



# Contemporary Accounting Case Studies

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Vol. 2, No. 2, September 2023

Article 1

## QUALITY ASSURANCE AND IMPROVEMENT PROGRAMS TOWARDS BEST PRACTICE IN INDONESIA: THE CASE STUDY OF THE STATE AGENCY INSPECTORATE

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# QUALITY ASSURANCE AND IMPROVEMENT PROGRAMS TOWARDS BEST PRACTICE IN INDONESIA: THE CASE STUDY OF THE STATE AGENCY INSPECTORATE

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## ABSTRACT

*This study evaluates the effectiveness of the Quality Assurance and Improvement Program (QAIP) for the Internal Audit function of the Inspectorate of Government Agencies X. Based on the external evaluation, the inspectorate achieved a QAIP result of 72% in 2020. The requirement to fulfill stakeholder expectations and the professional responsibility inherent in compliance with the standards determine the quality of the internal audit. This study is a qualitative case study using a descriptive technique. The approach is used to evaluate the Inspectorate's accomplishments in the QAIP following the external evaluation. Following the results of the QAIP-based analysis, the majority of the improvements were made to harmonize policies, guidelines, structure, and workflow processes with the internal auditing practice standards. However, only two standards, Attribute Standard 1000-Purpose, Authority, and Responsibility and Attribute Standard 1100-Independence and Objectivity, are classified as effective improvements. while the remaining eight standards are classified as less effective. In the Inspectorate's endeavors to improve the implementation of QAIP in accordance with the standards, many challenges were encountered, particularly in the areas of human resources, organization, and situations inherent to the public sector.*

**Keywords:** *improvement; internal audit; the international standard; QAIP; valu*

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## 1. INTRODUCTION

Internal audit's role has developed in response to changes in the organizational environment. Changes occur due to various factors, including technical advancements, corporate competition, and changes in client demand. These changes have increased firms' awareness of the critical role of governance and risk management in accomplishing objectives. This is where the role of internal audit in providing value-added to the organization comes into play (Střihavková, 2018). The internal audit's purpose is to enhance and provide value to the risk management, control, and governance processes, ultimately contributing to achieving organizational goals (IIA, 2016). Therefore, an internal audit must be capable of providing audit services that are responsive to stakeholders' needs while retaining the highest quality output supplied by internal audit activities (Pitt, 2014).

The Institute of Internal Auditors (IIA) established the International Standards for Professional Practice (IPPF), which encompasses a definition of internal audit, a code of ethics, and professional practice standards (Anderson & Dahle 2018). Internal audit quality is determined by the requirement to meet stakeholder expectations as well as the professional responsibility inherent in standard compliance (IIA, 2012). To position itself as a management partner that provides added value, internal audit needs to improve its quality continuously (Střihavková, 2018).

The IPPF regulates the Quality Assurance and Improvement Program (QAIP), particularly. The standard requires the Chief Audit Executive (CAE) to design a QAIP incorporating internal and external assessments. QAIP is formally integrated into internal audit activities to ensure that the internal audit function fulfils its commitments and continuously grows in capability (Pitt, 2014). Only if the QAIP results support the statement will internal audits be able to determine compliance with International Standards of Professional Practice.

In the government of Indonesia's regime, the internal audit function at ministries and state agencies refers to the Inspectorate. The Inspectorate is an element of supervision within the Ministry/State Agency as stated in the regulation (i.e., PP 60, 2008). This case study focuses on the Inspectorate Governmental Agencies X (GAX) which has the vision to actualize an independent, professional internal audit function to support the achievement of the goals of the GAX. As for the mission, the inspectorate aims to optimize the internal audit function to ensure that internal control, risk management, and good governance are fully implemented and to improve the effective governance and business processes.

In line with the practice of internal auditing in the business sector, the Standard Audit Internal Pemerintah Indonesia (SAIPI), which was adopted from the IPPF, features a quality measure (SAIPI, 2014). To enhance the quality of internal audits, the GAX Inspectorate incorporated a key performance indicator in the 2020-2024 Strategic Plan in the form of the percentage of SAIPI compliance. The success metric is meant to be used in the implementation of QAIP.

The QAIP was initiated in 2019 following an external assessment of internal audit activities conducted by the Inspectorate of the Ministry of Finance. The external evaluation report was published in January 2020, as outlined in the Inspectorate's 2020 Annual Report. According to the external evaluation and the annual report, the Inspectorate's audit internal practices were 72 percent compliant with the standard. This result is classified as "Partially Conform." The QAIP achievements as of 2020 are shown in Table 1.

**Table 1 Results for QAIP as of 2020**

Standards	External Assessment	Average Conformity to Standards
<b>Attribute Standards</b>		
Purpose, Authority, and Responsibility	75%	77%
Independence and Objectivity	100%	
Proficiency and Due Professional Care	73%	
Quality Assurance and Improvement Program	59%	
<b>Performance Standards</b>		
Managing the Internal Audit Activity	76%	68%
Nature of Work	70%	
Engagement Planning	68%	
Performing the Engagement	52%	
Communicating Results	54%	
Monitoring Progress	87%	
<b>Conformity to Standard</b>	<b>72%</b>	

Source: External Assessment Report, 2020 and GAX Inspectorate's Annual Report, 2021

Conformity with the Standards is a strategic target which the Inspectorate must achieve. The GAX Inspectorate aims to achieve 90 percent conformity with the Standard by 2024 (GAX Inspectorate's 2020-2024 Strategic Plan). This is aligned with the external assessment time frame, which will be performed eventually by 2025. The QAIP external evaluation is conducted every five years (AAIPI, 2019).

The results of QAIP are essential to the internal audit function since they provide stakeholders with reasonable assurance that (Anderson & Dahle, 2018): (1) Internal audit activities comply with the Standards; (2) The internal audit function operates effectively and efficiently; and (3) The outputs of internal audit are presumed to add value to stakeholders. Based on previous research, when conformance to IIA standards and code of ethics is assured, internal audit reports are credible and deliver value (Roussy & Brivot, 2016). Compliance with the IPPF encourages management to leverage the recommendations of internal audit work (Eulerich et al., 2019).

Considering the importance of QAIP to stakeholders and the fact that the inspectorate's activities remain deviated from the Internal Audit Practice Standards, this

research identifies the following issues: how effective is the GAX Inspectorate in enhancing QAIP? What are the challenges to improving QAIP?

