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The Roles of Internal Audit in Risk Management at Local Governments in West Java Province

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Abstract

One way to create clean, effective, democratic and trustworthy local governance is by raising the accountability of financial management. On the other hand, problems have been found in the internal control of local governance (Audit Board of the Republic of Indonesia, 2016). The limitations of internal control consist of issues in the accounting and reporting control system, in the control system over the implementation of the income and expenditure budget, and in the internal control structure. In local government activities, internal control functions are carried out by Government Internal Auditors. The strategic roles of Government Internal Auditors in the budget planning process by reviewing the budget and supporting documents exemplify quality assurance. The effectiveness of Government Internal Auditors in performing risk management, control, and governance is expected to drive success in quality assurance. This research seeks to identify the roles of Government Internal Auditors at local governments in the province of West Java through a focus group discussion (FGD) and survey approach. The FGD and survey were conducted on five local governments in West Java selected based on high, medium and low maturity levels. Results of the survey show the perception of respondents that Government Internal Auditors have been reasonably effective and so has risk management at the local governments.

On the contrary, in-depth interviews revealed several obstacles that may hamper or decrease the effectiveness of Government Internal Auditors in applying risk management at local governments, namely lack of workforce, the competence of Government Internal Auditors, tone of the top, and challenges against independence.

Key words: internal audit, risk management, local governments.

Los Roles De La Auditoría Interna En La Gestión De Riesgos En Los Gobiernos Locales En La Provincia De Java Occidental

Resumen

Una forma de crear una gobernanza local limpia, efectiva, democrática y confiable es elevar la responsabilidad de la gestión financiera. Por otro lado, se han encontrado problemas en el control interno de la gobernanza local (Junta de Auditoría de la República de Indonesia, 2016). Las limitaciones del control interno consisten en problemas en el sistema de control de contabilidad e informes, en el sistema de control sobre la implementación del presupuesto de ingresos y gastos, y en la estructura de control interno. En las actividades del gobierno local, las funciones de control interno son realizadas por los auditores internos del gobierno. Los roles estratégicos de los auditores internos del gobierno en el proceso de planificación presupuestaria al revisar el presupuesto y los documentos de respaldo ejemplifican el aseguramiento de la calidad. Se espera que la efectividad de los auditores internos del gobierno en la gestión, el control y el gobierno de los riesgos impulse el éxito en el aseguramiento de la calidad. Esta investigación busca identificar los roles de los Auditores Internos del Gobierno en los gobiernos locales de la provincia de Java Occidental a través de una discusión de grupo focal (FGD) y un enfoque de encuesta. El FGD y la encuesta se llevaron a cabo en cinco gobiernos locales en Java Occidental seleccionados en función de los niveles de madurez alto, medio y bajo. Los resultados de la encuesta muestran la percepción de los encuestados de que los auditores internos del gobierno han sido razonablemente efectivos y también lo ha sido la gestión de riesgos en los gobiernos locales. Por el contrario, las entrevistas en profundidad revelaron varios obstáculos que pueden obstaculizar o disminuir la efectividad de los Auditores Internos

del Gobierno en la aplicación de la gestión de riesgos en los gobiernos locales, a saber, la falta de mano de obra, la competencia de los Auditores Internos del Gobierno, el tono superior y los desafíos contra independencia.

Palabras clave: auditoría interna, gestión de riesgos, gobiernos locales.

upright state governance, according to Government Work Plan (RKP) Year 2016 programs listed in Presidential Regulation Number 60 Year 2015, is by increasing the accountability of state financial management. Government Regulation Number 60 Year 2008 on the Government Internal Control System was issued in order to raise reasonable confidence in the effective and efficient achievement of the objectives of state government organization, financial reporting reliability, state asset protection, and compliance with laws and regulations.

Results of Government Agency Performance Accountability (AKIP) evaluation on regencies and cities across Indonesia in 2016 remained at C category. During the 2016 AKIP Evaluation Report Presentation, Minister of Administrative and Bureaucratic Reform (PAN-RB) Asman Abnur stated, “On average regencies and cities in 2016 earned an evaluation score below 50, which is still in C category” (Jajeli, 2017). Moreover, in 2016, the Audit Board of the Republic of Indonesia (BPK) delivered the Examination Results (IHSP) on the financial statements of local governments (LKPD), revealing that of 542 local governments, only 312 of them received unqualified opinion, or just about 58% (Chandra, 2016).



As cited in IHPS I Year 2016, results of BPK audit on 533 LKPD show 6,150 internal control system (SPI) flaws in local governments, comprising problems in the accounting and reporting control system, income and expenditure budget implementation control system, and internal control structure (BPK, 2016). The composition of the three SPI issues is presented as follows.

Figure 1. Composition of three SPI issues. From BPK (2016)

Furthermore, the IHPS reports that internal control system faults generally occur due to the responsible official/employee's negligence in observing and understanding applied terms, suboptimal implementation of tasks and responsibilities, weak supervision and control, insufficient coordination with relevant officials, lack of policy/procedure for an operational activity, and failure to follow up recommendations from BPK audit results of the year prior.

