



Do internal government auditors (always) follow audit standards? a case study in Government Internal Auditor Office Chapter Aceh

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ABSTRACT

This study was aimed at measuring and evaluating the compliance of Aparat Pengawas Internal Pemerintah (or Government Internal Auditors, hereafter GIAs) on the used audit standards in Indonesia. This case study research was carried out in Aceh provincial GIA office. The data is collected from survey and semi-structured interviews with key officers in the studied GIA office. To analyse and discuss the research findings, this paper employs the Milgram's Obedience Theory (1963). This study found that most of the GIA follows the audit standards. However, there are two audit standards that mainly were not followed by the auditors i.e. the supervisor review of the produced Auditing Worksheet and timely completion of Audit Report. This study also found factors that determine of the obedience of GIAs to the audit standards, namely auditor responsibility, colleague/other auditor supports, competency of GIAs, organizational commitment, and task complexity.

INTISARI

Penelitian ini bertujuan untuk mengidentifikasi faktor-faktor yang mempengaruhi ketaatan Aparat Pengawas Internal Pemerintah (APIP) terhadap standar audit APIP. Narasumber penelitian ini terdiri dari anggota tim, ketua tim, pengendali teknis dan pembantu penanggungjawab di Inspektorat Aceh. Teknik pengumpulan data menggunakan teknik triangulasi yaitu: kuesioner, wawancara dan dokumen analisis. Data yang diperoleh kemudian dianalisis dengan menggunakan teknik analisis data kualitatif. Untuk menganalisis dan membahas hasil temuan, paper ini menggunakan teori kepatuhan Miligram (1963). Hasil penelitian menunjukkan bahwa secara rata-rata, APIP Inspektorat Aceh dinilai taat terhadap standar audit APIP, namun terdapat dua standar audit yang dinilai masih sangat rendah tingkat ketaatannya yaitu reviu Kertas Kerja Pemeriksaan (KKP) secara berjenjang dan ketepatan waktu penyelesaian Laporan Hasil Pemeriksaan (LHP). Penelitian ini juga menemukan faktor-faktor yang mempengaruhi ketaatan APIP Inspektorat Aceh terhadap standar audit APIP antara lain tanggung jawab, dukungan sesama rekan, kompetensi/pengalaman APIP, komitmen organisasi, dan kompleksitas tugas.

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1. Introduction

The Government Internal Auditors (GIA, from Indonesian abbreviation of Aparat Pengawas Internal Pemerintah - APIP) play effective roles in providing assurance on obedience, efficiency, and effectiveness of local government units/departments. They are supposed

to provide an early warning and increasing the effectiveness of risk management in the completion of tasks and functions of government institutions (corruption activities). In addition, these internal auditors are expected to provide inputs to maintain and increase the management quality of the completion of tasks and functions of government institutions

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(Government Regulation No. 60 of 2008). In completing their tasks GIA are required to comply with audit standards.

The development of audit standards is intended to have a quality internal audit, so that every auditor performing internal audit is expected to have a standard quality of internal audit. Aceh Inspectorate is a Government Internal Auditor body which is tasked to audit all activities of the execution of tasks and functions of the province's offices and agencies funded by the province's budget (Government Regulation No. 60 of 2008).

The obedience of auditors with audit standards can assure for a quality result report which will become a reference in performing control function and management development of SKPA (agencies and office of the government of Aceh), but in practice there are still many auditors who abused and not complied with code of conducts and audit standards (Irawati et al., 2005). These abuses can influence the quality of internal audit, and in turn, the quality of financial reporting of the local government units.

This paper is aimed to explore the factors influencing GIA's obedience to the audit standard. A conceptual discussion on the theory and previous studies is presented in the literature review in section two. Section three present how the research questions are address in research method section. Following that, section four a discussion of the findings regarding reasons behind GIAs obedience to the audit standards. Lastly, section five presents conclusion, research limitation and suggestion for further studies.

