



The Supply Side Factors Impact on the Effectiveness of Indonesian Government Internal Audit Function

Bramastya Datum Alwi¹, Etna Nur Afri Yuyetta²

¹Scholar of Master of Accounting, Faculty of Economy and Business, Diponegoro University

²Lecturer, Faculty of Economy and Business, Diponegoro University

email: breeems@gmail.com

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ABSTRACT

This study examines the effect of supply-side variables on the effectiveness of the Government Internal Supervisory Apparatus (GISA) function. These variables are organizational competence, organizational independence, compliance with audit implementation standards, risk-based audit planning, implementation of the Quality Assurance and Improvement Program (QAIP) and auditee attributes. The samples used in this study were 81 GISA units at the level of district and city governments. This work used a questionnaire to measure variables. Each unit of GISA was represented by a structural official or supervisor/auditor. Personnel occupying these positions were selected because they are considered to have an adequate understanding of the GISA. This study provides empirical evidence that, in the context of the Indonesian Government, organizational competence, risk-based audit planning and implementation of QAIP do not have a significant positive effect on the effectiveness of GISA's function. Meanwhile, organizational independence, compliance with audit implementation standards and auditee attributes have a significant positive effect on the effectiveness of GISA's function.

INTRODUCTION

The establishment of internal audit unit in the Indonesian Government began with the passing of Law Number 1 of 2004 concerning the State Treasury. The law requires that the Minister of Finance, other ministers and institutional leaders as well as regional leaders organize an internal control system to manage state or regional budgets. Subsequently, the government issued Government Regulation Number 60 of 2008 concerning the Government Internal Control System (GICS). The regulation states that every ministry or agency and local government is obliged to build and implement an integrated and continuous GICS in each of its activities. As mandated in the regulations, the Financial and Development Supervisory Agency (BPKP) and inspectorates of ministries, institutions and provincial, regency and city governments as Government Internal Supervisory Apparatus (GISA) play a role in supporting the implementation of internal control.

The government wants the role of GISA to be effective through increasing its capabilities. The enhancement of GISA's capabilities began with the formation of the Indonesian Government Internal Auditor Association (GIAA) in 2012. GIAA carried out the mandate of Government Regulation Number 60 of 2008 to establish the Indonesian Government Internal Audit Standards (IGIAS) and the GISA code of ethics. In addition, GIAA has begun promoting the implementation of risk-based audit planning, quality control and peer review. Implementing quality control and peer review is the realization of the Quality Assurance and Improvement Program (QAIP), which is adopted from the International Standards for Professional Practice of Internal Auditing (ISPPIA).

The effectiveness of internal audit could be demonstrated through the ability to obtain findings and recommendations that were useful for organizational improvement (Mihret & Yismaw, 2007). The effectiveness of internal audit was determined by examining the reasons behind its implementation, which should help the organization achieve its goals (Mihret, et al., 2010). According to Rupsy and Boguslauskas (2007), the approach to measuring the effectiveness of internal audit could be carried out through three main dimensions, namely input, process and output. Input includes

personnel's experiences and knowledge. The process includes planning and reporting on audit activities. Output includes the level of satisfaction and demand for the internal audit function. Cristina & Cristina (2009) argued that the measurement of audit effectiveness could be done quantitatively and qualitatively. Quantitative measurements are carried out using indicators of compliance with the implementation of the audit plan, duration of audit implementation and follow-up on audit findings. Qualitative measurement is done by interviewing the fulfillment of the audit function from the perspective of the manager and auditees. Turetken et al., (2019) stated that the measurement of the effectiveness of internal audit was carried out objectively and by perception. The objective measurement uses indicators for the fulfillment of the audit plan, the deadline to implement the audit plan, the level of implementation of the recommendations, the time for issuing audit reports, the time for follow-ups on audit findings, time management, the number of audit findings and the values of audit. Meanwhile, measurement by perception uses indicators of internal audit effectiveness, stakeholders' satisfaction and added values to the organization. Turetken et al. (2019) conducted a literature study on the factors that affected the effectiveness of internal audit. These factors are divided into two major groups called supply side and demand side. The supply side includes factors based on the aspect that the internal audit function can offer; competence, size of the internal audit unit, formation of the internal audit unit, scope of limitations, compliance with standards, internal audit unit management training, relationships with the auditees (auditee attributes), independence, objectivity, implementation of risk-based audit planning, outsourcing vs in-house personnel, quality of audit work and leadership styles of internal audit unit. Demand-side factors are based on stakeholders' perspectives, which include organizational support, interaction with external audit, cooperation with audit committees, information and communication, presence of follow-up process, control environment and culture.

This research focuses on examining the effect of supply-side factors, as defined by Turetken et al. (2019), on the effectiveness of the internal audit function. These factors were measured based on self-assessment and perceptions of GISA's personnel. Factors from the supply side include competence,

independence, compliance with audit standards, implementation of risk-based audit planning and auditee attributes.

The selection of competency factors was based on differences in the results of preceding researches. Competency had positive and insignificant influences on the effectiveness of internal audit (Nurdiono & Gamayuni, 2018; Alzeban & Gwilliam, 2014). A study by Tackie et al. (2016) showed that professional expertise had a negative effect on the effectiveness of internal audit. Dellai & Omri's (2016) research showed that competency had a positive but insignificant effect on the effectiveness of internal audit.

Empirical evidence showed that independence had a positive effect on the effectiveness of internal audit in the public sector (Alzeban & Gwilliam, 2014). Contrary to Alzeban and Gwilliam (2014), research findings of Tackie et al. (2016) and Khalid et al. (2017) showed that independence had positive and insignificant effects on the effectiveness of internal audit.