## **2. LITERATURE REVIEW**

The stakeholder expects that the internal audit provides value-added to the organization's objectives. It can be achieved by focusing on activities under the organization's strategy (Witzany & Harrington, 2016). Internal audit quality and organizational complexity are positively correlated. Businesses with a high degree of complexity make greater use of internal audit results. This demonstrates the importance of a thorough internal audit when confronted with environmental unpredictability in accomplishing company goals (Jiang et al., 2017).

The audit practice framework provides a platform for stakeholders to set expectations and measure internal audit performance and quality (Anderson et al., 2017). The IIA has developed systematic guidance for internal auditors in the form of the IPPF (Anderson & Dahle, 2018). These standards of practice address critical components of providing successful internal audit services that contribute to the accomplishment of the internal audit goal (Anderson & Dahle, 2018).

The IPPF is divided into two sections: mandatory guidance and recommended guidance. Core Principles, a Definition of Internal Audit, a Code of Ethics, and Standards of Professional Practice are all mandatory components. An internal audit must comply with the mandatory element to provide quality services (IIA, 2016).

### **2.1. THE INTERNATIONAL STANDARDS FOR PROFESSIONAL PRACTICE**

The IIA's internal audit standards are intended to guide the internal audit profession in performing audits in various sectors and types of businesses (Moeller, 2016). Audit standards are required guidelines for managing the internal audit function and audit engagements (Anderson & Dahle, 2018). Internal audit standards are classified into three categories by the IPPF: attribute standards, performance standards, and implementation standards.

Attribute standards are a subset of standards that specify the characteristics of organizations, teams, and individuals engaged in internal auditing (Anderson & Dahle, 2018). The criteria for attributes range from standard 1000 to standard 1300.

Performance standards elaborate on the nature of work and internal audit quality criteria (Anderson & Dahle, 2018). These quality criteria become the basis for evaluating internal audit performance (Moeller, 2016). The criteria for performance range from standard 2000 to standard 2500.

The implementation standard is the last part of the international professional practice standard. Implementation standards provide more detailed guidance regarding the implementation of attribute and performance standards (Anderson & Dahle, 2018). There are two types of services, so that the standard of implementation of the assurance

engagement is marked with a code "A" after the standard number and a code "C" for consulting engagement (IIA, 2016).

## 2.2. QAIP FRAMEWORK

QAIP is the foundation for determining the efficacy of internal audits in adding value to the organization (Anderson & Dahle, 2018). IPPF enables the integration and alignment of core internal audit principles with QAIP. This indicates the usefulness of the core principles as a component of QAIP that contributes to the internal audit's credibility and value. QAIP can help advance the internal audit function within an organization's governance framework (Woller, 2017). The internal audit's head is required to formally integrate quality assurance programs to ensure that internal audit efforts focus on adding value to the firm (Pitt, 2014). The relationship between IPPF and QAIP is shown on a chart illustrated in Figure 1.

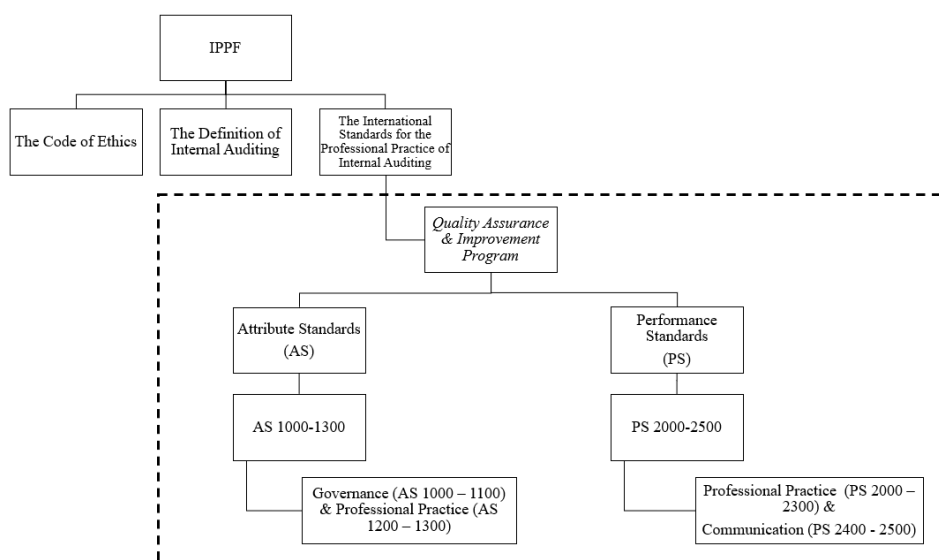


Figure 1. The Relationship Chart between the IPPF and QAIP

As shown in Figure 1, the objective of QAIP is to evaluate the conformance of the internal audit activity to the standard. In the QAIP framework, QAIP is embedded in all internal activities. The framework divides internal audit elements into three separate elements: governance, professional practice, and communication. The QAIP framework ensures that each of the internal audit's three elements is examined.

### 2.2.1. GOVERNANCE

The governance elements include an assessment of the audit charter, compliance with applicable regulations, independence and objectivity, risk management that affects the internal audit function, and resource allocation. The governance elements are assessed by attribute standards 1000 and 1100 (IIA, 2012).

- **Attribute Standard 1000- Purpose, Authority, and Responsibility**

The first attribute standard is purpose, authority, and responsibility. The internal audit function requires support from the highest position in the organization to carry out its mission. This is necessary so that internal audit activities are not vulnerable to client rejection and prejudice (Anderson & Dahle, 2018). Therefore, the 1000 series standard requires the establishment of an audit charter. The internal audit charter must support the objectives, authority, and responsibilities of internal audit and reflect the concepts of internal audit practice. The CAE is required to undertake periodic reviews of the audit charter (IIA, 2017).

- **Attribute Standard 1100- Independence and Objectivity**

This standard is essential in providing an unbiased and impartial assessment (Anderson & Dahle, 2018). In standard 1100, independence refers to the organization, while objectivity refers to the individual auditor. Organizational independence and auditor objectivity are considered necessary in instilling trust in stakeholders (Botha & Wilkinson, 2019). Objectivity is displayed to the fullest extent possible when gathering, evaluating, and disseminating information about the area under examination. Objectivity entails a balanced assessment of all pertinent circumstances without regard for interests or third parties' interests (IIA, 2016).

From the external auditor's perspective, the quality of an internal audit is established by the input factors, which are organizational independence and individual competence. These input factors guarantee the results of internal audit work (Roussy & Brivot, 2016). The standard outlines the circumstances that result in an Impairment of Independence or Objectivity. Conflicts of interest, limitations on the scope of assignments, restrictions on access to information, persons, and property, and limited human and financial resources are forms of these circumstances.