2. Theory

2.1 The role of GIAs in Indonesia

In Indonesia, the government units or departments are supervised and monitored by internal and external auditors. The internal auditors are Aparat Pengawas Internal Pemerintah (or Internal Government Auditors, hereafter GIAs), whereas the external auditors are Badan Pemeriksaan Keuangan (BPK or The Audit Board of The Republic Indonesia). The former conducts an internal auditing not only in financial dimension, but also non-financial dimension e.g. compliance to the regulation and administrative procedures. These recommendations are expected can assist the auditee (the audited government bodies) to improve their financial reporting system and procedures in order to avoid an unexpected opinion given by the external auditors (The Audit Board of The Republic Indonesia).

However, many local government authorities in Indonesia particularly in Aceh local government where the case study is conducted failed to produce a good quality of financial reports in a timely manner (Basri

and Nabiha, 2014). This fact can be associated with the audit quality of internal auditoras as they cannot provide the early warning for the auditee.

2.2 GIA's Obedience to Audit Standards

Obedience is defined as the change of attitude and behaviour of person to comply with requirements and order of others (Feldman, 2003). Blass (1999) defines that obedience is taking orders from others. Obedience can come in any form, as long as the individual shows complying actions with someone or something.

According to Hasibuan (2003), obedience is the awareness and willingness of an individual to obey the existing social rules and norms. According Prijadarminto (2003), obedience is a condition constructed through a process of a series of behaviours demonstrating the values of obedience, loyalty, and organization.

Based on the description above it is fair to conclude that GIA obedience to the audit standards can be understood as an awareness and willingness in complying with all existing rules and social norms which reflect volumes of how responsible an GIA auditor is on his task and responsibility.

2.3 GIA Audit Standards

Audit standard is criteria and measures of minimum quality to perform an audit activity which is a compulsory reference and guide for GIA personnel (Regulation of the State Minister for the Empowerment of State Apparatus No 5 of 2008). The purposes of audit standards are to establish basic principles to represent proper audit practices; to provide a framework of action and to increase added values to the internal audit activities; to establish foundations for audit performance evaluation; to expedite the improvement of operation and organization processes; to evaluate, to direct and to push auditors to achieve audit objectives; to be made as a reference for audit activities; and to be made as a reference for the effectiveness and success of the audit activities (Regulation of the State Minister for the Empowerment of State Apparatus No. 05 of 2008).

Based on the audit standards, GIA has to identify, analyse, evaluate, and record adequate information to achieve the internal audit objectives. GIA also has to prepare and administer documentation of internal audit information in the form of internal audit worksheet. To ensure the achievement of the goals, quality assurance, and improvement of auditor capacity, it is necessary to have a sound direction regarding substances and methodology of internal audit. Internal audit also needs gradual and periodical reviews (Audit Standards – AAIPI, 2013).

Audit communication standards states that the outcome of internal audit tasks is useful to communicate the results of internal audit to the auditee and other relevant parties in accordance with the regulations; to prevent misunderstanding on the internal audit tasks; to be the input for improvement of auditee and relevant institutions; and to facilitate the monitoring of follow up to determine the influence of improvement actions which has been performed (Audit Standards –AAPI, 2013).

2.4 The Obedience Theory of Milgram

In the obedience theory of Milgram (1963), “when someone demonstrates a certain behaviour because of a demand with or without his willingness that behaviour is identified as obedience.” According to Milgram (1963), there are a number of factors influencing obedience. First is location status which means that if one believes that the institutions where he works has respect, it will be obeyed by the members of the organization.

Personal responsibility is the second factor which refers to a human as a responsible being who commit himself to actions which comply with common norms although what is sensible for one person may be insensible for others. The third factor is the legitimate authority figure; obedience will emerge voluntarily when an individual receives a person’s legitimate authority and justifies the instructions.

The fourth is the status of authority figure; one who has higher social status and more power is usually more obeyed than those with similar social status. The fifth is peer support; someone tend to behave and act similar to his peer or colleague in his social environment. The sixth factor is association with authority figure.

3. Research Method

This is a qualitative research using case study. Qualitative research leads to an in depth understanding of factors influencing GIA obedience to the audit standards. Using purposive sampling source persons (subjects) were selected with a number of requirements. The sources of this research are team members, team leader, technical supervisor, and the deputy director (vice-inspector?).