IGIAS published internal audit standards and guidelines to implement risk-based audit planning and QAIP. A study by Sarens et al. (2012) showed that the implementation of QAIP and risk-based audit planning had significant positive effects on the internal audit function. The implementation of internal audit standards had a positive effect on the effectiveness of internal audit (Dejnaronk, et al., 2016). The study was carried out in the context of corporate and public sector abroad. Regarding Indonesia's public sector, there has yet to be an examination into the relationship between the implementation of audit standards, the implementation of risk-based audit planning and the implementation of QAIP on the effectiveness of the internal audit function.

Auditee attributes is another factor identified by Turetken et al. (2019), which thus far has not been examined empirically. Mihret et al. (2010) argued that auditee attributes would determine the effectiveness of the internal audit function. Auditee attributes include auditees' behavior and level of cooperation with the auditors. Behavior refers to auditees' awareness of the importance of the internal audit function. In Indonesia, the policy regarding auditee attributes is explicitly stated in the audit charter. Audit charter is disseminated to all elements, starting from the highest-ranking

officials, GISA to the auditees, in order to understand the role of the internal audit function as part of internal control. At the time of writing, there has not been any empirical examination into the auditee attributes of Indonesian public sector.

This research is of high importance because it examines the supply-side variables as well as the IGias program. Since the Indonesian government implemented the Internal Audit – Capability Model (IACM), the GIAA has adopted several activities and programs from the Institute of Internal Auditors (IIA). They include establishing audit standards, implementing risk-based audit planning, implementing QAIP and mandating audit charter. The World Bank's Multi Donor Trust Fund funded this initiative of adopting such programs and activities. Thus, any impact on the GISA or the lack thereof resulting from their implementation has become of public's concern. This study examines whether there is any such impact.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

Institutional theory presents a main idea about the formation of organizations. Di Maggio and Powell (1983) provided an overview of the institutionalization process. Organizations are formed because of environmental pressures that lead to the institutionalization process. Organizations are not only driven by efficiency, but also influenced by stakeholders to achieve their goals. An organization is very likely to adapt to the environment or vice versa. If the organization has a strong influence, the environment will adjust to the conditions of the organization.

The formation of associations concerning internal audit is among the implications of institutional theory. The internal audit function strives to deal with uncertainty by developing competencies, maintaining independence, maintaining auditee attributes and developing supervisory techniques with a risk-based approach. This is in line with an argument by Mihret et al., (2010), that in order to deal with uncertain environment, internal audit prioritized risk management that could potentially threaten the organization. These activities are regarded as mimetic isomorph.

Normative pillars showed that values and norms reflected social obligations or expectations of a society in order to be socially or institutionally accepted (Deegan, 2014). This is consistent with the argument of Rittenberg (2001) that in order to ensure the function and role of internal audit for stakeholders, internal audit must develop values and standards of practice. The implication of institutional theory results in internal audit expanding its values and norms as reflected in the code of ethics, auditing standards and quality improvement programs. These activities are regarded as normative isomorph.

Based on the explanation above, an internal audit unit must maintain its legitimacy to strengthen the internal audit function. Optimal implementation of an organization's operational assurance function is one effort to do so. The internal audit function is enhanced by implementing values and norms in accordance with established standards and codes of ethics. This implementation is carried out to meet stakeholder expectations without neglecting the main function of internal audit. This research shows that some of the variables tested are implications of the institutionalization process.

Effectiveness is defined as the capacity to obtain results consistent with the targets and goals (Arena & Azzone, 2009; Barisic & Tusek, 2016). Organizations need to identify the objectives of the internal audit function to determine the effectiveness of internal audit. The purpose of internal audit is to provide added values and improve organizational operations in order to achieve organizational goals (The IIA, 2020). According to Haun (1955), internal audit not only detects fraud, secures assets, encourages recording accuracy, or convinces on company policies but also provides benefits, among others; establishing and improving authorization function lines, clarifying definitions of duties and responsibilities, providing accurate calculation and comprehensive information, encouraging adequate information reporting structures, ensuring budgeting processes and encouraging control coordination.

Internal audit functions as a tool to ensure the effectiveness of controls carried out by management, provide input related to control failure and ensure that control instruments run well (Davies, 1956). Internal audit can be said to be

effective if it is able to provide added values through fraud detection and accurate recording as well as information. In addition, internal audit encourages increased operations through activities that provide clarity of duties and responsibilities and encourages coordination of control to run well.

The qualitative method is done by testing the perceptions of managers and auditees. The effectiveness of an organizational function can also be assessed through self-assessment (Pun, 2002). Self-assessment facilitates organizations in studying and combining strategy development, planning and action. In addition, self-assessment is able to predict achievements and provide a foundation for organizations to carry out sustainable performance development. Assessment of organizational performance through self-assessment is closely related to individual understanding in an organizational perspective (Henderson, 1997). Thus, it can be understood that apart from the perspective of managers and auditees, the effectiveness of internal audit can be measured through auditors' own perceptions.

This research analyzes the relationship of factors from the supply side consisting of organizational competence, organizational independence, compliance with audit implementation standards, implementation of risk-based audit planning, QAIP implementation and auditee attributes.

1) **Organizational Competency**

Competence can be attached to individuals and organizations (New, 1996). The competencies of an organization include specific job competencies, management competencies and specific organizational competencies. A competent organization will have good capabilities in carrying out its duties and functions.