In local government activities, internal audit functions are undertaken by the Government Internal Auditors (Circular Letter Number 07 Year 2012 on Increasing Supervision to Spare the Usage of Goods and Employee Expenses in the State Apparatus Environment). At the Government Internal Auditors Ministry/Institution Workshop on February 22, 2012, Vice President Budiono said, "Government Internal Auditors Ministries/Institution is not only related to ex post problems but is also expected to support the performance of agencies. Thereby, Government Internal Auditors Ministries/Institution should start playing its role from the budget planning stage."

The strategic roles of Government Internal Auditors in the budget planning process by reviewing the Work and Budget Plans of Ministries/Institutions and their supporting documents are an embodiment of quality assurance in order to minimize errors in budget implementation and waste or budget uses that do not endorse the main tasks and functions. Hence, the competence and knowledge of Government Internal Auditors in budget planning are essential to improve, as with a competent Government Internal Auditors,

the Work and Budget Plans of Ministries/Institutions review will be more optimal and further encourage work units to produce quality Work and Budget Plans of Ministries/Institutions.

Head Deputy for Local Financial Management of the Finance and Development Supervisory Agency (BPKP) Dadang Kurnia explained the roles of Government Internal Auditors and Government Internal Control Systems (SPIP) in overseeing Nawacita (the Nine Programs) (Badan Pengawasan Keuangan dan Pembangunan, 2016a; Kurnia, 2016). Kurnia also reiterated the theory of the four lines of defense, in which internal control plays a crucial part in overcoming organization problems. Law Number 23 Year 2014 also states that in the event of a finding or complaint, it is the authority of Government Internal Auditors to resolve it before being brought to law enforcers. "This is a challenge for internal auditors to raise the capability to carry out the mandate of the Law," expressed Kurnia.

Therefore, the Government Internal Auditors unit is required in the budget planning process to review RKA and its supporting documents and to assure quality. With the involvement of Government Internal Auditors in budget planning through the RKA study, the process would become simpler and more strategic by focusing on output and outcome levels.

In addition, the roles and functions of an internal auditor are highly strategic for an enterprise by serving as the eyes and ears of the corporation and a key part in the early warning system of the organization. Internal audit is an objective and independent consulting and assurance activity designed to generate value added and enhance organizational operations in order to help the organization attain its objectives. It is done with a disciplined and systematic approach to evaluate and augment the effectiveness of risk management, control and governance of the company (The Institute of Internal Auditors, 2004a). This is corroborated by Bura and Wiryono (2013) who explained that an internal auditor orients towards comprehensive advice for the effective, efficient and economical accomplishment of

company operations, and acts as partner in implementing the operational management of the enterprise. Results of internal audit can also be utilized by the management as basis in making decisions.

Nevertheless, internal audit functions carried out by Government Internal Auditors do not guarantee that the operational activities of local governments run effectively and efficiently. Based on results of capability assessment on 474 Ministry, Institution, and Local Government Government Internal Auditors per 31 December 2014, as many as 404 Government Internal Auditors or 85.23% were at Level-1, 69 Government Internal Auditors or 14.56% at Level-2, and only one Government Internal Auditors or 0.21% at Level-3 (BPKP, 2016b). The ineffectiveness of internal audit stems from the notion that it is merely a formality, while it is in fact aimed at assessing the effectiveness of healthy practices in the corporation, including organization members and interactions with the environment. Internal audit also functions as a medium to ensure the effectiveness of policies, methods, procedures, programs and tools in achieving organization objectives.

Article 13 of Law Number 60 Year 2008 on SPIP concerns risk assessment, divided into risk identification and risk analysis. Risks denote potential events that may cause unexpected losses. In relation to business, a risk is a condition or threat that will negatively affect the company's ability to reach its objectives, directly or indirectly. On the other hand, risk management is a continuous process of improvement that immediately addresses negative influence through risk identification, risk treatment and risk monitoring (Ernst & Young, 2005).

Government Internal Auditors's effectiveness in performing risk management, control and governance would bolster success in quality assurance. According to Reding et al. (2013), risk management intends to discern and mitigate risks that may bring about adverse effects on the company's success and exploit chances that facilitate its achievement.

Killackey (2009) mentioned that any organization needs a risk management program parallel with various strategic levels in the organization. Along the same lines, Acharyya and Johnson (2006) stressed that the output of a risk management program has to inform the determination of company objectives and strategies to meet them. A risk management program needs to be aligned with business strategies in order to completely tackle corporate operational risks. Every organization, entity, company, etc. is founded to create value for its stakeholders and thus has aims to achieve. Along the way towards those objectives there must be incidents that hinder their attainment, defined as risks.

