

The Influence Of Assignment Planning, Communication And Approval, Resource Management, Policies And Procedures On The Governance Of Internal Audit Activities And Their Implications For The Implementation Of Internal Auditors' Assignments. (A Survey Of Five State Owned Enterprises In Bandung City)

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Abstract

The purpose of this research is to find out how the influence of planning, communication and approval, resource management, policies and procedures on the governance of internal audit activities and their implications for the implementation of internal auditor assignments. This research method is a descriptive analysis method with a quantitative approach. The technique of determining the sample is 102 from the total population that includes the specified criteria. Data were analyzed and tested using SEM, LISREL 8.7. Program. The results of the study, that planning, communication and approval, resource management, and policies and procedures simultaneously affect the governance of internal audit activities. $F_{count} > F_{table}$ ($54.23 > 2.42$). The governance of internal audit activities has no effect on the implementation of the assignment of internal auditors, the regression standardize coefficient (estimate) is 0.059 and has a t count of 0.574 or less than 1.96.

Keywords

Planning, communication and approval, resource management, policies and procedures, Governance of internal audit activities and implementation of internal auditor assignments.

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Introduction

Background

Internal audit is a mechanism in the internal control system that can provide benefits to the effectiveness of the company's operations (Salehi et al. 2013). In carrying out their duties, practices, general procedures, and ethics of internal auditors at work need to be regulated using a series of rules and standards (Robert 2016). Broadly speaking, standards were designed with the aim of providing guidelines and evidence governing the practice of internal auditing (IIA 2016). Apart from being a guide for internal auditors, it is also used to measure the internal auditors themselves so that they can find out the achievements and obstacles in the internal audit activities carried out. The implementation of the internal auditor's assignment (Standard: 2300) documents sufficient information to achieve the assignment objectives. Sufficient information is sufficient information, a prudent internal auditor will reach the same conclusion. The successful implementation of the internal auditor assignment will affect the governance of the internal audit activity (Standard: 2110). The success is due to, among other things, the planning of the audit officer (Standard: 2010); communication and approval (Standard: 2020); resource management (Standard: 2030); Policies and Procedures (Standard: 2040).

Literature Review

Theoretical foundation

Internal auditor assignment planning

As for the objectives of the assignment (1) Objectives are set for each assignment in which the internal auditor must map the risks associated with the activities being reviewed; (2) The purpose of the assignment reflects the results of the assessment where; a) Internal auditors must be aware of the possibility of significant errors; b) Adequate criteria are required to evaluate the governance of the internal audit activity. Internal auditors ascertain how far management has established adequate criteria. If adequate, internal auditors will use these criteria in their evaluation. Otherwise the internal auditor must identify and evaluate the appropriate criteria through discussion with management.

Communication and approval.

The lead internal auditor communicates the internal audit plan to management for review and approval.

Communication of the results of the assignment: (1) The communication includes the objectives of the assignment, (2) The final communication of the results of the assignment contains conclusions that can be applied, including recommendations and/or corrective actions that can be applied; (3) The communication delivered is accurate, objective, clear, concise, complete, and timely; (4) If a violation of the code of ethics or standards affects an assignment, the communication of the results of the assignment must be disclosed.

Resource management.

The management of internal auditor leadership resources ensures that members and senior auditors are appropriate, adequate, and can be used properly in the context of achieving the internal audit work program. Competence is needed to carry out the assignment plan. But of course the human resources who are members of the internal auditor require various disciplines to understand the company's operations.

Policies and procedures.

The lead internal auditor establishes rules and work steps to guide the conduct of the audit. The audit program is a list of audit procedures to be carried out by field workers or evidence gatherers. The audit program assists the auditor in giving orders to assistants regarding the work to be performed. The audit program should detail the required audit procedures.

Governance of internal audit activities.

Internal auditors must assess and provide recommendations for improvement as appropriate to improve the organization's governance processes. Internal auditors must evaluate the audit program and the results of fieldwork and activities related to the organization's ethics. Furthermore, it cannot be ignored that the audit must assess that the organization's information system has supported the organization's strategy and goals.

Implementation of internal auditor assignments.

The activity of implementing the audit assignment planning according to the steps that must be taken and documenting adequate information must be carried out by the auditor. The best information can be obtained through appropriate audit procedures. The results of the collection of evidence must support the recommendations and objectives of the assignment.

