Effective model development of internal auditors in the village financial institution

I M M Arsana¹ *, I N Sugiarta²
¹,²Politeknik Negeri Bali, Indonesia, Jalan Kampus, Bukit Jimbaran Kuta Selatan, Badung-80364, Bali, Indonesia
*corresponding email: mademarsaarsana@pnb.ac.id

Abstract: Designing an effective audit system is complex and challenging, and a focus on examining how internal audit drive improvement in three core performance dimensions ethicality, efficiency, and effectiveness in organization is needed. The problem of research is how the design model and peripheral of supporter of effective supervision Village Credit Institution? Research of objectives is yielding the design model and peripheral of supporter of effective supervision Village Credit Institution. Method Research use data collecting technique interview, observation and enquette. Data analysis, data qualitative before analysed to be turned into quantitative data in the form of scale. Each variable made to become five classification pursuant to scale of likert. Data analysed descriptively to find supervision level, Structural Equation Model (SEM) to find internal and external factor. So that design model supervision with descriptive analysis. Result of research design model and peripheral of supporter of effective supervision Village Credit Institution. The conclusion design model supported by three sub system: sub system institute yield body supervisor of Village Credit Institution, sub system standardization and working procedure yield standard operating procedure supervisor of Village Credit Institution, sub system education and training yield supervisor professional of Village Credit Institution.

1. Introduction
Village Financial Institution (called Village Credit Institution) representing financial institution property of Village Pakraman which domiciling in Village area of Pakraman have to observe by internal supervisor. Internal supervisor do observation to give consistent action guarantee with law, norms of organisatoris, and good business practice. Design internal observation process for effectiveness to show promise to official member, giving suggestion, consideration, and follow to finish problem, socializing existence of Village Credit Institution (LPD), and evaluate periodical official member performance.

The audit process designed to point to deficiencies and errors in ways that help the organization to rectify or preempt their recurrence [1]. The internal auditor assesses the extent to which auditees’ actions are consistent with the law, organizational norms, and good business practice [2]. The Institute of Internal Auditors (IIA) defined the unique way the auditor contributes to this process. Specifically, the auditor helps enhance the value of the organization and improve its performance by assisting in building better governance mechanisms, and improving the risk management and control of enterprise resources and actions [3]. They also influence the ethical reasoning process and ethical behavior of the organization and its members [4, 5, 6, 7]. Internal supervisor have to comprehend the internal control system, organizational norms, integrity, professionalism, and ethics. In parallel The Committee of Sponsoring Organizations of the Treadway Commission (COSO) guidelines for good audit practice.
recommended that internal auditors should review the internal control system, with particular attention to the climate and practices and the role of the internal auditor as a monitor of the control system within the organization [8]. Same thing by Ginosar [9] defined as the essential role of an internal audit as it helps set up checks and balances throughout the system. Conversely, audit failure can lead to poor governance and engender large-scale unethical conduct and organizational fraud [10]. To develop quality, effective audits, researchers have stressed the need to heighten auditees’ willingness to cooperate with the auditors [11]. Other research internal audit model have shown that internal audit are important drivers of the performance of both industrial firms [12, 13] and local governments [14]. However, designing an effective audit system is complex and challenging, and a focus on examining how internal audit drive improvement in three core performance dimensions ethicality, efficiency, and effectiveness in organization is needed.

Auditor capacity comprises professional skills, economic resources, and behaviors toward auditees. Auditors’ professional skills are manifested in their knowledge and experience [15, 16], and professional credibility [17]. Auditors must not only possess an academic background but also specific training experience [18]. Auditors also need to become knowledgeable in information systems so that they can assess related risks and control mechanisms [19]. Thus, it is not surprising that encouraged continuing professional training programs to further cultivate auditors’ skills and enable them to address evermore complex audit activities [20]. Further, auditors need to act professionally; otherwise, they risk compromising their independence or overlooking fundamentals and even negligently dealing with inaccuracies [21].