### **2.2.2. PROFESSIONAL PRACTICE**

The professional practice element includes an assessment of the role of internal audit in improving governance, risk management, and organizational control. In addition, the assessment also includes risk-based audit planning, both annual plans and those in the implementation of the audit engagement. Professional Practice includes the attribute standards 1200 and 1300, along with the performance standards 2000, 2100, 2200, and 2300 (IIA, 2012).

- **Attribute Standard 1200- Proficiency and Due Professional Care**

The standard includes the skills, knowledge, and competence to do what should be done the way it should be. This is important in determining whether audit activities add value (Anderson & Dahle, 2018). Internal auditor competence refers to the auditor's ability to use the necessary knowledge, skills, and experience to complete the engagement successfully (IIA, 2016). The recruitment of technically skilled and dependable people is viewed as a means of increasing the organization's worth (Roussy & Brivot, 2016).

The application of due diligence is carried out consistently and reasonably prudently. This due diligence is expected to minimize errors in the engagement. In addition, internal auditors who can apply professional scepticism are considered to provide value-added (Botha & Wilkinson, 2019).

- Attribute Standard 1300- Quality Assurance and Improvement Program

The standard governs the internal audit's responsibilities for implementing quality assurance and improvement programs. The assurance program is designed to reassure stakeholders that the internal audit has consistently conducted its activities in accordance with the code of ethics, standards, and audit charter, that it runs its activities effectively and efficiently, and that audit results add value (Anderson & Dahle, 2018).

Implementation of QAIP includes ongoing monitoring, periodic evaluations, and evaluations conducted by independent third parties (IIA, 2012). A well-designed QAIP should incorporate the assessment's internal and external components and effectively convey the assessment's conclusions (Woller, 2017).

Ongoing monitoring ensures that the daily internal audit work process adheres to professional practice standards. Ongoing monitoring is vital to the internal audit activity's quality control. Internal audit quality control includes the supervision, review, and evaluation of internal audit performance. The procedure under consideration is governed by performance criteria. They include, but are not limited to, organizing the engagement, executing the engagement, conveying the outcomes, and monitoring the result's completion. The most effective method of assessing effectiveness is defining the key principles' effectiveness in terms of performance results (Woller, 2017).

A periodic evaluation is used to determine the internal audit activity's compliance throughout a specified period. This assessment might be conducted independently or by another person regularly. These parties should have an adequate understanding of internal auditing methods. The assessment's findings are forwarded to the CAE, along with recommendations for improvement and a timeline for completion (IIA, 2012). Periodic assessments allow for the examination of compliance with the code of ethics and standards throughout the time between external assessments (Woller, 2017).

Within five years, QAIP must be evaluated by an independent third party. External party assessments are conducted using a comprehensive evaluation or self-assessment that third parties have validated. External parties must demonstrate acceptable competence in internal auditing and the external evaluation procedure. The ensuing results are communicated to stakeholders and detail the internal audit activity's compliance with the Code of Ethics and Standards (IIA, 2012).

- Performance Standard 2000- Managing the Internal Audit Activity

Managing internal audit activities governs several aspects: (1) achievement of the internal audit charter's objectives and responsibilities; (2) practice in accordance with the definition and standards of professional practice; (3) individual auditors adhering to the code of ethics and professional practice standards; and (4) consideration of current trends and issues affecting the organization (IIA, 2016). These factors show that an internal audit focuses on the most critical areas of the organization (Anderson & Dahle, 2018).



The balance between assurance and consulting services depends on the organizational environment. The majority of stakeholders believe that assurance services bring more significant value. However, if an internal audit's expertise and capabilities are sufficient, it might provide the necessary advisory services. In this instance, consulting services should focus more on risk management enhancement (Witzany & Harrington, 2016).

- Performance Standard 2100- Nature of Work

As per the series of standards 2100, internal audit activities must evaluate and contribute to improving the organization's governance, risk management, and control systems. Internal audit credibility and value are enhanced when auditors are proactively and their assessments provide new perspectives while also considering future implications (Anderson & Dahle, 2018). When implementing its professional practice, an internal audit ensures that its engagement includes improving governance, risk, and control (Anderson & Dahle, 2018). When an internal audit has methods to improve organizational governance, risk management, and internal control, internal audit activities are considered to provide value-added for the organization and its stakeholders. In addition, it objectively provides adequate assurance about strategy, objectives, and risks (Botha & Wilkinson, 2019). Internal audits can significantly contribute to governance, risk management, and control through educational consulting engagements (Botha & Wilkinson, 2019).

- Performance Standard 2200- Engagement Planning

The engagement plan includes objectives, scope, time frame, and resource allocation. The engagement must be designed with the organization's strategies, objectives, and risks in consideration (IIA, 2016). The parameters considered indicate that internal audit emphasizes the most significant matters of the organization (Anderson & Dahle, 2018).

At each engagement, management involvement is needed in aligning audit criteria with organizational strategies and risks (Lenning & Gremyr, 2017). Internal auditors are considered to provide value-added if the risk-based audit planning is aligned with the organization's objectives. This suggests an audit approach that is responsive to a changing business environment (Botha & Wilkinson, 2019). The wider the scope of internal audit in providing governance and risk management services, the more effective internal audit will be (Wibowo, 2019).

- Performance Standard 2300- Performing the Engagement

The 2300 standard expands on the concept used in the definition of internal audit, particularly internal audit's disciplined and systematic approach. (Anderson & Dahle, 2018). The data used to evaluate the interaction must meet the requirements. The requirements include adequate, reliable, relevant, and useful information for completing the engagement's objectives. The engagement must be concluded based on an adequate evaluation. The examination considers the materiality of potential hazards in the region under consideration (IIA, 2016). When audit engagements are conducted using technology, they are credited with providing value. Furthermore, adequate resources, the auditor's presence, and the aptitude to perform professionally contribute

to enhancing value-added services (Botha & Wilkinson, 2019). The application of information technology in the audit process optimizes internal audit quality (Střihavková, 2018).

Every engagement must be supervised. The purpose of supervision is to guarantee that evaluation objectives are met, ensure that given duties are completed, and provide opportunities for auditor growth (IIA, 2016).

### **2.2.3. COMMUNICATIONS**

The communication element includes an assessment of communications related to audit results and their follow-up and communication with stakeholders (IIA, 2012).