As noted by de Zwaan, Stewart, and Subramaniam (2011), internal audit plays a central part in the application of risk management. They also uncovered that an internal auditor assuming a consulting role promotes objectivity. Meanwhile, Ma'ayan and Carmeli (2016) underlined the duty of top management in using internal audit functions to drive change in the aspired direction, thus fostering continuous improvement of organization units in diverse dimensions: ethical behavior, efficiency, and effectiveness. Asare (2009) also asserted that well-configured internal audit functions may significantly contribute to the governance and accountability of public sector institutions with assessments on effectiveness of the main organizational control, governance and risk management process.

These featured views are supported by Sarens (2009) who affirmed that internal audit can also provide consulting services directed to upgrading the adequacy and effectiveness of the risk management system. Evidently, it is worth underscoring that the roles of internal audit in risk management, as well as its impact on quality (effectiveness), largely depends on the quality of internal audit functions. Kasim & Mohd Hanafi (2012) added that though several organizations may have a separate risk management unit to focus on its application, internal audit still holds an integral part to play in the implementation of risk management.

Based on the considerations above, it is expected that this research is able to identify, describe, and analyze the roles of internal audit (Government Internal Auditors) in the application of risk management along with a range of control aspects overseen by local governments.

RESEARCH QUESTIONS

The aforementioned research background leads to the formulation of problems as follows:

- a. How effective are the roles of Government Internal Auditors at local governments in West Java Province?
- b. How is risk management applied in the context of Government Internal Auditors in West Java?
- c. What can be done to increase the capability of Government Internal Auditors in monitoring risk management at local governments in West Java?

LITERATURE REVIEW

Government Internal Auditors

Government Internal Auditors is a government agency established to perform internal audit in the confines of the central government and/or local governments, consisting of BPKP, inspectorates general of ministries, inspectorates or internal audit units at state ministries, chief inspectorates or inspectorates of non-ministerial government institutions, inspectorates or internal audit units at secretariats of higher state institutions and state institutions, inspectorates of provinces/regencies/cities, and internal audit units at other government entities according to laws and regulations (Regulation of the BPKP Chairman Number PER-1633/K/JF/2011).

Government Internal Auditors Capability Framework

Indicators of success in the implementation of good governance in the Government Internal Auditors context refer to six elements assessed in the Government Internal Auditors capability framework, namely:

a. Services and Roles

These include roles and services that Government Internal Auditors is able to offer to stakeholders consistently and continuously. According to its roles, Government Internal Auditors activities can be classified into assurance and consulting or advisory services. Assurance is implemented through audit, evaluation, review and monitoring activities. Audit activities may involve audit on transactions, conformity, performance, and value for money, as well as risk-based audit, while advisory services include technical guidance, training, and input/advisory activities in line with the expertise of Government Internal Auditors in internal control without taking over managerial duties and responsibilities.

b. People Management

Assessing the element of people management involves reviewing the process of forming a work environment that allows Government Internal Auditors personnel to perform at their best. The scope of people management assessment covers job/position descriptions, recruitment, performance standards, professional development, training, work guidance, and career development.

c. Professional Practices

Assessment of this element encompasses Government Internal Auditors capacities including policies, processes, and practices that enable Government Internal Auditors to work effectively by examining their accordance with priorities and strategies of risk management in the ministry/institution/local work unit of which the Government Internal Auditors is a part.

The assessment of professional practices also considers the contribution of Government Internal Auditors in conducting the continuous improvement of Government Internal Auditors and the organization in which Government Internal Auditors operates, as well as efforts of Government Internal Auditors in developing and sustaining quality assurance and improvement programs that cover all aspects of Government Internal Auditors activities in order to ascertain that

Government Internal Auditors works by adhering to professional standards and code of ethics.

d. Performance Management and Accountability

The object of assessment on this element is the activities and efforts of Government Internal Auditors in providing both financial and non-financial performance information required in managing, performing, and controlling Government Internal Auditors operations, and accounting for the performance and results gained by Government Internal Auditors, including performance information, its management system, and reporting performance.

e. Organizational Relationship and Culture

The purpose of organizational relationship and culture assessment is to ensure that the culture and relationships within Government Internal Auditors management and between Government Internal Auditors and other unit leaders in the Ministries/Institution combine well as reflected in the organization structure. Additionally, Government Internal Auditors maintains good culture and relationship with external parties to give positive impact on the primary stakeholders and other parties beyond the organization, such as external auditors or other supervisory organizations appointed according to regulations that apply.

f. Governance Structures

Governance structures refer to the combination between policy and process and the structure applied to Government Internal Auditors in order to inform, organize, manage and monitor Ministries/Institution/Local Government activities to reassure the attainment of Ministries/Institution/Local Government organizational objectives.

Assessment on Government Internal Auditors governance structure aims to judge whether Government Internal Auditors has the viable policy and process to grant the necessary authority, support, and resources for the administrative and functional implementation of internal audit and reporting links as means to guarantee the inde-

pendence and objectivity of Government Internal Auditors.

