Influence on Audit Process Effectiveness and Audit Infrastructure on Internal Audit Functions

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Abstract

This study aims to test how much influence on Audit Process Effectiveness and Infrastructure Audit on Internal Audit Function at PT. Pupuk Indonesia (Persero). Given the importance of Internal Audit Function, it is known that BAKN finds potential deviations from financial management and financial reports in the state-owned fertilizer industry, particularly PT. Pupuk Indonesia (Persero). The design used is the design of causality, while the method used is a survey. This research was conducted on 7 (seven) subsidiaries of PT. Pupuk Indonesia (Persero) in Indonesia.

The results of the analysis show that: (1) Simultaneously Audit Process Effectiveness and Infrastructure Audit gives a positive influence of 82.0% on Internal Audit Function at PT. Pupuk Indonesia (Persero), (2) Partially Audit Process Effectiveness and Infrastructure Audit gives positive influence, the magnitude of the effect in sequence is 40.6% and 34.2%.

Keywords: Audit Process Effectiveness; Infrastructure Audit; Internal Audit Function

1. Introduction

The need for internal audit function in this SOE refers to the Regulation of the Minister of State-Owned Enterprises No. PER-01 / MBU / 2011 on the Implementation of Good Corporate Governance to State-Owned Enterprises, which, as partially replaced by clause In the Regulation of the Minister of State-Owned Enterprises Number: PER-09 / MBU / 2012. Monitoring needs to process
the assessment of the quality of the internal control system, including the internal audit function at each level and units within the SOE organizational structure, so that it can be implemented optimally. Financial and administrative governance in the company aims to create a good internal control, Accounting records can be prevented. Each company requires the implementation of Good Corporate Governance is adequate so that the financial statements can be presented in quality.

Lack of internal audit function that occurs in a subsidiary of PT. Pupuk Indonesia (Persero) is caused by several important factors. The important factors are Stakeholders Perceptions (Auditee, Audit Committee and Board of Directors), Audit Processing Effectiveness, and Audit Infrastructure that occurs in each subsidiary of PT. Pupuk Indonesia (Persero). Therefore, it is necessary to increase the three important factors so that the internal supervisory unit can perform the internal audit function well. (AGMS About Approval of Annual Report And Ratification of Financial Statements Book Year 2014 PT Pupuk Kujang Cikampek, 2015)

The above conditions illustrate that the audit process effectiveness and audit infrastructure has an effect on the internal audit function. Seeing the above problems, the authors are interested to examine how the Audit Process Effectiveness and Infrastructure Audit on Internal Audit Function in a subsidiary of PT. Pupuk Indonesia (Persero).

The purpose of this research is; (1) To know the effect of Audit Process Effectiveness and Audit Infrastructure on Partial Function of Internal Audit. (2) To know the effect of Audit Process Effectiveness and Audit Infrastructure on Internal Audit Function simultaneously.

2. Framework and Empirical Studies

Audit Internal Function

Internal Audit Function according to Al-Shetwi (2011) mentions that there are 3 attributes Internal Audit Function, here is the quote: "The first attribute is proficiency and due care. The second attribute is independence. Performance of IA work is the third attribute of IAF "Based on these sources, the internal audit function in general has the attributes of Proficiency and due care, Independence and Performance of IA work. The scope of internal audit according to The Institute of Internal Auditors (IIA) in the International Professional Practices Framework (IPPF) is as follows; "The scope of internal audit should encompass the adequacy and effectiveness of the organization of performance in carrying out assigned responsibilities; (1) reliability and integrity of information; (2) compliance with policies, plans, procedures, laws, regulations and contacts; (3) safeguarding of assets; (4) economical and efficient use of resources; (5) accomplishment of established objectives and goals for operations programs ".

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Audit Process Effectiveness

The audit process effectiveness performed by the internal audit is a measure of the internal audit ability to perform its work as an internal audit function. The audit process effectiveness according to The Institute of Internal Auditors (IIA) is as follows (IPPF Code of Ethics: 2011): The auditing is an independent, Objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. They are related to the internal audit function. Audit process effectiveness is designed to measure internal audit functions.

Based on the above quote can be concluded that the internal audit function run by internal audit can work well if the audit process has been done effectively. The audit processes effectiveness conducted by internal audits is determined by the standards set by the Institute of Internal auditors (IIA). Therefore the internal audit processes is as follows: Basis for Implementation of the SPI Function; Audit; Review of Quality Management and KPI; Review of Risks In Companies; Consulting Services; And Stakeholders Perceptions.