Framework.**The influence of planning on the governance of the internal audit.**

Fieldwork implementation require the best possible planning in each audit assignment and if an assistant is used, it must be properly supervised. Therefore, the audit planning stage is a stage that must receive serious attention from the auditor. This certainly cannot be denied, because any work will certainly be better if it is well planned. This audit planning stage is a vital stage in the audit. Audit success is largely determined by careful audit planning. Audit planning includes developing an overall strategy for planning the conduct of the audit. Audit planning is strongly influenced by information obtained in the consideration stage of the acceptance of the audit assignment.

The influence of communication and approval on the governance of the internal audit.

Evaluating the governance of operational audit activities with the aim of ensuring that operational audit activities have supported the company's management program. For this reason, the leadership of the internal auditor must communicate to the leadership of the auditee about the audit program and the required resources, including significant interim changes.

The influence of resource management to the governance of the internal audit activity.

Good audit engagement governance can improve organizational leadership, management and oversight, result in more effective interventions, and ultimately lead to better results with increased organizational activity. Thus, in line with good management of internal audit resources, the governance of audit assignments will be better.

The influence of policies and procedures to the governance of the internal audit activity.

It is very important that audit policies and procedures are issued by the head of the internal auditor whose purpose is to direct/guide internal audit activities. Internal audit is an assessment function carried out by organs that are part of the company on all operations in order to assist the management. Internal audit policies and procedures are for the purpose of improving the governance processes of the internal audit activity.

The influence of internal auditor assignment planning, communication and approval, resource management, policies and procedures on the governance of the internal audit activity.

The internal audit activity in the form of planning in the form of an audit program outlines in detail the audit policies and procedures needed to carry out the steps for implementing the audit. Thus communicating the audit plan and assessing and providing appropriate recommendations can improve the internal audit governance process.

The influence on the governance of internal audit activities on the implementation of assignments.

The governance of the internal audit activity shall assess and make recommendations as appropriate. Recommendations are auditors' opinions that have been considered regarding certain situations and reflect knowledge of the assessment and design to improve conditions in an audit finding (Hiro Tugiman, 2007) Based on the explanation above, it can be concluded that recommendations are the opinions of the auditors that will be submitted to management and have been considered regarding a particular situation reflecting the knowledge of the assessment and designing, improving conditions in an audit findings. In addition to carrying out various analyzes and assessments, instructions and information in relation to the activities examined. This is the conduct of an internal audit that aims to assist members of the organization in evaluating the design, implementation and effectiveness of objectives and programs.

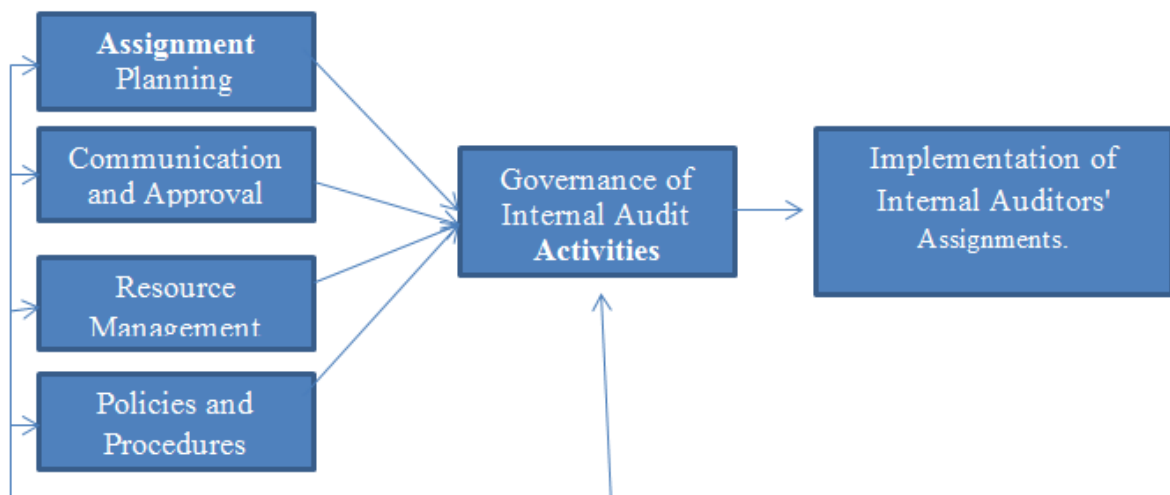


Figure 2.1: Thinking Framework

Object and Research Method

Types of research

The method used in this research is descriptive analysis method with a quantitative approach. Sugiyono (2015: 254) states that descriptive analysis is a statistic used to analyze data by describing or describing the data that has been collected as it is without intending to make conclusions that apply to the public or generalizations. This descriptive approach is used to explain or describe the facts that occur in the variables studied.

Research object and sample.