2) **Organizational Independence**

The independence of internal audit is not limited to individual independence, but also involves independent environment through governance policies. Independence through governance policies are deemed as organizational independence. Organizational independence will provide flexibility for the internal audit function in carrying out supervisory activities so as to encourage optimal internal audit function (The IIA, 2020).

3) **Compliance with Internal Audit Implementation Standards**

The IGIAS contain four scopes of standards, namely basic principles, general standards, implementation standards and communication standards. Implementation standards contain technical audit implementation standards covering audit management, nature of work, planning and implementation of audit assignments. In general, formal auditing standards require auditors to be able to practice professionally and systematically to ensure that the quality of audit results is well maintained (Cohen & Sayag, 2010).

4) **Implementation of Risk Based Audit Planning**

The Indonesian Government began implementing after GIAA published Risk-Based Audit Planning Guidelines. Risk is a challenge for organizational sustainability that needs to be monitored (Abidin, 2017). The implementation of a risk-based audit will enable the internal audit function to provide assurance and information regarding the compatibility of planning with results, identify risks or issues related to affairs that have not been managed properly, weaknesses in governance, risk management and control processes (Castanheira, et al, 2010).

5) **Implementation of QAIP**

The QAIP is a program that emphasizes the evaluation mechanism of the suitability of internal audit activities with implementation standards, codes of ethics, efficiency, internal audit effectiveness and opportunity identification for increased internal audit activities (The IIA, 2016). The evaluation is carried out internally through a self-assessment mechanism and externally by an independent assessment team from peers outside the GISA unit. GISA in Indonesia has developed a QAIP mechanism since the publication of the Peer Review Guidelines by IGIAS. QAIP can be used as a tool to control the function and relevance of internal audit (Sarens, et al., 2012).

6) **Auditee Attributes**

Auditee attributes include auditees' attitudes towards internal audit and level of cooperation with auditors (Mihret, et al., 2010). Auditee attributes are the capabilities of the auditees

to achieve predetermined goals that will have an impact on the effectiveness of the audit (Turetken, et al., 2019). Auditees that have adequate skills in supporting organizational goals tend to be cooperative with internal audit, supporting the effectiveness of internal audit.

Hypothesis Development

New (1996) stated that organizational competency was inseparable from the competence of individuals and managers. Individual competence can be obtained through continuous training and education. Competent organization will have highly competitive power. The competitive power can be demonstrated through good performances. Thus, organizational competence will affect organizational performances.

Hassal et al. (1996) argued that the internal audit function was required to have professional values. Professionalism is formed through professionalization, which includes the responsibility to improve knowledge covering two aspects; specialization and application of knowledge. The internal audit function requires adequate knowledge to form professional judgments.

Sufficient competence will provide auditors with a good understanding of existing problems and encourage them to provide appropriate solutions. These solutions are embodied in recommendations. The right recommendations will improve organizations' values. Based on the mentioned study, in the context of the public sector in Indonesia, internal audit competence is thought to affect the effectiveness of the GISA function.

H1: Internal audit organizational competence has a positive effect on the effectiveness of the GISA's function.

Internal auditors must not compromise objectivity when carrying out their duties and making judgments based on evidence obtained during the audit (Dejnaronk, et al., 2016). Any disruption to their objectivity will affect the results of the internal audit function's supervision. According to Stewart and Subramanian (2010), internal auditors' objectivity was not at stake so long as they possessed independence. Auditors, starting from the individual to the organizational levels, must possess independence. Individual

independence would be affected if the organizations where the auditors worked were not independent (Loehlein, 2017). Internal auditor units that are not independent will put auditors' objectivity at risk. Objectivity allows auditors to assess issues without having to compromise while staying in line with organizations' objectives. This makes audit results more reliable with the utilization of audit results by stakeholders. Stakeholders will be more satisfied of reliable audit results. Thus, internal audit organizations' independence is thought to have an effect on the effectiveness of the GISA function.

H2: The independence of the internal audit organization has a positive effect on the effectiveness of the GISA's function

Internal audit standards were believed to be the benchmark for the quality of auditors' work performances (Coetzee & Bryun, 2001). The establishment of such standards aims to ensure uniformity in the quality of audit implementation and results. Audit quality is closely related to the effectiveness of internal audit. Compliance with audit implementation standards makes the audit process and results meet quality standards. Audit results that meet these standards make stakeholders more confident in utilizing the audit results. A high level of confidence in the audit results will improve stakeholder satisfaction.

H3: Compliance with internal audit implementation standards has a positive effect on the effectiveness of the GISA's function.

Risk-based audit planning allows internal auditors to set priorities to help achieve organizational goals. Internal audit would focus on critical risks and issues related to stakeholder expectations when using risk-based audit planning (Sarens, et al., 2012). With a coherent internal audit function that facilitates risk monitoring needs of an entity, audit results can be utilized to the maximum. The maximum use of audit results shows stakeholders' confidence in the audit results. Such full confidence in the audit results will improve stakeholder satisfaction. Therefore, risk-based audit planning is thought to have a positive effect on the effectiveness of the internal audit function.

H4: Risk-based audit planning has a positive effect on the effectiveness of the GISA's function.

According to Pitt (2014), QAIP is a program implemented by the internal audit function to maintain and improve the quality of internal audit. This program focuses on demand-based drivers, namely prioritizing quality based on stakeholder expectations. QAIP contributed to organizational governance because it took into account the needs of stakeholders (Martino, et al., 2019). Good QAIP implementation makes the internal audit function more confident in meeting audit quality standards. Audit quality that meets the standards encourages improvement in the quality of audit results. Better quality of audit results will give stakeholders the confidence in using these results.

