinity do not affect the quality of internal shariah audit.

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