Internal Audit process have to pursuant to standard of operating procedures (SOPs). The effective functioning of the REC supported by its own written standard operating procedures (SOPs) [22]. The internal quality auditing program was enhanced by the selection of employees from a cross-section of the organization, who were trained in internal auditing procedures [23].

Result of previous research of effectiveness observation different LPD and still many below very effective. Related to the mentioned conducted development of model observation of LPD, hence this research focus is how form model and peripheral of supporter effective observation LPD? The Purpose research is this of yield form model and peripheral of supporter effective observation LPD.

2. Research Methods
Method research use data collecting technique interview, observation and enquette. Data analysis, data qualitative before analysed to be turned into quantitative data in the form of scale. Each variable made to become five classificat pursuant to scale of likert. Data analysed descriptively to find supervision level, Structural Equation Model (SEM) to find internal and eksternal factor. So that desain model supervision with descriptive analysis.

3. Results and discussion
Development of model observation powered LPD effective observation management and technique can be made desain model pursuant to antecedent study from result of analysis mount effectiveness observation LPD and internal factor and eksternal determining effective observation LPD like seeing (Figure 1).
Figure 1 Indicating that design model observation of LPD by powered of effective observation management and technique yield observation of effective LPD with indicator 5T (Precisely SOP / SOM, Precise value, Timely, Precisely record-keeping, Precise its authority) supported by three sub system that is: 1) sub system institute, 2) sub system standardization and working procedure, 3) sub system education and training. The description of picture is:

3.1 Internal Supervisor of LPD
Sub system institute yield internal supervisor of LPD. Internal supervisor of LPD can in the form of internal supervisor, eksternal supervisor, monitoring and evaluation, and inspection of accountant. Supervisor of LPD arranged in Section 12 and Section 18 Perda LPD No.8/2002. Section 12 Perda LPD No.8/2002 hitting internal supervisor of LPD determine that: 1) Supervisor consist of chief and at least 2 (member people); 2) chief taken hold of by ex officio Bendesa of him; 3) Chief supervisor of formed LPD pursuant to section 4, taken hold of by have innings among Bendesa pursuant to agreement; 4) Member supervisor selected by Krama Village; 5) Chief and member supervisor cannot double as official member.

Duty of Internal supervisor do not be arranged in Perda LPD, however arranged in a special regulation, that is Regulation of Governor Bali number 16 Year 2008 about official member and Internal supervisor of LPD. Section 11 Regulation of Governor of No.16/2008, please determine that Supervisor have duty: a. Observing management of LPD; b. Showing promise to official member; c. Giving suggestion, consideration and follow to finish problems; d. Socializing existence of LPD; e. Evaluating periodical official member performance; f. Compiling and submitting report result of observation to Village meeting.
Besides Internal supervisor, LPD also require to get observation externally. Section 18 Perda LPD determine that: observation of LPD eksternal conducted by governor. But in clarification section 18 Perda LPD No.8/2002, please mention that: Governor over flow observation duty to Local Development Bank (BPD). But, Perda LPD No.4/2012 altering is total of rule section 18. Rule section 18 Perda LPD No.4/2012, becoming: 1) Governor with Majelis Umum Desa Pakraman (MUDP) construction; 2) Governor assign construction of public to Body Builder of provinces and Body Builder of Sub-Province/town; 3) Governor with consideration of MUDP assign Institute Enableness Of Village Credit Institute (LPLPD) execute technical adjacent in enableness of LPD; 4) Request Krama Village in meeting, audit must be can in once (1) year.

Pursuant to rule section 18 Perda LPD No.4/2012, giving the understanding of that LPD observed by supervisor of eksternal and voluntary LPD make an audit of by independent Accountant. Pursuant to decision of mayor of Denpasar No.188.45/109/Hk/2012 arrange fundamental duty and monitoring team function and evaluation of LPD. Decision mayor of Denpasar No.188.45/689/Hk/2012 arrange fundamental duty and internal supervisor function. Both the decision that operational of LPD beside evaluation and monitoring also observed by internal supervisor. Team of money and internal supervisor give relugation atribusi. While team supervisor of eksternal obtained from authority delegation of Governor Bali.