H3: Implementation of QAIP has a positive effect on the effectiveness of the GISA's function

According to Mihret & Yismaw (2007), auditee attributes are the capabilities of the auditees to meet the main objectives of the entity. These capabilities include the auditees' ability to achieve the organizational goals effectively, a conscious attitude and a good view on the establishment of the internal audit function and the level of cooperation between the auditees and the auditors. Capability encourages harmony (goal congruence) between the operational functions of the auditees and the internal audit function in achieving organizational goals. With well-developed capabilities, auditees would not be acting contradictory and aggressive (Dittenhofer, 1994). Opposite attitudes led to the asymmetry of information between the auditees and the auditors, and as a result the audit objectives were not achieved (Causholli & Knechel, 2012). Cooperative auditees enable auditors to access relevant and adequate information. Comprehensive information encourages auditors to make better judgment and recommendations. The right recommendations will improve organizations' values.

H6: Auditee attributes have a positive effect on the effectiveness of the GISA's function.

RESEARCH METHODS

A one-time survey method was used by obtaining information from respondents in one point of time. This research used primary data. Purposive sampling was used to determine the

sampling of this study. Researchers used 81 samples among the GISA of district or city governments across Indonesia. The distribution of samples obtained in the study was 17 GISAs in Sumatra, 22 in Java, 11 in Kalimantan, 11 in Sulawesi, 17 in Bali and Nusa Tenggara and three in Maluku and Papua. The even distribution of samples from the western, central and eastern parts of Indonesia shows that the samples had been representative enough in describing GISA of district or city governments in the country.

Respondents acting as GISA representatives who filled out the questionnaire consisted of 19 echelon officials—accounting for 23.46 percent of the samples, 14 auditors and intermediate supervisors or 17.28 percent of samples, 34 young auditors and supervisors or with the largest share of samples at 41.97 percent and 14 auditors and front-line supervisors at 17.28 percent. Respondents who represented GISA were echelon officials and expert auditors and supervisors, thus their answers were deemed capable and sufficient to represent the conditions of each GISA institution. The statement response was measured using a five-point Likert scale with the lowest score of one and the highest score of five.

The variables used for this research were the effectiveness of GISA as the dependent variable, along with competence, independence, compliance with audit implementation standards, implementation of risk-based audit planning, implementation of risk-based audit planning, implementation of QAIP and auditee attributes as independent variables. The operational definitions of the variables are as follows.

1) Effectiveness of GISA's Function

The effectiveness of internal audit can be determined through the quality of the internal audit function which includes the ability to plan strategies, improve organizational productivity, align results, goals and objectives, implement internal auditor recommendations, and evaluate and improve risk management, evaluation of internal control systems and recommendations (Alzeban & Gwilliam, 2014). The effectiveness of GISA in this study was measured by referring to a measurement developed by Turetken et. al., (2019) which consists of eight questions.

2) Organizational Competency

Competency can be attached to individuals or organizations. Standard setters consistently emphasize the increase in knowledge, skills and competencies required by internal auditors (Alzeban & Gwilliam, 2014). The organization must have competency improvement programs to obtain adequate organizational competence. The competency variable in this study referred to a measurement developed by Tackie et al. (2016) which consisted of four questions.

3) Organizational Independence

Independence was measured by covering policies in support of it, which are emphasized by the IIA. Five questions were used for the measurement by referring to the IIA.

4) Compliance with Audit Implementation Standards

According to Feizizadeh (2012), compliance with internal audit standards is adjusting audit practices with predetermined standards. Four questions were used for the measurement by referring to four aspects in the Internal Audit Implementation Standards.

5) Implementation of Risk Based Audit Planning

The stages of implementing risk-based audit planning based on the IGIAS guidelines are as follows:

- a) understanding government objectives in a cascading manner according to the hierarchy of the bureaucratic structure,
- b) compiling and updating the audit universe and defining audit areas,
- c) identifying and measuring risks in the auditable units,
- d) adjusting to the *auditable units' risks* and
- e) prioritizing internal audit plans based on the auditable units' risk ranking.

Five questions were used for the measurement in this research by referring to the implementation of risk-based audit planning according to the IGIAS guidelines.

6) Implementation of QAIP

Quality Assurance and Improvement Program (QAIP) is an internal audit quality improvement program that is carried out by evaluating efficiency, effectiveness, conformity to standards and code of ethics (The IIA, 2020).

Six questions were used for measurement in this research by referring to five aspects in peer review according to IGIAS guidelines.

7) *Auditee Attributes*

According to Mihret & Yismaw (2007), auditee attributes are auditee capabilities which include the auditee's ability to achieve organizational goals that are charged effectively, a conscious attitude and a good view of the presence of the internal audit function and the auditee's cooperation attitude towards auditors. Three questions were used by referring to auditee attributes as proposed by Mihret & Yismaw (2007).

This research used multiple regression analysis techniques as a follow:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e$$

Y = Effectiveness of GISA's Function

α = Constant

β_1 = Regression Coefficient

e = error

X_1 = Organizational Competency

X_2 = Organizational Independence

X_3 = Compliance with Audit Implementations Standards

X_4 = Implementation of Risk Based Audit Planning

X_5 = Implementation of QAIP

X_6 = Auditee Attributes

RESULTS AND DISCUSSION

Results

Data processing using SPSS showed that the Cronbach alpha value for each variable was above 0.8 and the factor loading of each question used in the research questionnaire was above 0.6. This shows that the measurements used in this study are reliable and valid.

