

# Shifting the Role of the Government Internal Auditors, How to Achieve It?

Sri Rahayu, Yudi and Rahayu

*Accounting Department, Jambi University, Jambi-Muara Bulian KM 15, Jambi, Indonesia*

**Keywords:** Internal Auditors, Qualitative, Watchdog, Consultant.

**Abstract:** This study aims to explore a shift in the role of the government internal auditor. Informants of this research are the internal auditors from different governmental organizations. Data was gathered by using in-depth interview technique. The qualitative method used in the study to analyze the data started from filtering data, identifying the theme, linking among the theme, and stating the conclusion. The results show the role of internal auditors in the governmental organization has no longer been dominated the role of watchdog, but it has shifted to the role of consultants, although it has not yet reached a catalyst. The key factor of the role-shifting is the commitment of the chairman and the quality and quantity of internal auditors.

## 1 INTRODUCTION

The practitioners and academics agreed by saying good governance (GG) is important (Cyrus and Marques, 2016) for private organization as well as the government (Rahayu and Rahayu, 2016). The application of GG in Indonesia is higher after the economic crisis of 1997. Crisis of Asia was caused by many parties, and one of them the failure of applying Good Corporate Governance (GCG) principles. This includes increasing the company's performance through monitoring the work of management and management accountability against other stakeholders. According to the regulatory framework and basic regulations, accountability is at the heart of the implementation of GCG (Kaihatu, 2006)

GCG and GGG mutually support to reach success, like two sides of the coin that cannot be separated (Rahayu and Rahayu, 2016). Susilawati and Soetjipta (2013) stated that GCG is only applied in the government environment where the state bureaucracy has implemented GGG. On the other hand, GGG probably cannot be realized without the support of GCG.

GGG is a set of responsibilities of the practice of policies, and this includes the procedure that has been carried out by an agency. The goal is to provide strategic direction which ensures that the purpose can be achieved. The source of its power is accountability. The good practice of administration

can manage resources so that it can provide public service that is of high quality. The basic principle of good governance on influential government organizations is participation, accountability, transparency and integrity (edb.gov. 2010).

Accountability is one of the GGG that continues to be evaluated. An indicator of government performance includes reaching a sufficient level of accountability. Every year, the ministry of administrative state apparatus and bureaucratic reform evaluate the performance of accountability government agencies. Each government agency must develop and report a performance report of the government agencies based on Peraturan Presiden Nomor 29 Tahun 2014 (Presidential Regulation Number 29 Year 2014) on the performance report of the governmental agencies and Peraturan Menteri Pendayagunaan Aparatur Negara dan Reformasi Birokrasi Nomor 53 Tahun 2014 (Ministry of Administrative and Bureaucratic Reform Regulation Number 54 Year 2014) on technical guidelines agreement performance, performance reporting, and review procedures on reporting the performance of government agencies.

The accomplishments regarding the accountability performance of municipal/city scores in 2017 in Indonesia was published by MenPANRB at Yogyakarta on 15 February 2018. There is still 303 (63,80 %) of municipal/city that obtains the predicate of CC (50-60) or below. Government agencies that achieved a score of accountability

below 70 have the potential as well as other factors but have plenty of inefficiencies in its state budget. The higher the accomplishments achieved regarding accountability performance of the higher the levels of efficiency of the budget.

Efficiency can be seen in the form of saving the budget spent on activities. The budget should be used to support the priorities, which are development goals. The budget is used largely to give benefits to the community. Hence, to achieve efficiency of the use of government funds, there needs to be high integrity of the organization of the government.

The effectiveness of good governance is influenced by the internal control system of organizations. The integrity of the application of the system is indicated by an internal control in the organization concerned. Internal control provides protection for the entity against human weakness. In addition, the probability of errors from all that is in accordance with the regulations can also be minimized. The process of internal control system is integral to the action and activities undertaken in a continuous manner by the leader of all the employees to give sufficient confidence over the achievement of the aims organization through activities that are effective and efficient, the reliability of financial reporting, security state assets, and obedience of regulation (PP 60/2008, Bab I Ps. 1 butir 1). This includes five control system elements set internally by the bank control environment, risk assessment, the activity of control, information and communication and monitoring (INTOSAI, 2010).