Data collection started in June 2015 and finished in February 2016. Data were collected through questionnaires, 17 semi-structured interviews, document studies, and archive of notes in the form of investigation worksheet and direct observation, which gave the researcher opportunity to understand the nature of the obedience of GIA at Inspectorate Aceh to audit standards. Interviews were done with the following questions:

a) Is there gradual review conducted on Audit Worksheet?

- b) Can you explain how the review was performed?
- c) Can you explain why review of Audit Worksheet is performed?
- d) Was the Investigation Result Report (LHP) completed on time?
- e) Can you explain why LHP was not completed on time?
- f) Please explain what factors influence the obedience of GIA to GIA standard audit?

To find out the level of obedience of GIA at Inspectorate Aceh on the audit standards of GIA, the researcher calculated using scoring method. The questionnaires employed a 5-point Scale. If a source person responds 1 to 3 it means that the GIA of Inspectorate Aceh is said to be disobedient to audit standards, and if a source person responds from 4 to 5 it means the GIA of Inspectorate of Aceh is obedient to the standard audit. The level of obedience is measured using the following formula:

$$Skor = \frac{j1 + j2 + j3 \dots + jn}{N} \quad (1)$$

4. Results and Discussion

4.1 The GIA’s Obedience to audit standards

In performing internal supervision GIA personnel have to obey GIA audit standards. GIA of Aceh Inspectorate gave the lowest rate 3.16 and the highest 4.53. This shows that in general GIA personnel of Aceh Inspectorate are obedient to audit standards.

The Scoring results shows that the highest level of obedience is the response to Item 1 which states that in every audit task the audit team develop Investigation Program (PKP). This is the highest score showing the highest level of obedience with 43 GIA personnel being obedient to the audit standards or 95% of the total respondents. Developing Investigation Program in every task is a requirement to obtain the Investigation Instruction Letter and therefore, GIA must obey these audit standards. The second highest is response to Item 9 which states that KKP is prepared based on facts and rational arguments, showing 41 respondents or 91.11% being obedient to audit standards. This shows the highest obedience as every finding should meet the criteria in the existing law and regulation.

The result of the research on the level of obedience of GIA to audit standards can be seen on the following table:

Table 1 Score of Auditors' Obedience to Audit Standards

No	Audit Standards	Obedient (4-5)		Disobedient (1-3)		Total
		Frequency	%	Frequency	%	
1	In every audit task, audit team develop Investigation Work Program (PKP).	43	95,56	2	4,44	204
2	PKP is the instrument for gradual audit supervision and control from team leader to the Vice-Inspector.	27	60,00	18	40,00	170
3	I have prepared and administered audit documents in the form of Investigation Working Paper.	38	84,44	7	15,56	181
4	Investigation worksheet that I prepare reflects investigation steps which have been written in PKP, examination performed, information acquired, and investigation conclusion.	34	75,56	11	24,44	172
5	Audit document that I prepare has been systematically saved for easy access, reference, and analysis when needed.	31	68,89	14	31,11	169
6	Investigation Worksheet that I prepare has been reviewed gradually by my superiors before Investigation Result Report is prepared.	23	51,11	22	48,89	154
7	Worksheet that I have prepared:					
	a. Completed	27	60,00	18	40,00	167
8	b. Error free, both miscalculation and misrepresentation of information	25	55,56	20	44,44	162
9	c. based on facts and rational arguments	41	91,11	4	8,89	185
10	d. Systematic, clear, and easy to follow	32	71,11	13	28,89	170
11	e. including points important and relevant to investigation.	37	82,22	8	17,78	179
12	f. having clear goals.	37	82,22	8	17,78	179
13	g. Avoiding copying	28	62,22	17	37,78	168
14	Investigation Worksheet that I prepare becomes the reference for development and evidence for Investigation Report	39	86,67	6	13,33	194
	Investigation Report includes findings and recommendation in the way that					
15	a. accurate	40	88,89	5	11,11	184
16	b. Comprehensive	38	84,44	7	15,56	178
17	c. Objective	39	86,67	6	13,33	185
18	d. Convincing	35	77,78	10	22,22	175
19	e. Clear and concise	37	82,22	8	17,78	178
20	f. Completed within the limited timeframe	16	35,56	29	64,44	142

The result of the research also shows that there are two audit standard statements which has the lowest obedience score, namely 1) The KKP that I prepared has been hierarchically reviewed by superiors before Investigation Report is completed. This received 3.42 points since as many as 22 of 45 respondents rated 1-3 or 64.44%. 2) Investigation Report includes findings and recommendation on time in order that the information is useful. To this statement the point is 3.16 as 29 respondents rated 1-3 or 64.44%.