The overall effect of the independent variables on the dependent variable can be seen through the F test. Based on the significance test, the F value was 25.674 with a significance probability of 0.000. The significance probability value was 0.00, which means that the regression model can be used to predict the effectiveness of the GISA function or that the independent variables in this study

simultaneously affect the effectiveness of the GISA.

The coefficient of determination presents a model in explaining the variation of the independent variables. The coefficient of determination can be found through the R^2 value. Based on the SPSS output, the R^2 value in this research model was 0.676. This means that the independent variables in this study are able to explain the effect on the effectiveness of the GISA function by 67.6 percent and the remaining 32.4 percent are explained by other variables outside of this research model.

1) Effectiveness of GISA's Function

Table 1. Effectiveness of GISA's Function

Questions	Mean	Standard Deviation
GISA increases the effectiveness of risk management. (Ya)	4.382	0.603
GISA increases the effectiveness of governance process. (Yb)	4.395	0.605
GISA's audit findings and recommendations are in line with and support the government's goals. (Yc)	4.321	0.629
GISA's supervision increases stakeholder satisfaction. (Yd)	4.111	0.651
GISA improves organizational performances. (Ye)	4.247	0.623
GISA makes recommendations to improve processes in the organizations. (Yf)	4.284	0.553
GISA's audit findings have an increasing impact on the organizations. (Yg)	4.284	0.693
GISA's activities add values to the organizations. (Yh)	4.296	0.641
Effectiveness of GISA's Function (Y)	4.290	0.504

Table 1 shows that according to respondents, the GISA function had been effective. Respondents tended to agree that GISA had increased the effectiveness of risk management, government governance processes, and performance effectiveness, improved processes within the organization and added organizational values. Respondents also agreed that GISA audit findings and recommendations were in line with and supported the government's objectives and had an increasing impact on the organizations. However, respondents tended to doubt that GISA was able to increase stakeholder satisfaction.

2) Organizational Competency

Table 2. Organizational Competency

Questions	Mean	Standard Deviation
GISA has professional, qualified and experienced personnel. (X1a)	4,012	0,749
GISA has a combination of personnel who have expertise in several fields to support audit activities. (X1b)	4,197	0,678
GISA has a continuous training and education program. (X1c)	4,197	0,797
GISA provides fair opportunities for every personnel to take part in a professional development training program. (X1d)	4.00	0,866
Organizational Competency (X1)	4,101	0,656

Table 2. shows that the respondents doubted that GISA had adequate organizational competence. Respondents doubted that GISA had personnel with professional skills, adequate qualifications and experience. Respondents did not believe that GISA had a continuous training and education program. Opportunities for each personnel to take part in the professional development training program were considered to not have run optimally. However, respondents tended to agree that GISA already had a combination of personnel who had expertise in several fields to support audit activities.

3) Organizational Independence

Table 3. Organizational Independence

Questions	Mean	Standard Deviation
GISA has the authority to audit all regional apparatus organizations (X2a)	4.444	0.591
GISA has the discretion to draft a budget in the annual audit planning. (X2b)	3.716	0.897
GISA has the discretion to audit issues that should be audited. (X2c)	3.962	0.843
GISA has the free access to information and data on each regional organization. (X2d)	3.888	0.908
GISA has an effective communication channel to the top leaders. (X2e)	4.123	0.748
Organizational Independence	4.027	0.633

Table 3. shows that respondents doubted that GISA had adequate organizational independence. Respondents did not believe

that GISA had the discretion to draft budget in planning the audit. In addition, GISA believed that the discretion to audit important issues and access to information tended to be limited. GISA's communication with the highest leadership had not been running effectively. However, GISA was still given the authority to audit all regional apparatus organizations.

4) Compliance with Audit Implementation Standards

Table 4. Compliance with Audit Implementation Standards

Questions	Mean	Standard Deviation
GISA manages internal audit activities effectively to ensure the activities provide added values to the audit. (X3a)	4.222	0.570
GISA contributes to the improvement of public sector governance, risk management and internal control with a systematic and disciplined approach. (X3b)	4.185	0.654
GISA develops and documents the plans for each assignment, including the objectives, scope, time and allocation of assignment resources (X3c)	4.209	0.585
GISA identifies, analyzes, evaluates and archives sufficient information to achieve the objectives of the audit (X3d)	4.172	0.587
Compliance with Audit Implementation Standards (X3)	4.197	0.547

Table 4. shows that GISA complied with audit implementation standards adequately. Respondents tended to agree that GISA had managed audit activities effectively to ensure that audit activities provided added values to the audit. GISA had conducted supervision with a systematic and disciplined approach. Planning and assignment activities carried out by GISA had been well documented.

5) Implementation of Risk-Based Audit Planning

Table 5. Implementation of Risk-Based Audit Planning

Questions	Mean	Standard Deviation
GISA always considers government's objectives in determining its annual audit planning (X4a)	4.259	0.586
GISA always arranges and updates the audit universe and establishes the scope of the audit in its annual audit planning. (X4b)	4.160	0.660

Questions	Mean	Standard Deviation
GISA always identifies and measures risks in the agency / program / business process (auditable units) in its annual audit planning. (X4c)	4.123	0.677
GISA always adjusts risk factors to the unit / agency / program / business process (auditable unit) in its annual audit planning. (X4d)	4.123	0.659
GISA always sets priorities for its annual audit planning based on the amount of risks in the units/agencies/programs/ business processes (auditable units) (X4e)	4.148	0.709
Implementation of Risk-Based Audit Planning (X4)	4.162	0.595

Table 5. shows that respondents tended to agree that GISA had implemented risk-based audit planning adequately. GISA always considered government's objectives in its annual audit planning. However, GISA did not agree that they always updated the audit universe; identified, measured and adjusted auditable risk factors and prioritized annual audit plans based on the amount of risks in the auditable units.