Risks

Every situation carries negative or positive impact or both. Incidents that bring negative impact and potentially obstruct value creation for the organization are seen as risks, whereas events that generate positive impact and propel value creation are viewed as opportunities (Committee of Sponsoring Organizations of the Treadway Commission, 2004). Risks always adhere to life since all deeds have risks (Turner & Keetelaar, 2005). Hence, a risk is the probability of any future event that negatively impacts the accomplishment of organization objectives (Turner & Keetelaar, 2005; International Organization for Standardization, 2009;).

Risks, as delineated by Regulation of the Minister of Finance Number 171/PMK.05/2016 on Risk Management in the Environment of the Ministry of Finance, are divided into a number of categories as follows: (1) revenue risks, prompted by failure to meet state revenue targets; (2) expenditure risks, insinuated by ineffective state budget absorptions, missed projections, or incongruity with usage targets; (3) funding risks, resulting from unfulfilled funding; (4) strategic risks, stemming from inaccurate decisions made by the organization in choosing strategies and unimplemented strategic decisions; (5) fraud risks, instigated by deliberate fraud that inflicts state financial losses; (6) compliance risks, triggered by the organization's non-conformity with laws and regulations that apply; (7) operational risks, brought by inadequate internal processes, outside events affecting the organization's operations, and external lawsuits against the organization; and (8) reputation risks, induced by dipping levels of confidence from external stakeholders.

Risk management

Liu (2012) clarified that risk management is basically affected by every person in the company, is applied in its strategic plan at every department, distinguishes potential risks, and manages risks so as to determine tolerable risks and eventually assure the company in reaching its objectives. Thereby, risk management is a process in-

fluenced by commissioners, management and all personnel of the organization, implemented into its strategies and throughout the enterprise, and designed to identify occurrences with potential effects on the organization and manage risks at acceptable levels (risk appetite) by providing feasible assessment in accordance with the achievement of corporate objectives (COSO, 2004).

Roles of Internal Auditors in Risk Management Operations According to IIA Standards

Risk management is defined by the Institute of Internal Auditors (IIA) as “a process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives” (MacLeod et al., 2010, p. 1). IIA (2009) also stated that the executive board is wholly responsible for ensuring that risks are managed. However, in practice the board would delegate risk management operations to the management who will be accountable for the accomplishment of risk management activities. The application of risk management by a structured, consistent, and coordinated approach will engender many benefits for the organization.

One of the main conditions assigned by executives is to earn confidence that risk management processes run effectively, and that key risks are managed to acceptable levels. Assurance from the management is paramount, but it needs to be complemented with objective assurance with internal audit activities as the prime source.

As stated by IIA (2004b), the principal role of an internal auditor in risk management is to give a warranty to the management and board on the effective implementation of risk management in the organization and contribute to the development of risk management processes. Shortreed, Fraser, & Purdy (2011) also outlined the roles of internal auditors in risk management, in that internal audit should no longer assess risks on behalf of the organization, but instead assist decision makers to establish the most appropriate risk mitigation in order to monitor and review risks and their control.

According to IIA (2009), internal audit provides assurance on risk management effectiveness in three areas, namely:

1. Design and execution of risk management processes;
2. Management of key risks including the effectiveness of control and mitigation; and
3. Accurate and reliable risk assessment, risk reporting, and status control.

IIA also depicted several internal audit tasks in risk management that must and must not be performed as follows:



Figure 2. The roles of internal audit in risk management. From IIA (2009)

It can be observed from the figure that internal audit plays an essential part in risk management with assurance activities by evaluation, review, monitoring, or audit. In addition, internal audit can offer consulting services to improve organizational governance, risk management, and the monitoring process. The flexibility of internal audit consulting depends among others on the maturity level. Internal auditors need to possess and enhance expertise on risks, comprehend the correlation between risks and governance, and act as facilitator who meets the conditions of becoming a role model and project manager for the implementation of risk management, particularly in its initial stages (IIA, 2009). Once the maturity level rises

and risk management becomes more embedded into business operations, the responsibility of internal audit in risk management may be reduced. It follows that Government Internal Auditors as internal auditors should be able to deliver assurance in the governance and risk management of local governments, particularly on the left side of the figure above.

Based on Figure 3, the core functions of Government Internal Auditors in performing risk management are:

- a. Reviewing key risk management
- b. Evaluating key risk reporting
- c. Evaluating risk management processes
- d. Assuring that risks are correctly evaluated
- e. Giving assurance on risk management processes

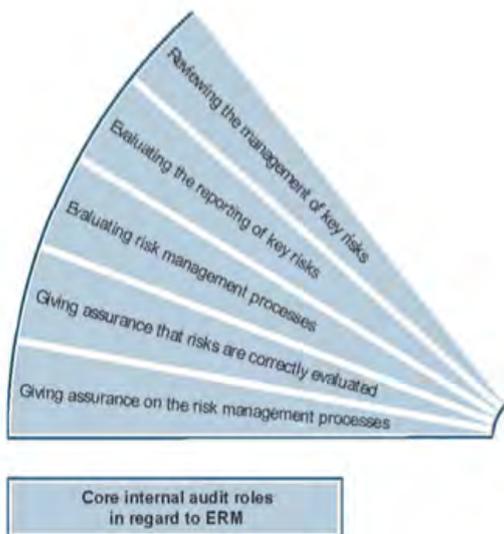


Figure 3. Assurance and consulting roles of internal audit in risk management. From IIA (2009)