4.2 Investigation Worksheet not hierarchically reviewed

The results of interviews with a number of team members, team leaders, technical supervisors, and vice-inspectors show that there was hierarchical review but the review was conducted through conversation, not based on rigorous examination of substantial issues in the Investigation Report. The review has been focused more on, for example, the spelling in the report not on

the substantial problems. This is caused by, for example, limited time used in the report examination, and delay in the delivery of documents by auditees.

There are also conflicting understanding and perception among the team members, team leaders, technical supervisors, and vice-inspector. For example, the team leader and the technical supervisors also participated in the investigation this prevent performance of hierarchical review as the team leader and the technical supervisor were also responsible for the procedures written in the program. The confusion of roles is caused by dualism of function of the auditors. The appointment of auditors should have followed the existing procedures namely Auditor Functional Position (JFA) refers to Regulation of the State Minister for Empowerment of State Apparatus No: PER/220/M.PAN/7/2008 dated 4 July 2008 regarding Auditor Functional Position and its credit points. Meanwhile, Functional Position of Regional Governance Supervisor (Ind. Abbr. P2UPD) refers to Regulation of Regulation of the State Minister for Empowerment of State Apparatus No: 15 of 2009, dated 25 September 2009 regarding Functional Position of Regional Governance Supervisor (Indonesia Abbr. P2UPD) and its credit points.

There is also still confusion of understanding on roles of each element in the structure of the team. The leader of the team has not distributed the procedures based on the capacity of the members. The assignment of team members which is not competency-based can lead to audit failure. The team leader in the team structure has the role of coordination which leads the team. The team leader has a wide range of authority to make decisions in executing his tasks properly. However, in practice the team leader was also involved in investigation or audit and therefore, he might forget or miss his role a coordinator in an audit team. The technical supervisor who was supposed to perform supervision tasks also did not perform his task well.

The capacity of an auditor is seen from certificate that he has acquired. Low human resource in terms of both quality and quantity caused mismatch in the assignment of team leaders most of whom are not certified. This was demonstrated in lack of understanding and capacity of team leaders to perform review of worksheet. Task complexities, the size of investGIAted objects, and the complexity of problems being faced also determine hierarchical review of Investigation Report. While for simple problems review very rarely performed. The working mechanism which has not been performed regularly with requirement for hierarchical review also caused rare Investigation Report.

4.3 *Timely Completion of Investigation Result Report*

Investigation Result Report has to be completed in timely manner so that it give optimal benefit. GIA personnel are also supposed observe the time in submitting the investigation result report to the management, but in practice the report was not issued on time. Delayed Investigation Result Report is difficult to follow up, because recommendations for improvement might no longer be relevant. Referring to the Instruction of Aceh AIGs, Investigation report has to be completed 15 days after the investigation, but in practice the report was issued late.

The delay was caused by a number of factors such as the piled up tasks that has to be performed by Aceh Inspectorate which is not supported by the quantity and the quality of its human resource. This leaves no break time for them to perform investigation, and therefore, the assignment of team is not focused on one investigation. The team's commitment and responsibility is also a determining factor of the timely completion of report.

There are also issues in the completion process of the Investigation Result Report which was affected by delayed response on NHP (Investigation Result Report Draft) given by the auditee (investigation object) and by the time allocation for report completion was not included in the Instruction Letter.

4.4 *Identification of factors influencing the level of GIA's Obedience to the audit standard at Aceh AIGs*

Initiative to take responsibility is a factor that influence GIA's obedience to the audit standards. An GIA personnel who has good sense of responsibility will obey GIA audit standards and will have the willingness to do so without a need for external motivation. These findings confirm Milgram's theory of obedience (1963) which states that responsible human beings are those who convince themselves that good actions follow general social norms because individual's standards may vary.