Audit Infrastructure

An agreed internal audit charter should be implemented with adequate infrastructure. This is so that internal audit function performed by internal audit can be done maximally by internal auditor. This statement is as follows (IPPF Practice Advisories: 2011): The charter should (a) establish the internal audit activity's position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of engagements; And (c) define the scope of external audit activities. Based on the above statement it is known that audit infrastructure required internal auditors to perform internal audit function. Audit Infrastructure in this case is; Position of organization and authority; human Resources; Professional development; Work facilities; and elements of audit policies and guidelines.

The previous research on the variables used in this study, the following are the previous studies:

<table>
<thead>
<tr>
<th>Journal</th>
<th>Research result</th>
</tr>
</thead>
<tbody>
<tr>
<td>An Analytical Model for External Auditor Evaluation of the Internal Audit Function Using Belief Functions; Vikram Desai, 2006</td>
<td>The size of the quality of the internal audit function is determined by the internal audit capabilities in running the standards, the effectiveness in the audit process and the audit infrastructure.</td>
</tr>
<tr>
<td>Corporate Governance Quality and Internal Control Reporting under SOX Section 302. Nathaniel M. Stephens, 2009</td>
<td>Internal controls have a direct impact on corporate governance, if done with a good internal audit function.</td>
</tr>
</tbody>
</table>
Table 2.1 (Continued):

<table>
<thead>
<tr>
<th>Previous related research</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The Effect of Internal Corporate Governance Mechanisms on Corporate Performance; Daoud Jerab, 2011</td>
<td>The effectiveness of the Audit Process has the highest impact on the Internal Audit Function carried out in Good Governance.</td>
</tr>
<tr>
<td>The Impact of Ethical Leadership, the Internal Auditor, and Moral Intensity on a Financial Reporting Decision; Barbara Arel, 2012</td>
<td>The internal audit function is influenced by the effectiveness of the audit process and stakeholders' perceptions</td>
</tr>
<tr>
<td>Impact of Internal Audit Function (IAF) on financial reporting quality (FRQ): Evidence from Saudi Arabia; Mohammed Al-Shetwi, 2011</td>
<td>Internal Audit Function in carrying out Good Governance required a good audit infrastructure</td>
</tr>
<tr>
<td>Corporate Governance and Internal Control over Financial Reporting: A Comparison of Regulatory Regimes; Udi Hoitash, 2009</td>
<td>Audits conducted by the Internal Auditor are the most influential part of the Internal Audit Function to exercise internal control.</td>
</tr>
<tr>
<td>Disclosure Standards, Auditing Infrastructure, and Bribery Mitigation; Samer Khalil, 2015</td>
<td>Infrastructure Audit is needed to determine the quality of standards performed by internal auditors in performing the internal audit function.</td>
</tr>
</tbody>
</table>

The relationship between audit process effectiveness and audit infrastructure according to Al-Shetwi (2011), Vikram Desai (2006), and Anne Hawke (2000) are essentially influential. Where the audit process takes the necessary infrastructure. The audit process will be more effective if it has adequate audit infrastructure. It can be concluded that the internal audit function will work well if audit infrastructure is adequate. So that adequate audit infrastructure will make effective audit process conducted by internal auditor in performing function of internal audit.

The relationship between the effectiveness of the audit process on internal audit function according to Al-Shetwi (2011) and Vikram Desai (2006) is essentially influencing. Where this is the effectiveness of the audit process affects the internal audit function. It can be concluded that the quality of the audit work performed by the internal auditor determines the quality of the internal audit function performed by the auditor. This concludes that the effectiveness of the audit process affects the quality of the internal audit function.

The relationship of the audit infrastructure with the quality of the internal audit function according to IPPF Practice Advisories (2011) is essentially influencing. In this case the audit infrastructure affects the quality of the internal audit function. The better the audit infrastructure is owned by internal audit, the better the quality of the internal audit function run by the internal auditor. It can be concluded that formal internal audit activities should be contained in an internal audit charter. Where in the charter should be internal audit positions within the organization that maintain independence, the ability of internal auditors to check records, documentation and physical to the examined assertions. It can be concluded that internal audit requires adequate audit infrastructure.
3. Methodology and Data

This research was conducted to obtain empirical evidence on the effect of the effectiveness of Audit Process and Audit Infrastructure on Internal Audit Function, which will be tested is a subsidiary of PT. Pupuk Indonesia (Persero).