The following are several consulting roles that internal audit may undertake (IIA, 2009):

- a. Providing managerial tools and techniques to analyze and monitor risk;

- b. Posing as role model in introducing risk management to the organization and enhancing expertise in risk management, control and organization thoroughly;
- c. Giving inputs, facilitating workshops, training the organization on risk and control, and pushing the development of general terms, frameworks and understanding;
- d. Acting as hub to coordinate, monitor, and report risks; and
- e. Assisting the manager to identify the best way to mitigate risks.

The role of Government Internal Auditors is becoming more and more strategic and is moving with the times. Government Internal Auditors is projected as an agent of change able to create value added in government agency products or services. Government Internal Auditors as internal auditor of the government is an important element of governmental management for the manifestation of good governance towards clean government/bureaucracy.

According to the Indonesian Government's Internal Audit Standards (SAIPI), bureaucracy reforms strive to create professional governmental bureaucracy that is adaptive, upright, high-performing, clean and free of corruption, collusion and nepotism, able to serve the public, impartial, prosperous, and dedicated, and firmly upholds the principal values and code of ethics of state apparatus (Asosiasi Auditor Intern Pemerintah Indonesia, 2013). To achieve that goal, effective Government Internal Auditors roles are required in the shape of:

1. Providing reasonable assurance on compliance, efficiency, and effectiveness in meeting objectives of managing government agency duties and functions (assurance activities);
2. Sending early warning and improving risk management effectiveness in managing government agency duties and functions (anti-corruption activities); and
3. Offering suggestions to preserve and increase the quality of governance in managing government agency duties and functions (consulting activities).

Likewise, in an interview with the research team on April 13, 2018, Chief Executive Officer (CEO) of IIA Indonesia Nur Abdillah conveyed that Government Internal Auditors must be able to reinforce local governments in conducting risk management in order to actualize Government Internal Auditors's assurance and consulting functions. Nonetheless, these functions shall not exceed their scope, implicating that Government Internal Auditors should not override the implementation of risk management. Moreover, in this context, Government Internal Auditors is required to abide by its code, such as differentiating between auditors who help local governments in applying risk management and ones who audit those local governments.

In the Three Lines of Defense model, the first defense line consists of management controls, while various risk controls and compliance supervisory functions set by the management constitute the second line, and independent assurance represents the third. Each defense line takes up a distinct role in the wider governance framework of the organization (IIA, 2013).



Figure 4. The Three Lines of Defense model. From IIA (2013)

Although the regulator and senior management are positioned in between the three lines, no discussion about risk management systems is complete without first considering the important roles of the governing body, namely the board of directors or its equivalent, and

the senior management. The two bodies are the primary stakeholders served by the lines and they are the parties best placed to help confirm that the model is reflected in risk management and organization control processes. The senior management and regulator collectively bear the accountability to stipulate organizational objectives, as well as the strategies to fulfil them, and build the best governance structure and process to manage risk in reaching those objectives. The Three Lines of Defense model is best implemented with active endorsement and guidance from the board managing the organization and the senior management (IIA, 2013).

Lyons (2015) declared that the global financial crisis clearly highlights the drawbacks of placing singular reliance on the supervisory roles of the Three Lines of Defense. Furthermore, "Given that failures in board and executive management oversight of risk was [sic] commonly identified as a contributing factor to the crisis, an increasing number of regulators and other commentators are now focusing specific attention on the specific strategic oversight roles of these two additional lines of defense" (p. 65). Hence, strategically the Three Lines of Defense should receive the addition of two lines of defense: the board and executive management. Nevertheless, Lyons admitted that every organization could face a unique situation where no defense cannot be penetrated in regard to specifically assigning and delegating ERM activities.

Government Internal Control System (SPIP)

Government Regulation (PP) Number 60 Year 2008 on SPIP represents government efforts to meet Article 58 of Law Number 1 Year 2004 on State Treasury in organizing internal control systems within the government comprehensively in order to raise performance, transparency, and accountability. PP 60/2008 is expected to contribute as platform for SPIP organizational development, as platform for internal audit organization and as standard for SPIP organization.