This research was conducted on five State-Owned Enterprises (BMUN) in Bandung City. The sample used is the result of questionnaire data for the entire population of 102. So the sample is 102, accounting for 100% of the total population that has included the specified criteria.

Variable Operations.

Independent variables:

Assignment Planning (X_1), Communication and approval (X_2) Resource management (X_3). and Policies and procedures (X_4).

Dependent variable:

Governance of internal audit activities (Y) and Implementation of internal auditor assignments (Z).

Table 3.1.
Variable Operations

DIMENSION	INDICATORS	SIZE GRADE	SCALE	Item State-ment
<p>Planning (X₁) Internal auditors plan for each engagement that includes consideration of the organization's strategy, objectives and risks relevant to the engagement.</p> <p>Source: IIA (2016)</p>	<p>Assignment Purpose</p> <p>Source: IIA (2016)</p>	<ol style="list-style-type: none"> 1. Internal auditors prepare plans with priorities for internal audit activities in accordance with organizational goals. 2. Obtains an understanding from management regarding the organization's strategy, key activity objectives 3. Reviews and adjusts plans as necessary to respond to changes in various matters: business, risk, operations, programs, systems, and organizational controls. 4. Internal auditors map out various management risks related to the implementation of the audit. 5. The internal auditor will conduct a review of the possibility of significant errors occurring when compiling a report on the results of the examination. 6. Internal auditors must be sure that management has appropriate benchmarks to assess the achievement of organizational goals sasaran 7. The internal auditor's assessment activities include the assessment of various completeness of the company's operations, including property. 	Ordinal	<p>P: 1 s/d 12</p>

	<p>Scope of Assignment</p> <p>Source: Faisal Yoga Restukumala (2017)</p>	<p>8. If there is an opportunity for significant consulting services to be performed during the assurance engagement, a special written memorandum of understanding covering the objectives, scope, responsibilities of each party.</p> <p>9. Internal auditors ensure that the engagement is adequate to achieve the objectives.</p> <p>10. When the internal auditor has objections during the assignment, the objection must be submitted to the auditee so that the assignment can be continued</p> <p>11. During consulting engagements, internal auditors pay attention to related controls.</p> <p>12. Selects the appropriate auditor staff to achieve adequate audit results.</p>		
<p>Communication and approval (X₂) The CAE communicate audit engagement plans and resource requirements to management for review and approval</p> <p>Source: IIA (2016)</p>	<p>Communication and Approval between Lead Internal Auditor and Senior Management/Board</p> <p>Source: Practice Advisory (2020)</p>	<p>1. The CAE communicates the engagement plan to management.</p> <p>2. CAE communicates the effect if there are limited resources.</p> <p>3. The CAE conveys the required program, work, personnel, finances, and to the agreed management.</p> <p>4. The summary provides information to management regarding the scope of work of internal audit.</p> <p>5. CAE communicates all significant audit program changes.</p>	<p>Ordinal</p>	<p>CA: 1 s/d 6</p>

Resource Management (X₃)	Required competence and quantity of resources	6. The schedule is sufficient information for management.	Ordinal	PSD: 1 s/d 3
The lead internal auditor should put adequate internal audit resources into the achievement of the approved plan.	Optimizing the achievement of agreed goals.	1. The required internal auditor staff is competent.		
Source: IIA (2016)	Source: IIA (2016)	2. The quantity of audit staff is sufficient to achieve the plan.		
		3. Optimizing the audit staff in achieving the agreed objectives.		
Policies and Procedures (X₄)	Lead Auditor provides direction for audit implementation	The form and content of policies and procedures depend on the size and structure of the internal audit activity, as well as the complexity of its work.	Ordinal	KP: 1
The CAE must establish rules and procedures to guide internal audits.	Source: IIA (2016)			
Source: IIA (2016)				
Governance internal audit activity (Y)	Submit recommendations for improvement	1. Evaluate company programs, and activities related to organizational ethics.	Ordinal	TKA: 1 s/d 2
Internal auditor assessing and providing corrective recommendations that add value to the organization's governance process.	Source: IIA (2016)	2. Assessing the governance of organizational information systems that support the organization's strategy.		

Source:
IIA (2016)

Implementation of internal auditor assignments (Z)

Internal auditors must perform audit activities sufficient.

Internal audit must evaluate the risk mapping.

Source:
IIA (2016)

1. The conclusions and results of the assignment are the results of appropriate analysis and evaluation.

2. Documentation of auditor's information that is adequate to arrive at an engagement conclusion.

3. The lead internal auditor must obtain approval from management, if necessary, the opinion of a legal expert before submitting records/documentation to external parties

4. The Head of Internal Audit determines the need for retention of assignment records, regardless of the storage media. These provisions must be consistent with organizational provisions and applicable laws and regulations.