The government internal control system is the responsibility of top management. It is implemented, and needs the commitment of all elements for it. Internal control is not one scene or the state of being, but a course of action that is applied in every activity entity. The act of being systemic across the entire operating entity is done in an inherent and sustainable manner (INTOSAI, 2010).

Supervision against the implementation is in accordance with its internal control system which also expected the authorities to become one of the tasks involving all stakeholders namely supervision internal the government (APIP). Indonesia is facing problems that had occurred in APIP in terms of quantity and quality. In the year 2014, in accordance with its internal auditor, the central government, the regions, state enterprise BUMN and other influential government organizations, there were a total of 12.755 or (27,94 %) out of a total of its national demand 46.560 so they were suffering from a lack of 33.805 auditors. The government has projected in

the year 2019 that it expected a total of 20.255 auditor or 43,50 % of its national demand (BPKP, 2015).

One of the strategies taken from the government with limited resources and professional demands use new paradigms for APIP role. Dadang, deputy head of the BPKP said that in the regional financial of supervision there is a need to undertake transformation internal government supervisory authorities (APIP).

Transformation is change of internal auditor role (form a way, properties, function, and others) needed because:

- An organization cannot have duties and function optimally
- Challenges a new assignment
- An intense competition
- Technological development
- Expectations from stakeholders

Changes in the role of the internal auditors in the government will increase the quality of performance.

The main change from the role of the internal auditors in the government is from watchdog to consultants and catalyst. Attitude of auditor changed as with some guard line or police partner for clients. The approach that was used are in nature preventive (should issues). Focusing their job as watchdog is a weakness/deviation, but rather as consultants and catalyst more focused on the constructive (Hery, 2017).

Discourse changes in the role is being done from 1990 but have changed since last year. Influential government organizations also begin to focus on the changes in the role of this in improving the good governance. In connection with the management to support the most reform from traditional to new the public which had dropped their demand for payment in connection with the management according to good financial management that is more accountable and quite transparent. The achievement APIP owns capabilities to reach the level of 3 are one factor which becomes the main incentive. In accordance with its internal, an auditor charged against is required to take on the job as increasingly active in his eyes upon their organization. Associated research shift occurred in the role of an internal auditor to organizations such as the Iraqi government has not been widely practiced. This study aims to uncover the reality of a shifting of the role of an internal auditor of influential government organizations.

## 2 RESEARCH METHOD

Shifting the role of the internal auditors in the government is still finding many obstacles and problems. Exploring the role of the perspective of actor has an in-depth and contextual need to be done to open the reality. Quantitative research could not reveal this reality. Quantitative approach is not suitable for this study because it uses only a hypothesis test. Complexity shifts the role and can only be understood through entanglements. Therefore, the researchers chose a qualitative approach. A qualitative approach provides flexibility and opportunity for researchers to dig deeper on the issues investigated.

The qualitative method used in the following analysis is from the results of qualitative data. The qualitative data analysis is referring to these stages (Rahayu, dkk, 2015a): 1) filtering the data; 2) reaching an agreement on fixing the theme; 3) determining the linkages to the relationship between the themes, and 4) processing to determine the conclusion. Data that are not tampered with qualitative are tested using triangulation. Triangulation of is the way of testing of qualitative data. (Rahayu, dkk, 2015b).

Data collection methods used in this study are observation, in-depth interviews, and document analysis. Purposive procedures and snowball sampling are used to determine the informants. Purposive procedure is most commonly used in qualitative research (Bungin, 2011, p. 107; Rahayu, 2016).

Informants' criteria are as follows:

1. Actively participating in the internal audit process.
2. Having experience (minimum two years) in the internal audit process.

Researchers assume that two-year period is enough for someone to reveal the practical process of audit internal, because the person has passed the stage of mandatory assignment monitoring from planning to reporting. Two-year period involved in the audit process has also been considered adequate for informants to be able to understand and unravel the process of the role shifting auditor.

Based on the above criteria, participants of this research are internal auditors of government organization of various agencies, the internal auditor of universities, BPKP, and internal auditors of local governments. Strengthening the results of the study was done by implementing an audit interview of these various agencies.