In brief, SPIP as delineated by PP 60/2008 comprises the following:

a. Control Environment

Heads and employees of government agencies demonstrate posi-

tive attitude and behavior that strengthen internal control and clean management. Heads of government agencies convey that integrity and ethical values must not be compromised. They are committed towards employee competence, implement fair human resource development policies and practices, and assume conducive leadership that empowers effective internal control. The organizational structure of government agencies and method of delegating authority and responsibility contribute to the effectiveness of internal control. Government agencies also maintain healthy work relationship with legislative bodies as well as internal and external auditors.

b. Risk Assessment

Heads of government agencies have specified clear and consistent general goals as well as their supporting objectives. They have thoroughly identified and analyzed risks from internal and external sources that may affect the capability of government agencies to attain their objectives, and have developed viable approaches to manage risks. In addition, a mechanism has been prepared to identify changes that plausibly influence the capacity of government agencies to realize their purposes.

c. Control Activities

Feasible control policies, procedures, techniques, and mechanisms have been developed and applied to ascertain compliance with established directions. Control activities for government agencies are developed accordingly.

d. Information and Communication

The information system to identify and record vital operational and financial information pertaining to internal and external events is under implementation. These types of information are communicated with the chair and other sections within government agencies in formats that allow those elements to perform their duties and responsibilities efficiently and effectively. Heads of government agencies ensure that internal communication runs effectively, as well as external communication with groups that possibly affect the mate-

rialization of government agencies' visions, missions and objectives. Those leaders use various forms of communication as necessary and manage, develop and ameliorate the information system in order to enhance communication continually.

e. Monitoring

Internal control monitoring constantly assesses the quality of internal control performance at government agencies as part of daily activities. In the meantime, separate evaluation on internal control is carried out regularly and divulged shortcomings are further investigated. A procedure has been set up to make sure that findings from audit and other reviews are promptly evaluated and receive proper responses and resolving actions.

SPIP management as denoted in PP 60/2008 is supposed to follow the governance process. The SPIP Organization Development Program has been enacted in the Long-Term Government Plan (RPJM), and so the government is obliged to provide a mechanism to gauge the program's success. Therefore, Regulation of the BPKP Chairman (Perka) Number 4 Year 2016 regarding Guidelines for SPIP Maturity Assessment and Improvement Strategies is expected to impart reasonable confidence over the ability of SPIP to boost the performance, transparency, and accountability of state financial management inside the government.

RESEARCH METHODOLOGY

The methodology utilized in this study incorporates focus group discussions, a survey and in-depth interviews, all of which are detailed as follows.

Focus group discussions

Hening and Columbia (1990) define a focus group discussion as an interview of a small group of individuals led by an interviewer or moderator who delicately persuades participants to openly and spontaneously speak about ostensibly considerable matters relevant to the topic under discussion. The focus group discussion partici-

pants in this study were the chiefs, deputy chiefs and apparatus of local government inspectorates.

Survey

A survey is an information-gathering method undertaken by composing a list of questions posed to respondents as sample of a population. In survey research, the researcher examines the characteristics or causal relationships between variables without intervening. Respondents in this research are the chiefs, deputy chiefs and apparatus of local government inspectorates.

Interviews

An in-depth interview is a process of obtaining information for research purposes by means of face-to-face questions and answers between the interviewer and informant or interviewee, with or without an interview guide, in which both sides have long engaged in social life (Sugiyono, 2010). The interviewees in this context are the chiefs, deputy chiefs and apparatus of local government inspectorates, and representatives of IIA Indonesia.

Table 1. Research Methods in Answering Research Problems

No	Research Problem	Research Method
1	How effective are the roles of Government Internal Auditors at local governments in West Java Province?	FGD Questionnaire based on Perka BPKP 1633/2011 Respondents: Government Internal Auditors
2	How is risk management applied in the context of Government Internal Auditors in West Java?	FGD Questionnaire based on PP 60 and Perka 4/2016 Respondents: Government Internal Auditors
3	What can be done to increase the capability of Government Internal Auditors in monitoring risk management at local governments in West Java?	FGD In-depth interview Respondents: Government Internal Auditors and IIA

Table 2. Variable Operationalization

Number	Variable	Indicator
1.	Government Internal Auditors role effectiveness	a. Government Internal Auditors services and roles b. People management c. Professional practices d. Performance management and accountability e. Organizational relationship and culture f. Governance structures (Perka BPKP Number PER-1633/K/JF/2011)
2.	Risk management implementation within Government Internal Auditors	a. Control environment b. Control activities c. Risk assessment d. Information and communication e. Internal control monitoring (PP 60 Year 2008 and Perka 4 Year 2016)
3.	How to improve Government Internal Auditors capability in monitoring risk management	FGD and in-depth interview results

RESULTS AND DISCUSSION

Government Internal Auditors Role Effectiveness at local governments in West Java

Government Internal Auditors Services and Roles

The focus of attention is the responses of Government Internal Auditors at the Municipal Government of Bandung where 50% respondents claimed that the task planning process has gone through the stages of communication with auditees, establishment of objectives, scope, criteria and approaches used in assignments, and comprehension of assignment targets, auditee environment and business processes, while the remainder expressed uncertainty. The highest proportion of participants who perceived that risk management has been properly conducted by Government Internal Auditors was that of the City Government of Bekasi, whereas the lowest was that of the Subang Regency Government.