6) Implementation of QAIP

Table 6. Implementation QAIP

Questions	Mean	Standard Deviation
Peer reviews are always carried out by peers who have competence and who come from outside the GISA units. (X5a)	3.765	0.794
Peer reviews are conducted in a non-reciprocal or non-mutually exclusive manner. (X5b)	3.691	0.982
The peer reviews include an assessment into the efficiency and effectiveness of GISA in accordance with the vision, mission, duties and functions as well as the expectations of the highest-ranking leaders of the organizations. (X5c)	4.000	0.632
The peer reviews include evaluation of whether GISA activities have met its code of ethics and auditing standards. (X5d)	4.111	0.651
The assessment team provides recommendations for improvement to GISA in order to provide added values to the organizations. (X5e)	4.111	0.670
Suggestions and improvements given by the assessment team are used as the basis for making improvements by GISA. (X5f)	4.148	0.672
Implementation QAIP (X5)	3.971	0.589

Table 5. shows that respondents were not certain that GISA had implemented

QAIP well. Respondents were not certain that the peer reviews were carried out by competent personnel. GISA doubted that the implementation of the peer reviews was not reciprocal. The implementation of peer reviews also did not provide an adequate assessment into the efficiency and effectiveness of GISA according to the vision, mission, duties and functions and expectations of the highest-ranking leaders. Respondents also had doubts about assessment into GISA's compliance with its code of ethics and standards. The results of peer reviews were yet to be believed to provide added values to GISA.

7) Auditee Attributes

Table 7. Auditee Attributes

Questions	Mean	Standard Deviation
GISA feels that the auditees understand and try to achieve the organizational goals inherent in the auditee units effectively. (X6a)	3.864	0.737
GISA feels that the auditees have a good view on the establishment of GISA. (X6b)	3.913	0.761
GISA feels that the auditees are cooperative with GISA. (X6c)	4.012	0.661
Auditee Attributes (X6)	3.930	0.666

Table 7. shows that respondents tended to doubt that auditees possessed good attributes. Respondents were not sure about auditees having the awareness to achieve organizational goals effectively. They considered auditees to be not cooperative and to not have a good view on the establishment of GISA.

The partial effect of the independent variables on the dependent variable can be determined through the individual parameter significance test or *t* test. The results of testing the effect of each independent variable on the dependent variable can be seen in Table 8.

Table 8. Hypothesis Testing

No.	Hypothesis	B	t	decision
1.	Internal audit organizational competence has a positive effect on the effectiveness of GISA's function.	-0.080	-0.966	rejected

No.	Hypothesis	B	t	decision
2.	Compliance with internal audit implementation standards has a positive effect on the effectiveness of GISA's function.	0.164	2.002**	accepted
3.	Compliance with internal audit implementation standards has a positive effect on the effectiveness of GISA's function.	0.389	3.607*	accepted
4.	Risk-based audit planning has a positive effect on the effectiveness of GISA's function.	0.111	1.110	rejected
5.	Implementation of QAIP has a positive effect on the effectiveness GISA's function.	0.078	1.019	rejected
6.	Auditee attributes have a positive effect on the effectiveness GISA's function.	0.170	2.435**	accepted

*significant at the 0,01

**significant at the 0,05

The values of the beta coefficient and the probability of the significance t value of the organizational competence variable were -0.080 and 0.337 respectively. The significance value of t was greater than 0.1, which proves that the first hypothesis is rejected. Thus, organizational competence does not have a positive effect on the effectiveness of the GISA function. The beta coefficient on the organizational independence variable was 0.164 with a significance probability t value of 0.049. The significance value was greater than 0.01 and less than 0.05, meaning the second hypothesis is accepted. This shows that organizational independence has a significant effect on the effectiveness of GISA at the 0.05 level of significance. The variable of compliance with the audit implementation standards had a beta value of 0.389 and a significance t value of 0.001. These results prove that the third hypothesis is accepted. Compliance with audit implementation standards had an effect on the 0.01 level of significance on the effectiveness of GISA function. The significance of the t count variable for the implementation of risk-

based audit planning had a value of 0.270 with a beta coefficient of 0.111. The significance value was greater than 0.1, so it can be concluded that the fourth hypothesis is rejected. This shows that the implementation of risk-based audit planning has no effect on the effectiveness of GISA function. The QAIP implementation variable had a beta value of 0.078 with a significance t value of 0.311. The significance value showed that it was greater than 0.1. This proves that the fifth hypothesis is rejected; the implementation of QAIP has no effect on the effectiveness of GISA function. The beta coefficient of the auditee attributes variable was 0.170 with a significance t value of 0.017. The significance value was greater than 0.01 and less than 0.05, meaning that the sixth hypothesis is accepted. Auditee attributes affect the effectiveness of GISA function at a significance level of 0.05.

DISCUSSION

Respondents tended to have a rather neutral opinion and agreed that GISA already had adequate organizational competence. Respondents expressed doubts that GISA personnel possessed the necessary professional skills, were qualified and experienced. In addition, respondents also did not believe that GISA rolled out continuous training and education and doubted that the institution would provide a fair opportunity for every auditor to take part in the professional development training programs. This shows that GISA does not yet have adequate organizational competence.