The method used is verification research method with explanation design. Based on the conditions already described, the variables in this study consist of independent variables (independent variable) or exogenous variables in the form of internal control implementation, internal audit function, and implementation of good university governance and the dependent variable or endogenous variable in the form of financial statement quality. Here are the operational of each of these variables:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Sub Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1). Audit Process Effectiveness</td>
<td>(1). Platform for the Implementation of the SPI Function</td>
</tr>
<tr>
<td></td>
<td>(2). Audit</td>
</tr>
<tr>
<td></td>
<td>(3). Review of Quality Management and KPI</td>
</tr>
<tr>
<td></td>
<td>(4). Review of Risks In The Company</td>
</tr>
<tr>
<td></td>
<td>(5). Consulting Services</td>
</tr>
<tr>
<td></td>
<td>(6). Stakeholders Perception</td>
</tr>
<tr>
<td>(2). Audit Infrastructure</td>
<td>(1). Position of Organization and Authority</td>
</tr>
<tr>
<td></td>
<td>(2). Human Resources</td>
</tr>
<tr>
<td></td>
<td>(3). Professional Development</td>
</tr>
<tr>
<td></td>
<td>(4). Working Facilities</td>
</tr>
<tr>
<td></td>
<td>(5). Policy Elements and Audit Guidelines</td>
</tr>
<tr>
<td>(3). Internal Audit Function</td>
<td>(1). Reliability and integrate information</td>
</tr>
<tr>
<td></td>
<td>(2). Compliance with policies, plans, procedures, laws, regulations and agreements</td>
</tr>
<tr>
<td></td>
<td>(3). Safeguarding of assets</td>
</tr>
<tr>
<td></td>
<td>(4). Economical and efficient use of resources</td>
</tr>
<tr>
<td></td>
<td>(5). Accomplishment of established objectives and goals for operations programs</td>
</tr>
</tbody>
</table>

Unit Analysis in this research is a subsidiary of PT. Pupuk Indonesia (Persero). Here are the list of the 7 subsidiaries: (1) PT. Petrokimia Gresik (PKG); (2) PT. Fertilizer Kujang (CCP); (3) PT. Pupuk Kalimantan Timur (PKT); (4) PT. Pupuk Iskandar Muda (PIM); (5) PT. Pupuk Sriwidjaja Palembang (PSP); (6) PT. Industrial Engineering (REKIND); And (7) PT. Mega Eltra (ME). This research will be conducted for the financial report year 2015.

Secondary data in this research is obtained by doing literature study. Data collection is done by asking questions / written statement in the form of questionnaires to the respondents. Questions / statements are accompanied by a
selection of answers prepared according to Likert-scale format. To analyze it with path analysis method requires data used at least have interval scale measurement, so that ordinal data must be changed scale measurement to scale interval by using Method of Successive Interval (MSI).

Given this research is a census study, decision making and drawing conclusions related to the acceptance or rejection of the research hypothesis is not done through statistical tests such as F test and t test. Hypothesis test is done by comparing the value of multiple correlation coefficient (for simultaneous effect test) and path coefficient (for partial effect test) with the minimum required value.

4. Discussion on Empirical Results

Before analyzed, the results of the research data first tested the validity and reliability. Based on the results of processing using product moment correlation (index validity) obtained validity test results from each item statement is greater than the critical value 0.30. The results of this test indicate that all of the statement items for all variables are valid and fit for use as a research measurement tool and can be used for further analysis. Based on the results of processing using alpha-cronbach's method of obtained reliability test results indicate that all the statement items used are reliable so it can be concluded that the questionnaire used to measure all the variables have given consistent results.

The audit process effectiveness is measured through six dimensions and operationalized into 22 indicators. It was found that the calculation of grand mean score of respondents regarding the audit process effectiveness of 86.88% is in the Good Category. Audit infrastructure is measured through five dimensions and operationalized into 12 indicators. It was found that the calculation of grand mean score of respondents regarding Infrastructure audit of 86.43% is in the Good Category. Internal Audit function is measured through five dimensions and operationalized into 17 indicators. It was found that the result of grand calculation of respondents score on the internal audit function of 90.25% is in Good Categories.

Independent variables in this study consist of Effectiveness Audit Process (X1), Audit infrastructure (X2). The correlation coefficient between the three independent variables is presented in the following table:

<table>
<thead>
<tr>
<th>Sub Variable</th>
<th>X1</th>
<th>X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>X2</td>
<td>0.733</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Based on the value of correlation coefficient above can be seen that: The relationship between (X1) with (X2) of 0.733 and included in the category strong. The direction of a positive relationship between (X1) and (X2) indicates that the better the effectiveness of the audit process will be followed by improved audit infrastructure.
Based on the results of data processing using Lisrel 8.7 software obtained path coefficient from each independent variable to Internal Audit Function as follows:

<table>
<thead>
<tr>
<th>Variabel Independen</th>
<th>Koefisien Jalur</th>
<th>$R^2 = 0.820$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$X_1$</td>
<td>0.406</td>
<td></td>
</tr>
<tr>
<td>$X_2$</td>
<td>0.342</td>
<td></td>
</tr>
</tbody>
</table>

Together the three independent variables give the effect of 82.0% ($value R^2$) to the Internal Audit Function. While the rest of 18.0% is the influence of other factors outside the three independent variables.