Peer or colleague support also influences GIA's obedience to audit standards. GIA tend to follow team fellows regarding obedience, meaning that this obedience is not derived from own willingness but peer influence. As said in the theory of obedience (Milgram, 1963) a person tend to behave as the peer in his team or in his social environment. If one works around people with obedience to audit standards he tends to follow suit.

A team leader or a technical supervisor who has status and role in line with his position and his competency will be more obeyed by his team members than a team leader or a technical supervisor without

position and competency suitable with his roles. According to Milgram (1963) the status of authority figure also influences one's obedience. One who has higher status and social power will be more obeyed than one of the same status. This indicates that one's social role is a prestige and has enough authority to maintain obedience (Kokot, 2001).

The close proximity to the authority figure also influences one's obedience. The presence of authority figure can watch directly and provide instructions regarding procedures and direction on what to do (Milgram, 1963). GIA whose team leader or technical supervisor always performs review will be more obedient to the audit standards than team members whose team leader or technical supervisor does not perform review on his members.

Competency influences GIA's obedience to audit standards because audit standards are only understood by knowledge and competency. GIA personnel who have knowledge of audit standards are more obedient to audit standards of GIA and thus can yield quality audit. Brown and Stanner (1983) in Mardisar and Sari (2007) states that differences of knowledge among auditors will have influence on ways of auditors finish a task. An auditor is able to carry out a task effectively if supported by his knowledge.

The organization's commitment in the implementation of audit standards to perform internal supervision also has influence on GIA's obedience to follow GIA audit standards. Organization commitment can boost motivation and this motivation will increase the spirit to perform better to achieve goals and meet the existing requirements (Goleman, 2001). This commitment should be demonstrated through reward and punishment which has to be imposed equally without discrimination on all GIA personnel. H.C. Kelman in Gunadi (2004) defines obedience as something based on hope for a reward and based on efforts to avoid possible punishment.

Conflict of roles is also possible to occur within the structure of GIA. Conflict of role refers to overlapping roles acted by GIA personnel. For example, the team leader and the technical supervisor do not only act as supervisor but also involves in audit investigation thus causes one task/role to be left out. According to Wolfe and Snoke (1962) in Arfan and Ishak (2005:37), role conflict is the conflict triggered by the presence of two different 'order' which are received simultaneously and the choosing to perform one order will make the other left out; and this compromises professionalism.

The GIAs obedience is also influenced by time pressure which is caused by shortage of human resource available to perform the tasks. High time pressure in performing audits makes auditors increase the efficiency during the audit process and this results in ignorance of

a number of procedures and plan during the audit process (Sosotikno, 2003).

Task complexities encountered by GIAs also have influence on GIAs' obedience to the audit standards. Task complexities refer to the high number of tasks received by GIA at the same time so that GIA tend to ignore proper audit process. Restuningdiah and Indriantoro (2000:27) mention that the increase of task complexity can decrease the level of task achievement. High task complexities can reduce the quality of audit yielded by the auditors.

5. Conclusion

On average, GIA of Aceh Inspectorate is considered obedient to GIA audit standards although the level of obedience to two audit standards which are still considered low as GIA of Aceh Inspectorate has not performed hierarchical review of Investigation Report and not all investigation result report is issued in timely manner.

According to Milgram's theory of Obedience (1963), especially regarding factors influencing obedience, GIA at Aceh Inspectorate have not entirely followed two audit standards; the responsibility on the job, motivation from peers to obey the audit standards, the status of authority figure, whereas the other two factors, location status and legitimacy of authority figure are not factors influencing the obedience of GIA to GIA audit standards.

The results of this research also reveal that there are other factors that influence the obedience of GIA to audit standards, namely competency, institution's commitment, GIA internal role conflict, limited time, and the complexity of tasks during audit investigation.

Based on the results of this research it is recommended that further research with similar topic but different objects can be performed to demonstrate varied results. Further, after knowing factors influencing the level of obedience of GIA to GIA audit standards, it is hoped that other researchers can investigate factors influencing the obedience of GIA to the audit standards using quantitative method.

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