Respondents found the GISA function to have been effective. This finding was inseparable from the emphasis of Government Regulation Number 60 of 2008, which instructs GISA to conduct separate internal control evaluations by taking into account the risks, governance and operational aspects of the organization. In addition, the regulation states that government agencies must have a mechanism to ensure that there are follow-ups to the findings and recommendations. Mandatory affairs force GISA and regional leaders to comply. According to Stewart (2014), mandatory policies force the regulated parties to do act by the rules. This condition resulted in respondents agreeing to several indicators in the GISA effectiveness variable. These indicators consist of GISA's abilities to improve the government's risk management and governance, to ensure that

the findings and recommendations provided by GISA are in line with government objectives and to improve processes and performances within the organization. Respondents ranged from having neutral opinions to agreeing to several indicators in the organizational competency variable. The tendency to agree to the GISA effectiveness variable resulted in an insignificantly positive relationship between organizational competence and GISA function's effectiveness.

Institutional theory implies that the internal audit unit must meet stakeholder expectations. The internal audit unit earns pressure from stakeholders to be able to provide added values to the organization through findings and recommendations that are based on knowledge, expertise and professional skills. Such pressure resulted in the internal audit unit developing a skills enhancement mechanism through professional skills enhancement programs. The results showed that respondents tended to doubt the competence and expertise of the internal audit unit's personnel. Respondents also did not believe that the internal audit unit's professional knowledge and expertise development programs had run well. These doubts indicate that increasing skills through professional skills enhancement programs has not been optimal.

The IGIAS General Standards state that the GISA unit can hire external experts to help carry out auditing. This enables GISA to use the assistance of external experts amid its inadequate organizational competence. By hiring these experts, GISA can run its function effectively. The use of external experts to meet stakeholder expectations indicates a gap between the needed competency and that available in the internal audit unit. The competency gap in the internal audit unit should be narrowed by optimally implementing professional knowledge and expertise development programs. Adequate competence will reduce the internal audit unit's dependence on external experts.

The governance structure consists of three important elements; the executive, legislative and judiciary branches. Regional governance structures comprise positions occupied by politicians; regional heads in the executive position and the Regional People's Representative Council lawmakers in the legislative position. The APIP unit is an extension of the executive branch. The budgeting process carried out by the executive branch is regulated in

Law Number 17 of 2003 concerning State Finance. In this regulation, the GISA unit as a regional apparatus organization is tasked with drafting the budget. The budget will be reviewed by the regional heads. Next, the regional heads deliberate on the budget with the councils to obtain approval from the latter, to be stipulated in the Regional Revenue and Expenditure Budget. This leads to potential intervention of political interests that contradicts the internal audit function. According to Mead (2013), political leaders are constantly trying to reconcile policy and politics. Political leaders try to reconcile political interests with public policy so that it is politically beneficial for them and can be implemented administratively by the executive branch. This intervention of political interests will affect the flexibility of the GISA unit. This can be among the reasons why respondents tended to be of a neutral opinion that the Inspectorate had the discretion to submit budgets in annual audit planning, audit issues that should be audited and had free access to information and data of each regional apparatus organization.

Government Regulation Number 60 of 2008 adopts elements of the internal control system from the Committee of Sponsoring Organizations of the Treadway Commission (COSO). One of these elements is information and communication. Information and communication require communication of information on the implementation of internal control by GISA to the regional head. Communication of government agency units to the highest-ranking officials tended to be bureaucratic. The GISA unit must report the results of the audit to the highest-ranking officials in the organization through the Regional Secretariats. This condition results in possibly delayed decision-making regarding the results of supervision and audits that are urgent in nature. Bureaucracy has a tendency to widen the range of management and is not a solution to strengthen effectiveness (Guillemot, et al., 2013). Such bureaucratic process resulted in respondents tending to answer between neutral and agreeing to the statement that GISA had an effective communication channel to top leaders.

Regional heads are given the discretion to carry out embedded or separate internal controls based on Government Regulation 60 of 2008. If done separately, regional heads can give such discretion to internal audit units, in terms of responsibilities, scope of work and monitoring plans. The results

showed that respondents tended to agree that the GISA was given the discretion to supervise all regional apparatus. This shows that local governments do provide discretion for the internal audit units, although it is limited. These conditions provide GISA with the opportunity to contribute in improving government risk management and government governance as well as providing findings and recommendations that are in line with government objectives. This condition resulted in a significant positive relationship between organizational independence and the effectiveness of the GISA function.

Institutional theory recognizes the coercive isomorph concept, which states that the practices carried out organizations arise due to pressure from stakeholders. Organizations are faced with expectations that arise from society. Community expectations are not static, but will rather continue to grow as long as organizations and stakeholders interact with each other. The continuous interaction between organizations and stakeholders causes the former to always try to meet the expectations and demands of the latter (Deegan, 2014). The results showed that GISA was still in the process of fulfilling stakeholder expectations and requests. This is indicated by the condition that although GISA has complied with audit implementation standards; it has not been able to improve stakeholder satisfaction. This indicates that there is a gap between the audit implementation standards and stakeholder expectations, possibly implying that GISA still needs to develop certain standards to meet the expectations.

Respondents tended to agree that GISA had carried out risk-based audit planning and carried out its functions effectively. However, respondents ranged between neutral and agreeing when responding to several indicators used to measure the risk-based audit planning variable. Respondents tended not to believe that in preparing the annual audit plan, GISA always updated the audit universe, identified and measured auditable unit risks, made adjustments to auditable unit risk factors and set priorities for annual audit plans based on the amount of auditable unit risks. This means that risk-based annual audit planning did not have a significant positive effect on the effectiveness of the GISA function.