- Performance Standard 2400- Communicating Results

The communication concludes with recommendations for assurance engagements and advice for consultancy engagements. Along with judgments about the areas under examination, audit communications should reflect accomplishments in those areas. In addition to audit findings, communication provides accomplishments in the examined area (IIA, 2016).

The engagement's outcomes must be error-free, objective, simple to comprehend and logical, include pertinent information, and be delivered on schedule (IIA, 2016). Management reports prioritize the quality and speed of delivery of engagement results. Management reporting is inextricably linked to the effectiveness of decision-making at the company's highest levels (Anderson & Dahle, 2018). Internal auditors that are service-oriented are viewed as responsive when communicating with stakeholders. Service orientation requires clear, timely communication and the ability to provide reasonably rapid feedback (Botha & Wilkinson, 2019).

- Performance Standard 2500- Monitoring Progress

An internal audit is required to design a process to monitor management's implementation of recommendations. The standard specifies that internal audit is responsible for more than just disseminating the audit report. Internal audit is, however, equally accountable for ensuring that management follow-up is sufficient. Additionally, internal audit must communicate with the organization's top levels if management takes actions that pose an unacceptable level of risk. If carried out effectively, these will result in positive changes to the governance structure (Anderson & Dahle, 2018).

## **3. RESEARCH METHODOLOGY**

This research is a case study. Case studies aim to describe a specific circumstance. The purpose of the evaluation's analysis is to compare the observable situation to specified standards (Ellet, 2018). This research employed the QAIP framework outlined in the IPPF for its evaluation. The framework separates internal auditing into three main components: Governance, Professional Practice, and Communication. This

research was conducted to determine the progress that has been made in implementing QAIP throughout 2021, following the assessment of QAIP by external parties, as well as to identify the challenges encountered. The phases of this research are as follows:

a. Secondary data analysis

Initially, observations were made on the literature study about QAIP implementation best practices. After thoroughly understanding the QAIP requirements, a document analysis should be performed on GAX. The objective of the analysis is to determine if the revised QAIP outcomes are improved than the prior ones.

b. Confirmation of the subject of study

To get primary data, confirmation is undertaken through interviews. The evaluation results derived from observations of secondary data formed the basis for conducting interviews. The deployment of the confirmation aims to ensure QAIP implementation enhancements and impediments.

c. Data triangulation

A questionnaire of Inspectorate users was undertaken to strengthen the validity of data derived from document observations and interviews. The questionnaire's objective is to ascertain whether or not stakeholders have acknowledged GAX's improvement. This research will use interviews and questionnaires to capture primary data from which conclusions will be drawn.

The effectiveness of enhancing QAIP is classified into three categories: effective, less effective, and ineffective. Policy and implementation are improved due to the determination of the most effective category for enhancing QAIP. The "less effective" category is based on certain policies and/or implementation improvements. However, the category is ineffective if the QAIP does not improve.

#### **4. ORGANIZATION PROFILE**

The GAX Inspectorate is part of Government Institution X, which is accountable for internal auditing functions. The GAX Inspectorate strives to provide an independent, professional, and ethical internal audit function to support the goals and objectives of Government Institution X.

The Inspectorate undertakes audit work in conjunction with the annual internal audit work plan approved by the Head of Government Institution X. The audit work plan needs to consider: (1) Direction of Government Institution X; (2) The risk profile established by the process of risk management; (3) Societal concerns that emerge; and (4) The audit findings of the Indonesian Audit Board and/or the State Development Audit Agency.

Upon performing its duties and responsibilities, the GAX Inspectorate reports to the head of Government Institution X. Inspector presides over the GAX Inspectorate. Inspectors are aided by the Administrative Section and the Auditor Functional Position Group in the performance of their internal audit activities. The annual audit plan for

2020 outlines the performance of 25 internal audit activities throughout seven functional departments.

## 5. RESULT AND DISCUSSION

This study's analysis was conducted to determine the efficacy of the QAIP of the GAX Inspectorate and to identify any impediments that might hinder it from improving by 2021. In alignment with the QAIP framework, the condition of QAIP enhancement is evaluated. The QAIP framework divides internal auditing into governance, professional practice, and communication.

### 5.1. GOVERNANCE

Attribute standards 1000 and 1100 are used to assess governance

- **Attribute Standard 1000- Purpose, Authority, and Responsibility**

Purposes, authority, and responsibilities are valued at 75% in external evaluations. The prerequisite was that the Inspectorate issued an audit charter in 2014. Before the external examination, however, there was no evidence that the audit charter had been evaluated. Furthermore, the audit charter does not consider the nature of the consulting and assurance services.

The Inspectorate conducted a review of the audit charter in 2021. The enhancements cover most of the 1000 series standard's criteria and incorporate relevant regulatory revisions. The amended audit charter represents the nature of the assurance and consulting services. The nature of the assurance services has evolved to include evaluating the sufficiency of GAX's governance, risk management, and internal control. The nature of consulting services has evolved to encompass advice, education, assistance, and reviews of system development. As explained by the following respondent:

*“On the basis of previous peer review, the audit charter should be improved. The audit mandate [...], however, we have never conducted any review prior to 2021. [...]. The GAX Inspectorate represents the nature of the assurance and consultancy services.” (Chief Inspector)*

The amended audit charter was issued in October 2021 by the Head of GAX. However, with the implementation of the new audit charter, there has been a governance transition at GAX. The inspectorate did not renew the audit charter for the incoming administration. As explained by the following respondents:

*“After making adjustments and defining the audit charter, the Inspectorate genuinely did not want it to be attached to the Ministerial Regulation. [...]. In contrast, from the perspective of the legal unit, the audit charter must be linked to the Ministerial Regulation.” (Sub-Division Head)*

*“The GAX Inspectorate was indeed having difficulty determining the audit charter which must be incorporated into the Ministerial Regulation. If we want to modify the*

*contents of the attachments (audit charter), we must amend the Ministerial Regulation. However, [...]. Changes to the Ministerial Regulations are not straightforward; [...] are required. (Chief Inspector)*

In developing an audit charter in accordance with the 1000 series standard, an internal audit must ensure that management comprehends and acknowledges the notion of assurance and consulting services that may be provided. It is essential for management to approve the audit charter so that they know and agree with the work performed by internal auditors. The improvement of the audit charter is deemed effective based on the survey results, wherein 45 percent of respondents agree, and 40 percent strongly agree that they are knowledgeable about the service provided by the Inspectorate in accordance with the Audit Charter.