Same with regulation commendation above needing presumably assured by fundamental duty and function as internal supervisor pursuant to decision Mayor of Denpasar No.188.45/689/Hk/2012 and Regulation of Governor Bali of No.16/2008 as have been altered by Regulation of Governor Bali No.11/2013 so that observation more effective. Perda No.3/2017 section 20 article 1 mention LPD obliged to make an audit of 1 multiply in 1 year. Article 2 make an audit of as referred to sentence by: 1) Internal supervisor; 2) LPLPD; 3) Institute showed Auditor. At The Committee Sponsoring Organizations Treadway Commission the of [8] also express that guidelines for good audit practice recommended that internal auditors should review the internal control system, with particular attention to the climate and practices and the role of the internal auditor as a monitor of the control system within the organization.

3.2 Standard Operating Supervisor (SOS) LPD
Sub system standardization and working procedure yield SOS LPD. SOS LPD supported by two sub of system: 1) effective observation management concept; 2) effective observation technique concept. Effective management concept focus at phases in course of supervisor covering five step: 1) stipulating of standard, 2) determination of measurement activity execution, 3) measurement activity execution, 4) analyse execution with standard, 5) taking action of correction when needed.

Conception effective observation technique focus applying of observation method namely: quantitative method and qualitative and also observation technique to know condition, performance of LPD can be with SACRI (See, Analysis, Conclusion, Recommendation, Implementation). SOP LPD expected can improve role and also very strategic internal supervisor to increase performance of LPD. Internal supervisor need enableness ability of science area and skill either through is technical, and also theoretically and also can develop; build trust of society so that Internal supervisor function to organizer of LPD really felt its benefit. This matter as according to the effective functioning is supported by its own written standard operating procedures (SOPs) [22], and the internal quality auditing program was enhanced by the selection of employees from a cross-section of the organization, who were trained in internal auditing proces [23].

3.3 Supervisor of Professional LPD
Sub system education & training yield supervisor of professional LPD. Professionalism supervisor of LPD expected and improved to education and training of professional carried out by institute education and training of periodic and routine professional continuityl. Domination of science area and skill by tentatif need upgrade about product punish LPD, SPI or SOM/SOP, organizational administration and effort/accountancy of LPD, internal elementary of auditing, and financial statement
analysis, and cultural and social aspect and also local wisdom so that make supervisor of professional LPD, passing education and training of professional carried out by institute education and training of periodic and routine professional continuity. In line with DeAngelo [15], OAG [16] and Deis and Giroux [17] that auditors’ professional skills manifested in their knowledge, experience, and professional credibility. Further, auditors need to act professionally; otherwise, they risk compromising their independence or overlooking fundamentals and even negligently dealing with inaccuracies [21].

4. Conclusion
Pursuant to result of this research, can be concluded desain model and peripheral of supporter of effective observation LPD supported by three sub system: institute sub system, sub system standardization working procedure and, sub system education and training. Sub system institute yield internal supervisor of LPD. By law about LPD entrust Internal supervisor which formed by Village of Pakraman undertake to conduct observation to management of LPD, Internal supervisor obliged to make an audit of singly, while LPLPD earn singly and also with showed Institute Auditor. Sub system standardization working procedure and yield SOP supervisor of LPD, SOP supervisor of LPD supported by two sub system that is: 1) effective observation management concept; 2) effective observation technique concept. Sub system education and training yield supervisor of professional LPD. Improving professionalism and improved to education and training of professional carried out by institute of education and training of periodic and routine professional continuity with small fish which update.

Acknowledgments
We wish to thank the associate editor and three anonymous reviewers for their helpful comments and suggestions. We also thank Dr. Jamari for her editorial comments. The second author acknowledges the financial support of the Directorate Research and Devotion of Society Directorate General Reinforcement Research and Development of Ministry Research, Technology, and Higher Education in Indonesia, As according to contract research of number: 023/SP2H/LT/DRPM/IV/2017.