People Management

The majority of respondents viewed that the teams were properly coordinated in implementing internal audit at each local government. A notable finding is that 100% of Government Internal Auditors respondents at the Garut Regency Government were unsure that every position was occupied by a qualified and experienced worker, and all of them even exposed that there was no certification program according to the required competencies.

Professional Practices

Most Government Internal Auditors participants at the five local governments held the perception that risk-based audit has been planned by Government Internal Auditors at each of those local authorities. Meanwhile, it is noteworthy that all respondents of the Garut Regency Government believed that the risk assessment procedure had not been periodically documented, whereas every respondent at the Municipal Government of Bekasi and 60% of those at the Kuningan Regency Government thought that there had been no external review on quality assurance.

Performance Management and Accountability

More than 50% of the respondents from four local governments (Bekasi City Government, Kuningan Regency Government, Band-

ung City Government, and Garut Regency Government) gave the opinion that cost information was decently employed in the internal audit process. In contrast, 47% participants at the Subang Regency Government cast doubt on this statement and 40% of them disagreed with it.

Organizational Relationship and Culture

The whole sample from the five local governments saw that each Government Internal Auditors has had integral team management in their respective situation. The majority of the sample held the belief that Government Internal Auditors activities are subject to management surveillance. Conversely, it is necessary to note that most respondents at the Subang Regency Government kept questioning the presence of a supervisory and advisory mechanism towards Government Internal Auditors.

Risk Management Implementation within Government Internal Auditors at local governments in West Java

The execution of risk management by Government Internal Auditors in the city of Bekasi have gone sufficiently well despite a few problems in the elements of control environment and internal control monitoring. This was evident when risk management at the Bekasi City Government was launched in early January 2017 and then socialized to local government agencies (SKPD) in October 2017.

Risk management in Subang Regency's Government Internal Auditors has also been adequately performed, but several drawbacks persisted in terms of control environment, information and communication, and internal control monitoring. Kuningan Regency's Government Internal Auditors has decently applied risk management as well, apart from some issues regarding control environment and control activities. On the other end, the risk management performance of Government Internal Auditors in the city of Bandung necessitates improvements due to flaws in all its elements, and so does that of Garut Regency's Government Internal Auditors.

Increasing Government Internal Auditors Capability to Monitor Risk Management at local governments

The interviews outlined four major concepts that can augment the ability of Government Internal Auditors to monitor risk management at local governments, namely:

- a. Coordination of Government Internal Auditors task forces,
- b. Government Internal Auditors competence,
- c. Tone of the top, and
- d. Challenges against independence.

These concepts are elaborated as follows:

a. Coordination of Government Internal Auditors task forces
In this respect, the researchers collected the following information from the interviews:

- There remained a shortage of auditors at each Inspectorate. For instance, Kuningan Regency only had 25 auditors and Bandung merely 21, both of which are considered deficient, implying the requirement for more auditors in those two regions.

- Every locale should also map out their needs for auditors. The larger the area, the more auditors it would demand, meaning that the number of auditors cannot be generalized for all regions. For example, Kuningan Regency hails 361 villages whilst Bekasi has much fewer, implicating that Kuningan would call for far more auditors than the latter.

- If the ideal number of auditors is yet to be fulfilled, there should be estimates on the number and scope of audit and other supervisory activities to be compared with the available workforce and expertise.

- Based on those points, it is necessary to arrange documents mapping the existent and required Government Internal Auditors personnel and competencies in order to measure the competency gap.

- Communication and coordination between audit team members were found wanting, as illustrated by the Bandung City Inspectorate which employs three types of auditors:

- a. Personnel auditors under the Secretary of the Inspectorate.

b. Auditors working for assistant inspectors.

c. Supervising officers of local government affairs (P2UPD) who also answer to assistant inspectors.

These three kinds of auditors led by discrete officials cause redundant data submissions when the auditors inspect an agency. Auditees have complained that after they handed data to a personnel auditor, another auditor or P2UPD requested the same data. The job delimitations of the three auditor types is obscure, often causing identical assignments to be undertaken by disparate auditor teams.

b. Government Internal Auditors Competence

The interviews conducted by the researchers resulted in the following findings:

- Government Internal Auditors at all local governments have not organized any professional internal auditor certification program for their members to be admitted as Qualified Internal Auditor (QIA), Certified Internal Auditor (CIA), Certified Government Auditing Professional (CGAP), Certified Fraud Examiner (CFE), etc. In Bekasi, when Government Internal Auditors strives for such certification, every single individual is required to submit a personal application, which is approved only if it is covered by the budget. Thus far, as many as three Government Internal Auditors auditors in Bekasi have had official recognition as CIA and CFE, some of whom were fully self-funded while the others partly received financial support from the agency.

- At the Bandung City Inspectorate, there is no budget allocation for human resource development activities, among which is auditor certification, forcing the acquisition of professional certificates by personal funds. Moreover, professionally certified auditors do not enjoy any distinct treatment or appreciation, so that auditors tend to opt against having any professional certificate. To date, only one person in Bandung possesses a professional auditor certificate, specifically as QIA.