However, the procedure for updating the audit charter and how the audit charter is approved by the organization's head require further development. This is because internal audit and the legal unit have diverse viewpoints on how the audit charter's decision should be treated. Nevertheless, according to the legal unit, the audit charter is a permanent document that does not need to be amended whenever the institution's governance changes.

- **Attribute Standard 1100- Independence and Objectivity**

The GAX Inspectorate's independence and objectivity have obtained the highest possible value of 100 percent in external assessments. According to the GAX organizational structure, the Inspectorate has a role that enables independent internal audit activities. Administratively, the Inspectorate reports to the Main Secretary; functionally, it reports to the Head of GAX. This establishes a dual reporting relationship following the 1100 series standard.

Concerning the impairment of objectivity, auditors are barred from completing tasks that were allocated to their roles the prior year. As per the 2021 assurance assignments document summary, tasks were determined by the auditor responsible for the area being examined in the preceding year. Furthermore, there is no disclosure addressing the potential for objectivity impairment. Based on the interviews, a policy preventing the impairment of objectivity has been established. During audit planning, the implementation comes in the form of an assessment of the potential for impairment of objectivity. As explained by the following respondents:

*“There have been no barriers linked to the auditor's impartiality being compromised to yet. [...], revising the audit team's composition or ensuring that the involved auditor does not perform examinations in areas for which he or she was previously responsible. [...] the Inspectorate performed an application audit. We do not engage the related auditor in audit processes pertaining to the application. [...]. (Chief Inspector)*

*“[...] There are currently policies in place that regulate the potential of objectivity impairment. [...], we lacked documentation about the assessment. As a consequence, there is presently no evidence indicating that we completed an evaluation of the potential of objectivity impairment.” (Team Leader)*

In accordance with the 1100 series requirements, the highest degree of objectivity is demonstrated while collecting, assessing, and communicating about the examined areas. Individual objectivity must be preserved in both appearance and fact. If there is a circumstance in which an individual's independence or objectivity is impaired, the standard regulates reporting methods about the impairment. Vulnerabilities must be notified to the appropriate parties.

The GAX Inspectorate has formulated a policy to protect objectivity from being compromised. These enhancements to the standard 1100 are categorized as effective. In accordance with the survey results, fifty percent of respondents agreed, and forty-five percent strongly agreed, that the Inspectorate was free from interference with the impairment of its independence and objectivity. However, there is no defined way for verifying how an evaluation of a potential impairment in objectivity is undertaken.

## **5.2. PROFESSIONAL PRACTICE**

Professional practices are evaluated using the attribute standards 1200, and 1300, and the performance standards 2000, 2100, 2200, and 2300.

- **Attribute Standard 1200- Proficiency and Due Professional Care**

Proficiency and Due Professional Care have been assigned a score of 73 percent based on external assessments. According to the report, 30% of auditors required accreditation for functional auditor positions such as technical supervisors and team leaders. 80 percent of auditors lacked sufficient expertise in examining and mitigating fraud risk. 90 percent of auditors are insufficiently knowledgeable about information technology risks and controls.

The Inspectorate has shifted how the 1200 series attribute standard is implemented. The enhancements include collaboration with the Human Resources Bureau in developing internal audit competency standards and associated education and training programs. The learning model is designed to serve as a practical guide for auditors in developing competence through education and training activities that are adequate for the auditor's position tier and satisfy the auditor's key competencies. Addressing competence advancement, the preceding might be confirmed: (a) All auditors have received training in fraud examination and mitigation; (b) Forty percent of auditors have received training in information technology risk and control. As explained by the following respondent:

*“We have collaborated with the Human Resources Bureau regarding the auditor training program, [..]. Moreover, we have allocated resources for the improvement of these competencies. Auditors have been instructed to complete this knowledge to develop about fraud risk, information technology, [..].” (Sub-Division Head)*

However, for the 2021 audit assignment associated with information technology, the audit team's collective knowledge of information technology risks and their control is already in place. Nevertheless, the percentage of auditors who lack a certificate of auditor functional position in line with their tasks has not improved. As explained by the following respondents:

*“Individuals should have a set of prerequisites to be appointed as technical controllers or team leaders. For instance, the minimal technical controller already corresponds to group IV/a. As for the team leader, those who are at least in group IIIc. However, among the thirteen auditors of the GAX Inspectorate, the highest level remains III/d, and therefore only one individual holds this level. [...] If adequate auditors are available in sequence with their roles, we will be unable to encounter this circumstance.” (Chief Inspector)*

*“Another issue is that the majority of GAX's employees now have certain functional positions. [...]. The majority of GAX's personnel have distinct functional jobs. Therefore, it is harder to transfer to a functional auditor.” (Sub-Division Head)*

On the foundation of the IPPF, the quality of internal audit activities relies on the performance of internal auditors. Based on the scope of work and degree of responsibility, internal audit must establish the necessary level of education and experience for internal audit roles. Because in the public sector there are prerequisites to occupy the audit team supervisor or leader position. Among these criteria is the attainment of a level and group of government officials. The inspectorate lacks the personnel necessary to fill these levels and groups. This would be corroborated by the survey results, which indicate that 5 percent of respondents disagree, and 50 percent are indifferent regarding the audit team's expertise/skills concerning the examined area/function/business process. Thus, enhancements to the standard 1200 fall into the category of being less effective.

● **Attribute Standard 1300- Quality Assurance and Improvement Program**

According to QAIP's external assessment report, the inspectorate scored 59 percent. As per the report, efforts to implement QAIP were made through self-evaluation of certain areas of internal audit activities and external examination of all aspects of internal audit activities by the Inspectorate from other ministries. The Inspectorate already had standards governing the implementation of ongoing monitoring for each engagement. However, self-assessment was limited to some facets of internal audit activities. It was because the Inspectorate did not possess regulations covering all aspects of quality assessment, beginning with ongoing monitoring, periodic self-assessments, and external assessments, including QAIP reporting.