5. The Head of Internal Audit determines the custodial policy and retention of documentation for consulting assignments, including its submission to internal and external parties of the organization.

Ordinal

II:
1 s/d 5

Data analysis method.

The data were analyzed and tested using the Structural Equation Model program. Bagozzi and Fornell (1982) in Ghozali and Faud (2012:3) SEM is the second generation of multivariate analysis techniques.

Test measurement model.

The measurement model is also known as Confirmatory Factor Analysis (CFA) (Wijanto, 2008:25). This stage aims to test the feasibility, namely the reliability and validity of each indicator for each construct. The criteria used are:

- 1) Value of t 1.96
- 2) The standard factor is 0.70.
- 3) CR value 0.70 and VE value 0.50
- 4) The composite reliability of a construct is calculated as follows:
- 5) The loading standard that can be obtained directly from the output of the LISREL program is the measurement error for each indicator or observed variable. While the variant extract is a reflection of the total number of indicators (observed variables) described by the latent variable. Variance extract size is calculated by the formula:
- 6) Factor analysis or factor analysis in CFA uses statistics/multivariate, where in the CFA model is formed first, the number of latent variables, each construct has determined the indicators first based on the theory used. The factor loads that relate the latent variable and the observed variable are given the notation (λ), where on the x side is (λx) and the y side is (λy).

Results And Discussion

Test the measurement model.

Exogenous construct measurement model.

The measurement model test results for exogenous constructs can be seen through the loading factor coefficient values of each indicator which are presented in the following table:

Ket: λ = nilai faktor loading, e = error, CR = Composite Reliability, VE = Variance Extracted

Source: Lisrel Output, Primary Data

> 0.5. CR above 0.7 and VE above 0.5 all exogenous constructs have validity and reliability

Endogenous construct measurement model.

The measurement model test results for endogenous constructs through the loading factor coefficient values of each indicator are presented:

Structural model test.

This study applies SEM analysis as an effort to test the hypothesis. This analysis uses the input covariance matrix for further estimation. Input selection with covariance matrix.

Structural equation model analysis.

SEM analysis using Lisrel software version 8.7. two structural equations are obtained:

$$Y = 0.353 \cdot X_1 - 0.088 \cdot X_2 - 0.065 \cdot X_3 + 0.632 \cdot X_4, \text{ Errorvar.} = 0.297, R^2 = 0.691$$

$$Z = 0.039 \cdot Y + 0.072 \cdot X_1 + 0.380 \cdot X_2 + 0.513 \cdot X_3 - 0.203 \cdot X_4, \text{ Errorvar.} = 0.341, R^2 = 0.628$$

Note:

Y = Governance of internal audit activities

X₁ = Assignment planning

X₂ = Communication and approval

X₃ = Resource management

X₄ = Policies and procedures

Z = Implementation of internal auditor assignments

The total influence of assignment planning, communication and approval, resource management, and policies and procedures on the governance of the internal audit activity is 69.1%. The total influence of the governance of internal audit activities on the implementation of the internal auditor's assignments is 62.8%.

Table 4.1

Table of Exogenous Construct Measurement Model

Variabel Laten	Variabel manifest	λ	λ^2	e	CR	VE
Planning (X ₁)	X _{1.1}	0.923	0.852	0.148	0.938	0.563
	X _{1.2}	0.715	0.511	0.489		
	X _{1.3}	0.750	0.563	0.438		
	X _{1.4}	0.912	0.832	0.168		
	X _{1.5}	0.664	0.441	0.559		
	X _{1.6}	0.780	0.608	0.392		
	X _{1.7}	0.809	0.654	0.346		
	X _{1.8}	0.740	0.548	0.452		
	X _{1.9}	0.897	0.805	0.195		
	X _{1.10}	0.631	0.398	0.602		
	X _{1.11}	0.674	0.454	0.518		
	X _{1.12}	0.909	0.826	0.137		
Communication and approval (X ₂)	X _{2.1}	0.898	0.806	0.328	0.908	0.638
	X _{2.2}	0.788	0.621	0.469		
	X _{2.3}	0.751	0.564	0.374		
	X _{2.4}	0.730	0.533	0.396		
	X _{2.5}	0.806	0.650	0.283		
	X _{2.6}	0.810	0.656	0.269		
Resource Management (X ₃)	X _{3.1}	0.784	0.615	0.504	0.980	0.690
	X _{3.2}	0.862	0.743	0.222		
	X _{3.3}	0.844	0.712	0.254		
Policies and Procedures (X ₄)	X _{4.1}	0.831	0.691	0.349	0.901	0.693