Government programs are among the

auditable units that may change annually in accord with government's priority goals. GISA as part of internal control has the role of mapping auditable units; determining which to be audited. On this basis, GISA should keep the audit universe updated. On the other hand, there must be basic considerations when determining which units to be audited. One of them is the amount of risks inherent on the auditable units. Government programs are divided into two; those completed in one fiscal year and those taking several fiscal years. Risks inherent in multi-year government programs are bound to always change as findings are followed up and operational improvements are made in the preceding years. GISA needs to conduct an assessment and adjustment of inherent risks in government programs or auditable units that are multi-year in nature to facilitate the determination of audit priorities. Updates to the universe audit as well as risk assessments and adjustments need to be carried out by GISA to obtain an overview of the risks facing organizations. This makes it easy for the GISA to consider and determine the focus of audit and supervision. However, the results showed that the updating of audit universe as well as the assessment and adjustment of auditable unit risks did not run optimally.

Respondents' answers indicate that the GISA unit has not mapped auditable units and determined audit priorities based on the audit universe and latest auditable unit risk adjustments. On the other hand, government institutions are politically nuanced. The annual audit planning goes through a similar mechanism as the GISA budget submission process. Annual audit planning always goes through deliberations between the executive and legislative branches before it is passed as a government's working plan. Political leaders tend to intervene in determining government programs. Due to such intervention, GISA as a government agency tends to have difficulties determining audit priorities based on risk considerations in accordance with the guidelines issued by the IGIAS. This is reflected by respondents' answers that ranged in between neutral and agreeing on GISA always setting priorities for its annual audit plan that were based on the amount of risks in the auditable units.

The implementation of QAIP at GISA in Indonesia refers to the peer review guidelines issued by the Indonesian IGIAS. Peer review is an assurance activity. The assurance activity needs

quality control on assignments to ensure that these assignments are in accordance with the established frameworks and objectives. Quality control is very important in an attestation assignment (IIA, 2016). However, quality control of peer review assignments carried out by the assessment team has not been clearly regulated in the guidelines. In addition, the peer review guidelines have not yet regulated specific competencies of the assessment team assigned to carry out peer reviews. This causes respondents' tendency to be unsure about the competence of the assessment team and the mechanism for implementing peer review. This uncertainty resulted in respondents' doubts on the results of the peer review. These doubts then led to GISA not using the assessment team's recommendations as basis for improvement.

Results showed that respondents answered with neutrality and agreement to the auditee attributes variable. This shows that respondents were not convinced that the auditees had adequate capabilities in achieving organizational goals. Respondents were also not certain that the auditees had a good perception of the GISA function and was cooperative with GISA. On the other hand, results also showed that respondents tended to be neutral and agreeing on GISA being capable of improving stakeholder satisfaction. This means that the auditee attributes had a significant positive effect on the effectiveness of GISA.

Institutional theory states that organizations can adjust to their environment and vice versa. One of the internal audit unit's efforts to influence its environment is through audit charter. The internal audit unit seeks to influence the auditees into adopting a good perception on the presence of the internal audit function. It intends to encourage auditees into cooperating with the internal audit unit. The objectives of internal audit will be achieved optimally so long as the auditees are being cooperative. The results showed that the impact of the audit charter dissemination was not optimal. This needs to be a concern for the internal audit unit as it is expected to derive good auditee attributes.

CONCLUSION

Based on the analysis into our research findings that have been described in the previous discussion, we conclude that:

1. Organizational competence does not have a significant positive effect on the effectiveness

of the GISA function. GISA did not have adequate competence and had not optimized capacity building programs to improve internal employees' professional skills. The IGIAS General Standards allow GISA to meet competency gaps and stakeholders' expectations by hiring experts from outside GISA. Organizational competence needs to be a concern of improvement for GISA, so as to not be too dependent on external experts.

2. Organizational independence has a significant positive effect on the effectiveness of the GISA function. However, GISA did not yet have the flexibility in preparing budgets, auditing important issues and accessing all the necessary information. Communication channels between GISA and highest-ranking officials had not been effective. A good synergy between elements in government governance needs to be encouraged in order to obtain policies that support organizational independence.
3. Compliance with audit implementation standards has a significant positive effect on the effectiveness of the GISA function. However, stakeholders were still not satisfied with the internal audit function. This indicates a gap between the audit standards that have been prepared and implemented by GISA and stakeholder expectations. The drafted audit standards should take into account stakeholder expectations.
4. Risk-based audit planning has a positive yet insignificant effect on the effectiveness of the GISA function. GISA had not been optimal in updating the audit universe, identifying and measuring risks and adjusting risk factors for auditable units. The list of selected auditable units was not based on risk ranking. Implementing risk-based audit planning properly needs to be the attention of GISA. A good synergy needs to be encouraged between elements in government governance in order to obtain policies that support supervisory processes that consider organizational risks.
5. The implementation of QAIP has a positive yet insignificant effect on the effectiveness of GISA. The implementation of QAIP through a peer review mechanism is guided by the IGIAS guidelines. These guidelines do not explicitly state the competency requirements

of review personnel and the quality control of the peer review. The IGIAS needs to establish competency standards for reviewers and set quality control for peer review. This is useful to convince the parties being assessed to use assessment results as the basis for improvement.

6. Auditee attributes have a significant positive

effect on the effectiveness of GISA. This shows that for the optimal run of GISA, it is necessary to provide good understanding regarding the alignment of organizational goals and the important role of the internal audit unit. This will raise auditees' awareness so that they can cooperate with the internal audit unit.

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