The sum of the effect of the two independent variables on the Internal Audit Function at PT. Indonesian fertilizer amounted to 82%, which means 82% increase in Internal Audit Function at PT. Indonesian fertilizers in 2015 are caused or explained by the Audit Process effectiveness and Audit Infrastructure. While the remaining 18% is the influence of other factors outside the two independent variable.

Based on the results of statistical hypothesis testing by path analysis method it can be seen that this is in line with one of the objectives of internal audit function implementation conducted by the internal auditor, and the adequacy of audit infrastructure. This, as well as answering phenomenon in the background of research, where the internal audit function problem is influenced by the audit process effectiveness and audit infrastructure.

Audit Process Effectiveness when viewed that the calculation of grand mean score of respondents 83.60% is at intervals of 75% - 100%. Thus it can be concluded that the audit process in most of the Indonesian Fertilizer companies that make Year 2015 has been implemented effectively.

Based on the results of research on the positive effect of audit process effectiveness on the internal audit function accompanied by descriptive analysis where almost all indicators of the effectiveness of the audit process fall into either category. The sub-indicator of "Relationship with the External Auditor" in the indicators of reliability and integrating information, is considered the weakest among the other sub-indicators. Therefore, it is necessary to have attention and improvement on such activities, among others: (1) Internal auditors periodically conduct meetings to discuss the audit process being conducted; (2) The internal auditor together with the external auditor may consider and recommend jointly to the audit findings in their environment; (3) The external auditor shall have good access to the competent internal auditor's resources to evaluate the reliability and integrity of the information along with the exposure of the risks.

Audit infrastructure when viewed that the calculation of grand mean respondents 83.04% is at intervals of 75% - 100%. Thus it can be concluded that this variable in most companies of Indonesia Fertilizer Year 2015 is very good.

Based on the results of research on the positive impact of audit infrastructure on the internal audit function accompanied by descriptive analysis where almost
all indicators of audit infrastructure included into the category very well. The sub-indicator "Can make audit report results and free from pressure of auditee, management, and outsiders" is considered weakest among other sub-indicators. Therefore, it is necessary to have attention and improvement on the activity, among others: (1) Audit Result Report is done with strong support from Stakeholders, so it does not have any pressure on auditee; (2) The Audit Result Report shall be prepared with strong and adequate evidence, so that audit findings may be held accountable even under pressure from the management; (3) The Audit Result Report shall be arranged in secret, where the report is only specific to stakeholders in the interests of advancing the company, so that the highly sensitive information is not known by outsiders.

Based on statistical hypothesis test with path analysis method using SPSS version software. It is known that the sum of the three independent variables influencing the internal audit function of all Indonesian Fertilizer companies is 82.0%, meaning that 82.0% improvement of internal audit function in Indonesian Fertilizer Company is caused or explained by the audit process effectiveness and audit infrastructure. While the remaining 18% is the influence of other factors outside the three independent variable. This fact is in line with one of the objectives of the audit process effectiveness undertaken by the internal auditor, and the adequacy of the audit infrastructure. As well as answering phenomenon in the background of research, whereas the internal audit function problem is influenced by the effectiveness of audit process and audit infrastructure.

5. Conclusion

Based on the results of research and discussion on the audit process effectiveness and audit infrastructure on the internal audit function of subsidiaries in PT. Fertilizer Indonesia (Persero) Year 2015, then at the end of this study, the authors draw conclusions, as well as providing suggestions as follows: (1) Simultaneously the audit process effectiveness and audit infrastructure gives 82.0% influence on the internal audit function in children Company in PT. Pupuk Indonesia (Persero). From the test results proved that stakeholders, audit process effectiveness and audit infrastructure simultaneously affect the internal audit function of subsidiaries in PT. Pupuk Indonesia (Persero). The magnitude of these influences is in line with these independent variables which together affect the internal audit function. This illustrates that the internal audit function is determined by the effectiveness of the audit process and the audit infrastructure of each company; (2) partially the effectiveness of the audit process and audit infrastructure affecting the internal audit function, is sequential by 40.6% and 34.2%.

The advice given is; (1) Improving the audit process effectiveness on the weakest sub-indicators, ie internal auditors periodically conduct meetings to discuss the audit process being conducted. The internal auditor with the external auditor may consider and jointly recommend the audit findings in their environment. The external auditor should have good access to competent internal
Influence on audit process effectiveness and audit infrastructure

auditor resources to evaluate the reliability and integrity of the information along with its exposure to risks; (2) Improving the audit infrastructure of the weakest sub-indicators, the Audit Result Report is done with strong support from Stakeholders, so as to have no pressure on the auditee. The Audit Result Report has prepared strong and adequate evidence, so that the findings of the audit result can be accounted for even under pressure from the management. The Audit Result Report is arranged in secret, where the report is only specific to stakeholders in the interests of advancing the company, so that very sensitive information is not known by outsiders.

References


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