Regarding the QAIP, the Inspectorate has established guidelines. The prerequisites for the guidelines have already been satisfied, notably the implementation of an internal evaluation, which includes continuous monitoring and periodic assessment, and the implementation of an external assessment. The guidelines also include an evaluation of aspects defined by the standard, including conformance with standards and codes of ethics, as well as a measurement of the efficacy of internal auditing activities. As explained by the following respondent:

*“It was determined via peer review that the GAX Inspectorate lacked guidelines. Therefore, in 2021, the Inspectorate issued guidelines to govern the quality assurance program. This program involves three main activities. Continuous monitoring, periodic internal and external evaluations, [...]. Once a year, the Internal Inspectorate team performs annual internal evaluations. The inspectorate should collaborate with the peer review committee for external evaluations.” (Auditor)*

In 2021, a periodic internal assessment of its implementation was performed. The internal assessment has evaluated all internal auditing activities in accordance with requirements. However, the efficiency of the internal auditing activity was not assessed. This is because the measuring techniques for evaluating the efficiency of internal audit activities have not been developed. The purpose of measuring effectiveness is to evaluate whether or not the expectations of stakeholders have been met. As explained by the following respondent:

*“A questionnaire should be used to assess efficacy. The Inspectorate lacked a mechanism to obtain feedback for each audit assignment, [...]. Evidently, the Inspectorate does not currently have a mechanism for obtaining feedback on submitted reports.” (Supervisor)*

In addition, the assessment team evaluates its involvement in related activities as part of the internal assessment. This is due to the limited personnel comprehending the QAIP internal assessment procedure. As explained by the following respondent:

*“Concerning the internal assessment team, the issue is the lack of personnel. Consequently, only one team will assess. Moreover, no sample selection criteria are associated with the assessed audit assignments. [...]” (Team Leader)*

On the basis of the IPPF, periodic internal evaluations are conducted to ensure compliance with standards and activities' efficacy in meeting stakeholders' varied expectations. In general, the internal evaluation evaluates: a) assignment supervision quality; b) conformity to internal auditing norms and practices; c) What is the value added by internal auditing; and d) the level of satisfaction of stakeholders. Surveys and feedback from audit clients, timekeeping systems, and budget-to-actual variation may be used to evaluate the efficacy and efficiency of internal audit operations (Anderson & Dahle, 2018).

During the implementation of the internal assessment, the team evaluates the activities in which they are not directly engaged. to communicate, share viewpoints, and learn from one another. In certain firms, the CAE develops a team outside of internal audit whenever feasible. It is crucial to keep in mind, however, that the team must have adequate knowledge of the internal audit standards.

Based on the survey results, it is known that 30 percent of respondents disagree, 40 percent of respondents are neutral, and that the Inspectorate evaluates the effectiveness of its activity by considering the satisfaction of stakeholders' expectations. Therefore, enhancements to the standard 1300 remain less effective.

- **Performance Standard 2000- Managing the Internal Audit Activity**

The external assessment gave the management of internal audit activities a 79 percent rating. This suggests that the Inspectorate followed the majority of the performance standards in the 2000 series. The Inspectorate established a strategic plan and an annual work plan, both of which were developed in accordance with organizational risk factors. Furthermore, the Inspectorate had allocated resources for the annual work program. Additionally, the Inspectorate had communicated with the



Head of GAX about resource scarcity and its implications. However, the annual work program had not been revealed to management prior to or after its determination. It is possible that the audit plan did not adequately incorporate stakeholder expectations. Moreover, there were no procedures and standards to provide auditors with guidance during audits.

The Inspectorate has enhanced this set of 2000 standards by providing technical guidelines and business processes throughout internal audit activities. Where these materials serve as guidance for the auditor to do the assignment. As explained by the following respondent:

*“The Inspectorate has incorporated the essential technical guidelines into the Ministerial Regulation [...]. The technical guidelines are an integral component of the regulations.” (Chief Inspector)*

The GAX Inspectorate has made progress by adopting auditing rules that may aid auditors in completing tasks. These rules and guidelines consist of: (a) Technical performance audit guidelines; (b) Audit technical guidelines for specific purposes; (c) Implementation of consultation activities; and (d) Business processes subject to internal audit

However, the annual audit plan has not yet been presented to the audit client and management. That is because the annual audit plan's communication mechanism has still not been incorporated into the established business processes. As explained by the following respondent:

*“In addition to the absence of an official mechanism for communicating the annual audit plan to auditees, schedule constraints also exist. We are confined by time due to the pandemic of 2021.” (Sub-Division Head)*

As per the 2000 series standard, internal audit should incorporate input from management and stakeholders into its annual audit plan. This is performed to determine what management and other interested parties desire to see and learn from audit activities.

According to the survey results, 15 percent of respondents strongly disagree, 30 percent do not agree, and 25 percent are neutral in response to the statement that the Inspectorate communicates and coordinates with functional departments about the annual audit plan. Consequently, the inspectorate's improvement relative to the standard of 2000 remains less effective.

- **Performance Standard 2100- Nature of Work**

The nature of the endeavour is assigned a value of 70% based on external assessment. Numerous internal audit initiatives have been credited with improving governance, risk management, and internal control processes. Nevertheless, referring to the external assessment, the internal controls and risk management evaluation had not been performed sufficiently. The evaluation focuses on assessing the effectiveness of the internal control system using a questionnaire on internal controls. The evaluation

has emphasized the design of controls, but neither the risks nor the controls' adequacy have been examined.

The Risk Management and Control Evaluation Mechanism has been enhanced by the Inspectorate. During the assignment planning phase, the process was performed. During this phase, a preliminary audit is conducted. During the preliminary audit, the Inspectorate evaluates the sufficiency of the identified risks and the deployment of associated controls. On the basis of the preliminary audit report, it is reported that the audit team has made recommendations for enhancing existing control activities. There seems to be little evidence, however, on how to follow up on enhancements to risk management and control. It is confirmed that the evaluation of risk adequacy and its control is conducted for audit planning purposes. Therefore, it was neither reported to the first nor second line of defence. Due to this, the evaluation of risk and control adequacy findings has not been utilized to enhance the risk register. This is since auditors do not comprehend the value of evaluating risk management and control. As explained by the following respondent:

*"[...] an assessment of the sufficiency of risk and its mitigation was conducted for audit planning reasons. Therefore, it was neither sent to the first nor the second line. Consequently, the findings of the examination of risk and control adequacy have not been utilized to update the risk register. In the future, the Inspectorate intends to initiate the compilation of a more effective risk control matrix. Therefore, the audit team will review the risk control matrix with the evaluated work unit. [...], an updated risk register document will be generated. The document will then be sent to the second line, which serves as a risk management unit." (Team Leader)*

Risk management and control are enhanced by internal auditing activities. Building the engagement foundation in risk assessment highlights the fact that the internal audit profession is based on a risk-based approach in all of its assurance activities, which include: (a) Critical risks are identified and evaluated; (b) Evaluation of control design and implementation; (c) Relevant risk information is managed and shared with the whole organization promptly.