- A similar case was found in Kuningan Regency, where there has been no professional certification for Government Internal Auditors as it has never been budgeted. The budget simply caters for

level certification (junior auditor, senior auditor, etc.) and substantive certification (trainings on forensic audit, procurement of goods and services, financial reporting, etc.). The latter is also deemed inadequate in spite of its urgency due to budget constraints.

- Not many inspectorates have applied a rewarding scheme for Government Internal Auditors with satisfactory or the best performance on every level, whereas a large incentive as reward was only found at the Bekasi City Inspectorate. Such recompense has led to a very high SPIP maturity level in the Government Internal Auditors of Bekasi.

The issue of Government Internal Auditors competence was also addressed by Asare (2009) who examined internal audit in the public sector and hence stated, “The attraction and retention of competent internal audit staff remains a serious challenge in the public sector due to unattractive remuneration packages compared to those in the private sector. Internal audit staffs are expected to have a greater knowledge of the entity’s business objectives, systems, risks and culture. Thus, private sector audit staff may not have the necessary skills and knowledge relevant to the public sector. The inability to attract staff that can respond to the competence requirements and changing needs of the public sector could affect the operational effectiveness and efficiency of internal audit functions” (p.26).

As affirmed by Nur Abdillah, the CEO of IIA Indonesia, when interviewed by the researchers, in performing their functions, auditors ideally need to be registered as Certified Internal Auditors (CIA) to validate their qualifications. If this is deemed overly difficult, a Qualified Internal Auditor (QIA) certificate would be adequate, but with a mandatory grasp of Quality Assurance Standards 1300.

Furthermore, Nur Abdillah stressed that whatever certification is required to become a Government Internal Auditors, the most important point is that the program is institutionalized. This implicates that every certification program has to recur annually. Facts from field survey results indicate that only one or two auditors in every

sampled region hold a professional certificate. A professional auditor certification program should not cease at merely a few auditors, and ought to be held yearly until ultimately every working auditor has a professional certificate.

c. Tone of the Top

In this regard, the interviews unraveled to the research team that:

1. The Government Internal Auditors with strong SPIP maturity, that of Bekasi, had a very good tone of the top as well. The Mayor's endorsement was immediately felt by the auditors in their enforcement on auditees, and the Chief Inspector assisted the effectiveness and efficiency of Government Internal Auditors in its duties. The local government's appreciation towards the inspectorate's work was also mirrored by massive endowment, which has lifted the motivation of auditors in working and meeting their targets.

2. The opposite took place in Bandung, where local government backing fell short of expectations. This has impacted on various aspects, among which are findings or recommendations without follow-up which are then repeated every year, even those from 2004. Responses to such recommendations were really protracted with no enforcement from the executives.

3. The facilities and infrastructure of the Bandung City Inspectorate are not adequate either. These range from the unrepresentative inspectorate building compared to those of other agencies to the lack of security measures over important documents, such as protection from fire, theft, and termites, the latter of which have brought about significant losses of documents annually.

4. In one of the inspectorates, the tone of the top was found favorable, bolstered by a good relationship between the Mayor and the Chief Inspector, but the Mayor's support has not translated into proper grants for Government Internal Auditors. Thereby, local governments need to show greater attention and endorsement to auditing activities and enforce immediate responses to findings. Such succor ought to be echoed in remunerations received by auditors to motivate them in performing their tasks.

These findings are corroborated by those of the study by Ma'ayan and

Carmeli (2016) who declared that top management support for the internal audit and auditor skills and behavior are key mechanisms in developing positive relational exchanges between auditors and auditees, which in turn results in learning from the audit, a process conducive to ethicality, efficiency, and effectiveness in organizations. It can therefore be inferred that support from the top is crucial for the efficiency and effectiveness of an organization.

d. Challenges against independence

It was revealed from the interviews that there were crucial audit findings that conflicted with the Regent's policies, which made it difficult for the auditor to stay independent as the findings could not be followed up. Eventually, they simply served as feedback for the Regent from the Chief Inspector.

CONCLUSION

It was disclosed from the questionnaires that respondents shared a positive perception on the effectiveness of Government Internal Auditors and risk management at local governments. Conversely, the in-depth interviews unveiled a number of problems that may disrupt or reduce Government Internal Auditors's effectiveness in conducting risk management at local governments, consisting of insufficient workforce, Government Internal Auditors competence, tone of the top, and challenge against independence.

These issues may be overcome by organizing a team competence development program covering team leadership, effective communication, teamwork, and team building. Government Internal Auditors also needs operational auditing team guidelines that clearly and firmly establish the responsibilities, duties, and authorities of audit team members. In addition, certification programs should be incorporated into the budget, and when auditors undertake certification with personal funds, the agency ought to grant them training leave. The program itself has to be institutionalized to avoid being a one-time occasion. Another concern is the existence of a rewarding scheme for employees who deliver satisfying or the best performance

at every level, along with documents that delineate the rewarding policy.

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