Triangulation is a technique to check the data validity by something else outside the data for comparison against the data. This research uses four triangulations as examination techniques, which are sources, methods, investigators and theories (Creswell, 2007; Bungin, 2011). Researchers use a triangulation of sources and methods. Data verification is done by cross-checking oral and documentation information.

## 3 RESULT AND DISCUSSION

The results of the analysis of qualitative data that have been undertaken to form several includes the following:

### 3.1 Internal Auditors' Current Condition: Watchdog or Consultant?

The results of the analysis of qualitative data form some internal auditor the government prosecuted transformation with oriented into the future. Focus work was not merely intended to audit, but also to monitor and evaluate, and provide consideration in decision-making (Republika. 28 Agustus 2018).

This research result indicates that internal auditor of the government at this time has had a role as a consultant, although this did not leave the role of the watchdog. It is recognized both by the auditors and auditee. Informants from financial management said the auditor's inspectorate place we will take suggestion, if there are any problems, they will come for discussion there. An auditor has to be very open to receive them not only as an examiner. This proved that there has been a shift in the role of watchdog toward the consultants.

The demands of the position as the consultant made many internal audit institutions provide units of consulting service. One of the most powerful internal auditors of transport and communications has stated "*We have opened our hand to anyone who wants to consult*". Consultation is granted in order to prevent early possibilities of inaccurate financial management. Consultation has yet to be fully developed by all work units. There is still a unit that tended to wait for them, if it has not been active.

The form of the prevention is a result of commonly done as institutions that have, in accordance with the government internal auditor to socialize, workshop, and provide technical assistances and training. The main obstacle to shift

the role of an auditor to financial difficulties is in accordance with its internal which is still unfamiliar with the quality and the limitations of an auditor.

An auditor that has made a concerted effort to shift occurred in the role of carrying out surveillance in a more comprehensive way. Picket (2010) explained the strategy of application of the new role of internal auditor which includes watchdog and consultant so we must add focus of supervision the following:

1. From Hard Control increased with Soft Control
2. From Control Evaluation increased with Self Assessment
3. From Control increased with Risk
4. From Detective increased with Preventive
5. From Audit Knowledge increased with Business Knowledge
6. From Operational Audit increased with Strategy Audit
7. from Independence increased with Value

Additional focus is to be made using more comprehensive monitoring.

Additional focus will be made as more internal supervision, comprehensive auditor, catalysator role, because the auditors provide consultancy services in a passive manner. This means that the auditors were not an actor who initialize and be active to move a change. The auditors will still be waiting, as consultation is given to the auditee who came to internal auditor office. This indicates the evaluation of risk management organization have not yet been optimally carried out.

### 3.2 Proximity Developer by Mutual Trust

The role of new internal auditors will not be able to position themselves as watchdog but as a partner (Rahayu dan Rahayu, 2016). The internal auditors must be able to give advice for the prevention of deviation and long-term solutions for auditee. The auditors participate actively by assisting management in taking the act of repairing. Besides, as a consultant, the new role auditor is a catalyst. Catalyst is engaged in the formation of value, moral and cultural organization which is long-term (Astuty, 2007).

The auditors can only be consultants and catalysts when having proximity to auditee. Informants capture the relationship as familiar and trust so they can independently consult and are not afraid to consult to the internal auditors. Auditee who changes in the role of the auditors, made the

auditors like a companion, not an examiner. The arrival of the auditors to a unit of work do not consider finding fault, but as an early precaution. The incompatibility found by the internal auditors can be repaired before being sustainable. Hence, auditees who understand this are consulting when it matters. The auditors are asked to help in the resolution of problems.

A unit of work does not yet have similar perceptions. They still found a unit of work which is not understood as the shift occurred in the role of an auditor. We still found auditee concern to be investigated over possible involvement in and consultation to an auditor in accordance with internal auditors. Auditee who is kind like this is because they do not have emotional proximity and the kind of trust to an auditor. For that reason, there needs to be a way for the socialization to be widely associated to the new role of an auditor to all auditee.

### 3.3 Internal Auditor as Consultant: Still Independent?

Head of BPK RI stated their auditor respond to financial monitoring in accordance with its internal rules to play a critical role and will continue to run for institutions that have been effective. The internal auditors including the director in the end benefit a lot of people (Republika, 30 Agustus 2018). However, internal auditor still has to work in accordance to the codes of conduct of internal auditor's needs to sustain the independent attitude of the auditor.