According to the results of the survey, 5 percent of respondents strongly disagree, 45 percent disagree, and 40 percent are neutral about the assertion that the Inspectorate's activities have contributed to the improvement of governance, risk management, and control within the work unit. Subsequently, 2100 standard enhancements are less effective.

- **Performance Standard 2200- Engagement Planning**

The engagement plan received a total score of 68 percent in the external evaluation. The Inspectorate defined audit objectives and specific objectives for each audit procedure within the engagement planning. While these objectives have provided the hypothesis to be evaluated, the audit objectives and scope of the audit are deemed overly broad and lack specified limitations for the areas/business processes to be examined.

The formulation of audit objectives and scopes for the 2021 assignments was confined to significant areas. Based on the performance of the preliminary audit, the

major area is defined. In these instances, the standard governs the preliminary audit used to develop audit goals. The purpose of establishing audit objectives based on preliminary findings is to reduce the risks associated with the areas under review. As explained by the following respondent:

*“A preliminary audit is conducted not only to gain an understanding of the auditee's business processes, but also to evaluate risk and control. From this evaluation, it will be determined whether areas have acceptable control design and implementation. In order to determine the audit's objectives, scope, audit procedures, and criteria, the decision to perform a thorough audit should be reflected in the preliminary audit.” (Supervisor)*

Even though business procedures have been enhanced, there are still inconsistencies in the planning phase's workflow. The preliminary audit is conducted following the establishment of the audit's objective and scope. This occurred because the inspectorate failed to notice an inaccuracy in the planning phase.

Following the survey results, 15 percent of respondents strongly disagree, 30 percent disagree, and 30 percent are neutral pertaining to statements concerning the completion of assignments to work units. The objectives and scope of the audit adhere to the risk and control weaknesses within the work unit. In light of this, the improvement over the 2200 standard is less effective.

- **Performance Standard 2300- Performing the Engagement**

External evaluations assigned a 52 percent grade to the engagement's delivery. While the Inspectorate is making a concerted effort to adhere to the standards governing engagement performance, it is still far from attaining the requirements. This is because the information identified is deemed insufficient, credible, relevant, and valuable for performing the audit objectives. The audit working papers lacked a clear and comprehensive analysis of the information to derive conclusions. Furthermore, the issued working papers do not provide the results of data analysis and the identification of information contained in the data. Moreover, the documentation of working papers has been inadequate. As a result, part of the data collected during the examination is deemed irrelevant for making audit findings. On audit assignment, supervision has not been effectively integrated.

In terms of legislation and infrastructure, advancements have been made. The Inspectorate has enhanced business procedures associated with the assignment's performance. Among these enhancements is the requirement for the internal auditor to produce working papers. The intention of the working papers is to detail all audit procedure testing provided in the audit program. The working papers are then thoroughly reviewed so that audit findings and conclusions might be drawn. In terms of infrastructure, paperless documentation software is already in place. However, these policies and technological enhancements have not yet been appropriately utilized. There is no evidence that the Inspectorate performs paperwork or supervises working papers. This is attributable to the fact that the auditors do not comprehend the application's functionality. Hence the working paper documentation remains distinct. As explained by the following respondent:

*“[...] each team member is responsible for documenting working papers. Combined with this epidemic circumstance, there is a chance that working documents have not been saved in the shared folder. We already have an application for organizing paperwork and documentation. In the third quarter of 2021, the Inspectorate introduced the application. However, its implementation remains suboptimal. This is due to the fact that not all auditors comprehend application utilization.” (Sub-Division Head)*

Furthermore, the number of supervisors is not comparable to the audit team. Consequently, not all of the audit team's work could be overseen. As explained by the following respondent:

*“[...] the supervision of the assignment's completion had not been conducted. The Technical Controller solely reviews an audit report and memorandum of service prior to submission. [...] The challenge is that the Inspectorate has only one technical controller, who controls many audit teams. Consequently, the tier-based evaluation has not been conducted properly.” (Chief Inspector)*

The working papers help to ensure based on the acquired audit data, which is used to form findings and audit recommendations. Furthermore, external evaluators utilize the working paper to evaluate QAIP. Creating thorough working papers is often a time-consuming endeavor. However, these working papers may assist in explaining the work of internal audit against objections, particularly when audit results are refused by the auditee. Reviewing and approving working papers is part of adequate oversight. In addition to ensuring that engagements fulfil standards, monitoring working papers enables us to assess the present abilities of each internal auditor and identify what they need to acquire in the future.

According to the survey results, 5 percent of respondents strongly disagree, 35 percent disagree, and 35 percent are neutral with respect to the statement. In the performance of audits of work units, the Inspectorate's suggestions and recommendations aid in resolving control issues. Consequently, the improvement over the standard 2300 is less effective.

### **5.3. COMMUNICATION**

Communication is evaluated using the performance standards in the 2400 and 2500 series.

- **Performance Standard 2400- Communicating Results**

The external assessment gave the communication of audit results a 54 percent rating. The objectives, scope, conclusions, and audit findings were all given in the presentation of the audit results. Certain audit communications do not satisfy all of the 2300 series standard's communication criteria, notably completeness and timeliness. The communication lacks an agreed-upon action plan for implementing the recommendations. Further, the audit communications did not demonstrate an excellent outcome in the areas examined. The disclosure of information related to accomplished performance objectives is a means of expressing appreciation for the subject's

performance under review. The criterion for timeliness was not satisfied as the audit report was not delivered in a timely manner.

The Inspectorate has increased the extent to which satisfactory auditee performance is included. However, the fulfilment of the auditee's action plan in response to the presented recommendations was not included in the audit report. This is because the enhancements to technical guidelines for audit communication do not include coordinating procedures for discussing auditee plans of action. As explained by the following respondent:

*“After discussing the list of preliminary findings with the auditee, we make recommendations, finalize the report, and present it to the Head of Organization. Consequently, no coordination mechanism exists for the action plan based on our recommendations. Hence, improvements must be made to our business practices. Additionally, we should obtain an action plan from the auditee prior to the final meeting.” (Team Leader)*

Addressing the aspect of timeliness, certain audits are still being conducted for a time extension. Essentially, the annual audit plan has been managed to ensure that each assignment is completed on time. As in the public sector, however, there are audits initiated by other ministries. This kind of circumstance affects and delays auditing activities. This precludes the Inspectorate from satisfying the audit communication timeliness criteria. As explained by the following respondent:

*“The GAX Inspectorate is still experiencing a backlog in audit assignments in 2021. The GAX Inspectorate has severe workload issues. Auditors bear overlapping responsibilities. This assignment is incomplete; there are already competing priorities. Consequently, the prior work was interrupted. Priority is often given to assignments related to other agencies.” (Supervisor)*

The disclosure of information in the audit report about the auditee's good performance is intended to strengthen the objectivity of communication. Recognition of good performance is also a kind of appreciation for the work unit. so that the presented information inside the audit report is more balanced. The action plan in the audit report reflects the auditee's acceptance of the provided recommendations. The action plan will serve as a starting point for further monitoring. Depending on the severity of the issue, timely reporting enables the management to take the appropriate action to remedy it.