References
[1] Fayol H 1949 General and industrial management London: Pitman Publishing Corporation.
[2] Dittenhofer M 1997 Behavioural aspects of internal auditing revisited Managerial Auditing Journal, 12(1), pp: 23–27.
[3] The IIA 1999 What is internal auditing? The Institute of Internal Auditors [Online]. Available: http://www.theiia.org/theiia/about-the-profession/internal-audit-faqs/?i=1077.
[4] Bailey A D Jr, Gramling A A and Ramamoorti S (Eds.) 2003 Research opportunities in internal auditing Altamonte Springs, FL: IIA Research Foundation.
[5] Karcher J N 1996 Auditors’ ability to discern the presence of ethical problems Journal of Business Ethics, 15(10), pp: 1033–1050.
[6] Lin S, Pizzini M, Vargas M and Bardhan I R 2011 The role of the internal audit function in the disclosure of material weaknesses The Account Review, 86(1), pp: 287–323.
[7] Stead W E, Worrell D L and Stead J G 1990 An Integrative Model for Understanding and Managing Ethical Behavior in Organizations Journal of Business Ethics, 9, pp: 233–242.
[8] COSO 1992 IC-integrated framework-summary Committee of Sponsoring Organizations of the tread way commission [Online]. Available: http://www.coso.org/IC-IntegratdFramework-summary.htm.
[9] Ginosar Y 2011 Internal department The Accountant.
[10] Soltani B 2014 The anatomy of corporate fraud: A comparative analysis of high profile American and European corporate scandals Journal of Business Ethics, 120, pp: 251–274.
[11] Woods M, Humphrey C, Dowd K and Liu Y L 2009 Crunch time for bank audits? Questions of practice and the scope for dialogue Managerial Auditing Journal, 24(2), pp: 114–134.

[12] Eden D and Moriah L 1996 Impact of internal auditing on branch bank performance: A field experiment Organizational Behavior and Human Decision Processes, 68, pp: 262–271.

[13] Carmeli A and Tishler A 2004a Resources, capabilities, and the performance of industrial firms: A multivariate analysis Managerial and Decision Economics, 25, pp: 299–315.

[14] Carmeli A and Tishler A 2004b The relationships between intangible organizational elements and organizational performance Strategic Management Journal, 25, pp: 1257-1278.

[15] DeAngelo L 1981 Auditor size and audit quality Journal of Accounting and Economics, 3(3), pp: 183–199.

[16] Office of the Auditor General O A G 2004 Internal Audit in Departments and Agencies—Internal audit needs to be strengthened and professionalized—November 2004 [Online]. Available: http://www.oag-vg.gc.ca/internet/English/mr_20041123_e_15336.html.

[17] Deis D R Jr and Giroux G A 1992 Determinants of audit quality in the public sector The Accounting Review, 67, pp: 462–479.

[18] Firth M 1990 Auditor reputation: The impact of critical reports issued by government inspectors The Rand Journal of Economics, 21(3), pp: 374–387.

[19] ISACA 2007 Control Objectives for Information and related Technology (COBIT) 4.1 [Online]. Available: http://www.isaca.org.

[20] The IIA 2010 The IIA—The Institute of Internal Auditors [Online]. Available: http://www.theiia.org/theiia/.

[21] Satava D, Caldwell C and Richards L 2006 Ethics and the auditing culture: Rethinking the foundation of accounting and auditing Journal of Business Ethics, 64, pp: 271–284.

[22] Spagnolo A G, Sacchini D, Torlone G et al 1999 Il laboratorio del Comitato Etico: istituzione e procedure operative standard Medicina e morale, 2, pp: 221–263.

[23] Villalba R, Eisman M, Fornes G et al 2001 Implementation of a Quality Plan (ISO 9002) In a Regional Tissue Bank Cell an Tissue Bank, 2, pp: 45-49.