Table 4.2

Endogenous Construct Measurement Model Table

Variabel Laten	Variabel manifest	λ	λ^2	e	CR	VE
Governance internal audit activity (Y)	Y _{1.1}	0.925	0.856	0.121	0.945	0.818
	Y _{1.2}	0.882	0.780	0.217		
Implementatio n of internal auditor assignments (Z)	Z _{1.1}	0.724	0.524	0.403	0.995	0.667
	Z _{1.2}	0.856	0.733	0.267		
	Z _{1.3}	0.876	0.803	0.197		
	Z _{1.4}	0.851	0.724	0.276		

Z _{1.5}	0.733	0.552	0.448
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Ket: λ = nilai faktor loading, e = error, CR = Composite Reliability, VE = Variance Extracted

Source: Lisrel Output, Primary Data

> 0.5. CR above 0.7 and VE above 0.5 endogenous constructs have validity and reliability.

Hypothesis test

Estimation of influence parameters between variables, which also proves the research hypothesis is presented in the following table:

Table 4.3
SEM test recapitulation

Variabel			Estimate	SE	T-stat	t tabel	Keterangan
X ₁	-->	Y	0,353	0,072	4,034	±1,96	Signifcant
X ₂	-->	Y	-0,087	0,161	-0,509	±1,96	Non Significant
X ₃	-->	Y	-0,065	0,093	-0,917	±1,96	Non Significant
X ₄	-->	Y	0,634	0,173	3,757	±1,96	Signifcant
Y	-->	Z	0,059	0,103	0,574	±1,96	Non Significant

Source: Lisrel Output, Primary Data

From the coefficient in the table above, the results of testing are as follows:

The influence of planning on the governance of the internal audit activity.

Regression standardize (estimate) between internal audit planning and governance variables = 0.353. and has a t count of 4.034 or > 1.96 then it has an effect on internal audit governance

The influence of communication and approval on the governance of the internal audit activity.

Regression standardize (estimate) between the communication and approval variables with the internal audit governance variable = -0.087 (negative) and has a t count of -0.509 or < -1.96 then it have no effect on internal audit

The influence of resource management on the governance of internal audit activities.

The regression standardize coefficient (estimate) between the variable of resource management and the variable of governance of internal audit = -0.087 (negative) and has a t-count of -0.917 or less than -1.96, has no effect on governance internal audit.

The influence of policies and procedures on the governance of the internal audit activity.

The regression standardize coefficient (estimate) between the policy and procedure variables and the governance variable for internal audit activities is 0.634 and has a t count of 3.757 > 1.96, so has an affect the governance of internal audit activities.

The influence of assignment planning, communication and approval, resource management, and policies and procedures on the governance of the internal audit activity.

To test simultaneously the F test is used:

The calculated F value is greater than F table, so there is a significant influence between assignment planning, communication and approval, resource management, and policies and procedures simultaneously affect the governance of internal audit. The following is the result of calculating F calculated based on the formula above.

Table 4.4

F Uji test

Variable	F Count	F Table	Description
$X_1-X_4 \rightarrow Y$		2,42	Signifikan

F table with a sample of 102 obtained F table of 2.42. Thus, meaning that simultaneously affect the governance of internal audit activities.

The influence of the governance of internal audit activities on the implementation of internal auditor assignments

Regression standardize (estimate) between the internal audit activity governance variable and the internal auditor assignment implementation variable = 0.059 and has a t count of 0.574 or < 1.96 so it does not partially affect the implementation of the internal auditor assignment.

Conclusion Suggestions

Conclusion.

That:

1. Assignment planning partially affects the governance of internal audit.
2. Communication and approval partially have no effect to the governance of the internal audit.
3. The management of resources partially has no effect on the governance of the internal audit.
4. Policies and procedures partially affect the governance of internal audit activities.
5. Assignment planning, communication and approval, resource management, and policies and procedures simultaneously affect the governance of the internal audit.
6. The governance of the internal audit activity has no effect on the implementation of the internal auditor's assignment
7. Assignment planning, communication and approval, resource management, and policies and procedures simultaneously affect the governance of internal audit and its implications for the implementation of internal auditor assignments.

Suggestion

The conclusions above, the authors suggest:

1. CAE improves in communicating internal audit plans and resource requirements, including significant interim changes, to management for review and approval.

1. Internal auditor human resources required are those who have a combination of knowledge, skills/expertise.

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