According to the survey results, 10 percent of respondents strongly disagree, 40 percent disagree, and 25 percent are neutral regarding the statement that the audit team has brought up the action plan for the provided recommendations. 35% of respondents disagree with the statement that the Audit Result Report was presented on period, while 40% of respondents are neutral. As a matter of fact, these improvements to the 2400 standard fall under the category of being less effective.

- **Performance Standard 2500- Monitoring Progress**

The monitoring of audit results received an external evaluation score of 87 percent. The Inspectorate already has procedures in place for following up on audit findings.

However, monitoring does not explain as to why the recommendations were still not implemented.

The Inspectorate enhances monitoring flow through verification and clarification procedures. The inspectorate sought an explanation for the unfulfilled actions. The explanation highlights the auditee's challenges in implementing recommendations. In the follow-up monitoring reports for the first and second semesters of 2021, recommendations that are still being worked on or have not been completed are explained. However, the outstanding recommendations lack an acceptable risk communication mechanism. The process of monitoring for follow-up comprises monitoring and confirming that remedial actions have been performed, unless management accepts the risk of not completing corrective actions. Management should be informed if an internal audit determines the matter has not been remedied.

*“We then obtain further information from the auditee, as well as verify and clarify. In the verification process, we examine the accuracy of the auditee's submitted action material. Then, for the actions that are in progress or have not yet been completed, we will conduct clarification. Clarification is provided in the form of explanations of impediments or causes in the fulfilment of recommendations. We provide the inspector with a suggestion for a status decision after verifying and confirming the information.”*  
(Auditor)

The monitoring for follow-up includes both monitoring and confirming that corrective actions have been taken, unless management is willing to assume the risk of not taking corrective actions.. If an internal audit determines that the matter has not been remedied, leadership must be informed. The GAX Inspectorate appears to lack a risk acceptance communication mechanism.

According to the survey results, 10% of respondents strongly disagree, 50% disagree, and 40% are neutral regarding the statement that inspectorates communicate risk acceptance of unsettled recommendations. so that improvements to the 2500 standard fall into the category of being less effective.

## **6. CONCLUSION AND RECOMMANDATION**

QAIP is the essential metric used to evaluate the efficacy of internal audit in bringing value to the organization (Anderson & Dahle, 2018). IPPF provides the opportunity to integrate and align the fundamental concepts of internal audit practice into QAIP. This demonstrates the efficacy of the core principles as an element of the QAIP, which promotes the value and credibility of internal audit. QAIP might strengthen the internal audit function within the organisation's governance structure (Woller, 2017).

In 2021, the second year following the external assessment of QAIP was conducted, the GAX Inspectorate improved QAIP undertaking. The preponderance of improvements was made to harmonize auditing practice standards with policies, guidelines, structure, and workflow procedures. The improvement was developed in

accordance with the IPPF. However, the analysis reveals that just two standards, Attribute Standards 1000-Purpose, Authority, and Responsibilities, and Attribute Standards 1100-Independence and Objectivity, are regarded as effective. In comparison, the remaining eight criteria occur in the context of being less effective. The underlying reason why efforts to improve QAIP have faltered is that policy changes were not implemented consistently.

In the endeavors of the GAX Inspectorate to enhance the performance of QAIP, a number of impediments fulfilling certain standards were identified. Human resources, organizations, and situations inherent to the public sector were recognized as the sources of the challenges.

Human resource constraints include a scarcity of auditors, a shortage of auditors' understanding of the impact that might be derived from evaluations of risk management and control, and a limited capability of human resources to perform internal QAIP assessments. Organizational barriers include differences in perception with the legal unit concerning the treatment of the audit charter characterization, the non-availability of a mechanism for measuring the effectiveness of the LPX Inspectorate's activities, and the lack of a risk acceptance communication mechanism for unresolved recommendations. Non-fulfillment of employment requirements/classes for specific auditor functional roles, as well as the workload of assignments pertaining to other agencies not covered by the annual audit plan, are impediments intrinsic to the public sector.

This study proposes recommendations for overcoming the challenges encountered in efforts to improve QAIP. The objective is to promote QAIP to the greatest degree achievable by 2025, the most expected year for external assessments. Due to the constraints in human resources, the Inspectorate should strengthen the competence of auditors in relation to the contribution that can be constructed by evaluating risk management and control, as well as the competence of auditors in relation to internal QAIP assessments. For audit teams to conduct cross-evaluation. Organizational issues could be resolved by informing the institution's executives about the audit charter's services. If there are significant changes, the Inspectorate collaborates with the legal unit to revise the audit charter. Additionally, the Inspectorate should establish methods for assessing and measuring the efficacy of internal audits, as well as a method for discussing the acceptability of risk associated with the provided recommendations. Concerning the unoccupied auditor position, the above problem can be addressed by engaging an external party to perform as the audit team's supervisor and leader for a defined period, until the prerequisites for an internal auditor's capacity are satisfied.

This study has limitations in determining the parameters for QAIP efficacy. This study employs three measures to determine the amount of effectiveness: effective, less effective, and ineffective. This could result in an excessive number of situations that fall under the heading of being less effective. Future studies are expected to employ more specific criteria for enhancing the efficacy of QAIP as well as different analytic techniques.

## **ACKNOWLEDGEMENT**

Without the exceptional guidance of my supervisor, Hilda Rosetta, the above paper and its research would not have been possible. Her expertise and attention to detail have been an inspiration and kept my work moving forward from our initial meeting to the final draft of this paper. The editors of the English Repository have also reviewed my transcriptions and patiently responded to multiple inquiries regarding the language and handwriting of this article. The authors gratefully acknowledge the remarks written by the article's reviewers and editors. We also extend our gratitude to the case study subject and individual respondents who participated in this research. The authors are responsible for any and all errors.



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