The independence of an auditor increase the value of informing the results of the supervision of a juvenile. In addition, the independence also must be implemented in the process of an audit. This includes being independent of the government in the planning, independent in the performance of the job of its open square, and independent in the reporting.

An internal auditor as the keeper fumbled into his own line of public compliance with regulations which gave more of an impression compared to that in the independence of the government's role as the consultant and catalyst. An auditor as the consultant and catalyst took active part toward assistance for auditee both in the provision of policy determination as well as the monitoring activities that are to be implemented. At least a part of an audit or internal member who was an informant in this research if I am admitting, the leaders of various institutions often consult with government officials for the determination of all policies taken.

To increase the involvement of an auditor internally within for policy making and implementing activities that have only been accompanied to safeguard the program implementation. They are not technically directly involved. The determination of policy and decision making are done by fixing the authority to press ahead as institutions who have been meeting leader city council speaker. An internal auditor and not decision makers just wanted to show consideration and recommendations about such things as.

An auditor to be worthy in accordance with its internal regulations are independent according to various parties, because of its engagements that are too far apart in the activities of the operational costs of the well as institutions. An auditor had to be able to continue to maintain the independence because it will be granted services of the encumbrance of the last and the implementation of an organization policy. As well as technical difficulties and to increase the involvement would make an auditor as a watchdog to work on his own. The results of supervision have the potential to cause bias and to be subjective.

### 3.4 Main Key for Role Shifting

An internal auditor and auditee member who was an informant expressed two key factors a supporter of the occurrence of obvious shift of own capabilities commitment on the part of the council leaders and the auditors. It is like what was carried out by one informant *“There are two which are the key to the leader who commit an audit and professional auditors; others went along on the course”*. The other factors include a style of leadership that we are doing, much of the best work culture and the use of an integrated information system. Others made the decision rather than just waiting to become factors in support. The whole factors are in support of going to be able to increase further after two key factors to alter the decisions.

A leader who has a high commitment from the internal audit process will be open and not resistant to the process of changing. The leaders' commitment to application of the internal system's organization control such as the structure of the organization properly, the creation of conducive work culture, a good example, and the budget allocations adequate to internal audit. The government shall determine one indicator of the implementation quality as the budget is 1 % of the total budget the year. Most institutions' internal

audit has not yet received allocation of a sufficient budget.

Commitment leaders will determine capabilities of auditor in an organization. In general, capabilities often are defined as competence describing the ability. Capabilities are actually the skills of more specific, procedure, and the process that can turn the resources into competitive advantage and control the capabilities of point weakness.

APIP capability can be evaluated through internal auditing capability model (IACM) consisting of 5 levels, namely the levels of 1: initial, level 2: infrastructure, level 3: integrated, level 4: managed, and level 5: optimizing. Based on the evaluation of APIP, 60 % of Indonesia still is on the level 1, 23 % on 2 and only one percent on level 3 (inspektorat.jatengprov, 2016). The condition capabilities of government APIP are still dominantly on the first level and have not been able to guarantee the implementation of governance, nor has it been able to detect corruption. The target of the government is to increase APIP capabilities to the level of 3 in 2019, and it can implement it to training.

Capabilities are not only technical, but also non-technical. The internal auditors are an example in rule enforcements in the organizations. The internal auditors have to show high integrity. One senior auditor of the local government said, *“An auditor it was sort of like a broom, the Bromo must be clean before it's used to clean a place”*. This is meaningful, because an auditor who will not be able to apply moral and value and high integrity, will not have the power to carry out surveillance.

An internal auditor is again not only focused on a system of routine related to an audit, review and monitoring related to adherence to rules. The number of similar findings was the indicators of the quality of the degree of success. An internal auditor was actively involved in assistance to financial management activities and provided services for consultation in order to resolve issues that are faced by auditee.

## 4 CONCLUSIONS & LIMITATION

A conclusion that can be drawn from this research is as follows:

1. The role of the internal auditors of the government has no longer become a watchdog,

but the role is capable of being the consultant, even though it has not reached as catalyst.

2. The role of the consultants can be done and be effective if there was mutual trust between the auditors and auditee. Trust was obtained from the closeness and emotional relationship awakened by long-term interactions.
3. The role of consultants and catalyst does not diminish the independence of internal auditors. The judiciary should keep running assurances function.
4. Two important factors shift the role of the auditors namely commitment of leader and capabilities of internal auditor.

The limitation of this research is the use of qualitative methods that make the results of this study not generalizable. Further research can use concepts that have been presented to be tested with quantitative methods. In addition, the informants of this study are internal government auditors, so the results of the study do not necessarily reflect the role of internal auditors in private organizations.

## REFERENCES

- Astuty, 2007, Peran Internal Auditor sebagai Watchdog, Consultant dan Catalist, *Jurnal Riset Akuntansi dan Bisnis*, Vol.7 No. 1, Maret.
- BPKP. (2015). Kajian Optimalisasi Peran Pengawasan BPKP. Pusat Penelitian dan Pengembangan Pengawasan; Nomor: LP-131/LB/2016; tanggal 29 Desember 2015
- Bungin, H. M. B. 2011. Penelitian Kualitatif: Komunikasi, Ekonomi, Kebijakan Publik dan Ilmu Sosial Lainnya. Jakarta: Kencana Prenada Media Group.
- Creswell, J. W. 2007. *Qualitative Inquiry & Research Design: Choosing among Five Approaches*. Thousand Oak, London, New Delhi: Sage Publication.
- Edb.gov. 2010. Good Governance: Quality Education. Participatory School Governance. [www.edb.gov.hk/attachment/en/schadmin/sbm/corner.../good%20governance.pdf](http://www.edb.gov.hk/attachment/en/schadmin/sbm/corner.../good%20governance.pdf). Diakses tanggal 5 Mei 2016
- Hery, 2017, Auditing dan Asurans, Pemeriksaan Akuntansi Berbasis Standar Audit Internasional: *Integrated and Comprehensive edition*, Grasindo, Jakarta
- Inspektorat Provinsi Jawa Tengah, 2016, Transformasi Fungsi Audit Intern Pemerintah: Meningkatkan Kapabilitas APIP, <http://inspektorat.jatengprov.go.id/2015/po-content/po-upload/4.%20%20DEPUTI%20PKD%20-%20Dadadng%20K..pdf>
- INTOSAI (2010); Guidelines for Internal Control Standards for the Public Sector, Internal Control Standards Committee, <http://www.intosai.org>.
- Kaihatsu, S. Thomas, 2006, Good Corporate Governance dan Penerapannya di Indonesia, *Jurnal Ekonomi Manajemen, Fakultas Ekonomi-Universitas Kristen Petra*, Vol. 8, No. 1, Maret 2006, 1-9
- Rahayu, S, Unti L, Gugus I, & Nurkholis. 2015a. Three Budgeting Pattern of School Operational Assistance Fund. *Australian Journal of Basic and Applied Sciences*, 9(27) August 2015, Pages: 553-559
- Rahayu, S, Unti L, Gugus I, & Nurkholis. 2015b. Budgeting of School Operational Assistance Fund Based of Gotong Royong. *2nd Global Conference on Business and Social Science*, Bali, 17-18 September 2015
- Rahayu dan Rahayu, Sri, 2016, Role of The Internal Auditor Government to Realize Clean Local Government, Conference Proceedings, Malaysia *Indonesia International Conference on Economics, Management and Accounting (MIICEMA) 2016*, Faculty of Economics and Business, University of Jambi 24 – 25 October
- Rahayu, S. (2016). Institutionalization Process of SOA Funds Budgeting at Basic Education Institutions in Indonesia. *Research Journal of Finance and Accounting*, 7(4), 201.
- Republika.co.id, 28 Agustus 2018, IIA kupas Tantangan Auditor Internal di Sektor Publik, Selasa 28 Agustus 2018.
- Republika.co.id, 30 Agustus 2018, BPK Tegaskan Prinsip yang harus dipatuhi Auditor Internal, Kamis, 30 Agustus 2018.
- Susilawati, CDK dan Soetijpta, FH., (2013). Peranan audit internal dalam penerapan good Corporate governanc yang efektif (studi kasus PT. XYZ, Bandung). *Akurat; Jurnal Ilmiah Akuntansi; ISSN: 2086-4159; nomor 10 tahun ke-3 bulan Mei-Agustus 2013.*