



Internal Audit on Fraud Deterrence in the Public Sector: Problems and Obstacles of State-Owned Companies in Indonesia

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Doctoral Thesis

Internal Audit on Fraud Deterrence in the Public Sector: Problems and Obstacles of State-Owned Companies in Indonesia

**パブリック・セクターにおける不正抑止のための内部監査：
インドネシア国有企業における問題と阻害要因**

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List of Abbreviations

BPK	: <i>Badan Pemeriksa Keuangan</i> , the supreme audit institution of Indonesia
BPKP	: <i>Badan Pengawasan Keuangan dan Pembangunan</i> , the financial and development Supervisory Agency of Indonesia
CFE	: Certified Fraud Examiner
CIA	: Certified Internal Auditor
CPA	: Certified Public Accountant
GDP	: Gross Domestic Product
GRC	: Governance, Risk, and Control
IAPI	: <i>Institut Akuntan Publik Indonesia</i> , The institute of public accountants of Indonesia
IIA	: Institute of Internal Auditors
IMF	: International Monetary Fund
IPPF	: International Professional Practices Framework
IT	: Information Technology
KPI	: Key Performance Indicator
KPK	: <i>Komisi Pemberantasan Korupsi</i> , the eradication corruption commission of Indonesia
OJK	: <i>Otoritas Jasa Keuangan</i> , the financial service authority of Indonesia
PIA	: Professional Internal Auditor
POLRI	: <i>Kepolisian Republik Indonesia</i> , The national Indonesia police
QIA	: Qualified Internal Auditor
SOP	: Standard Operational and Procedure
WBS	: Whistle Blower System

Chapter 1 Introduction

The purpose of this study is to explore how to improve the effectiveness of internal audits in state-owned companies to deter fraud in the public sector in Indonesia. In the public sector, various measures have been taken to deter fraud. One of the most common types of fraud in the public sector is corruption. The literature has documented that corruption relates to or induces several negative economic and political consequences, such as decreases in economic growth, quality of education and public infrastructure, or income equality¹ (e.g., Gupta, Davoodi, and Alonso-Terme, 1998; Mo, 2000; Gupta, Davoodi, and Tiongson, 2000).

Underdeveloped countries are more inclined to suffer from negative consequences of fraud, and Indonesia is one of those countries. According to the corruption perception index (CPI) exhibited by the international transparency in 2018, Indonesia ranks 89th out of the 180 countries surveyed. Another fact revealed by the Indonesia Corruption Watch (ICW) in 2018 also indicates that the government experienced state losses of 6.5 trillion rupiah in 2017 due to a high number of corruption cases. The Indonesian government has undertaken several measures to deter fraud, and the reform of corporate governance in state-owned companies, which was promulgated in 2011, was one of the latest measures. The purpose of this reform included enhancing the governance functions of internal audit of state-owned companies to reduce fraud in the public sector. Despite those efforts taken by the government, which are discussed in more details in Chapter 2, no remarkable results have yet been achieved in Indonesia.

Against this backdrop, reconstruction of fraud deterrence mechanisms in the public sector is an urgent issue. To provide input for the discussion of reconstruction, we highlight the latest corporate governance reform and clarify the current situation and problems faced in practice. More specifically, we examine (1) the extent to which the corporate governance reform is achieved as per the law and (2) the problems faced in the internal audit practice of the state-

¹ This study defines fraud and corruption in a standard way that is generally accepted in the literature. For instance, we define corruption as any illegal act characterized by deceit, concealment, or violation of trust. Frauds are defined as perpetration by the parties or organizations to obtain money, property, or services, avoid payment or loss of services, or secure personal or business advantage (The Institute of Internal Auditors, 2019). Corruption is a more likely specific act than fraud, which refers to the misuse of public office for private gain (Svensson, 2005).

owned companies of Indonesia. Since the losses incurred by the government due to fraud in the public sector are significant, the government has implemented measures that are considered to be highly effective in deterring fraud. Nevertheless, fraud in the public sector has not been significantly prevented in Indonesia, implying that there should be some problems that inhibit government policies from working as intended. This study contributes to the improvement of the internal audits of state-owned companies by clarifying the problems and obstacles in practice, the factors behind them, and deriving solutions to them.

To this end, we conducted several interviews with internal audit practitioners of the Indonesian state-owned companies and their stakeholders. Conducting these interviews enables us to elucidate the actual practice of internal audit under the governance reform requirements. Moreover, to clarify the problems faced by the internal audit practitioners, we conduct interviews with those practitioners and the stakeholders who support the internal audit function. With these interviews, we can analyze the internal problems and the external factors causing these problems from a broader perspective.

The structure of this paper is as follows. The institutional background in Indonesia is explained in Chapter 2, followed by a review the relevant academic literature and the governance framework released by the Institute of Internal Auditors (IIA) in Chapter 3. Chapter 4 describes the research design. The interview results are discussed in Chapters 5. Finally, Chapter 6 presents the conclusions.

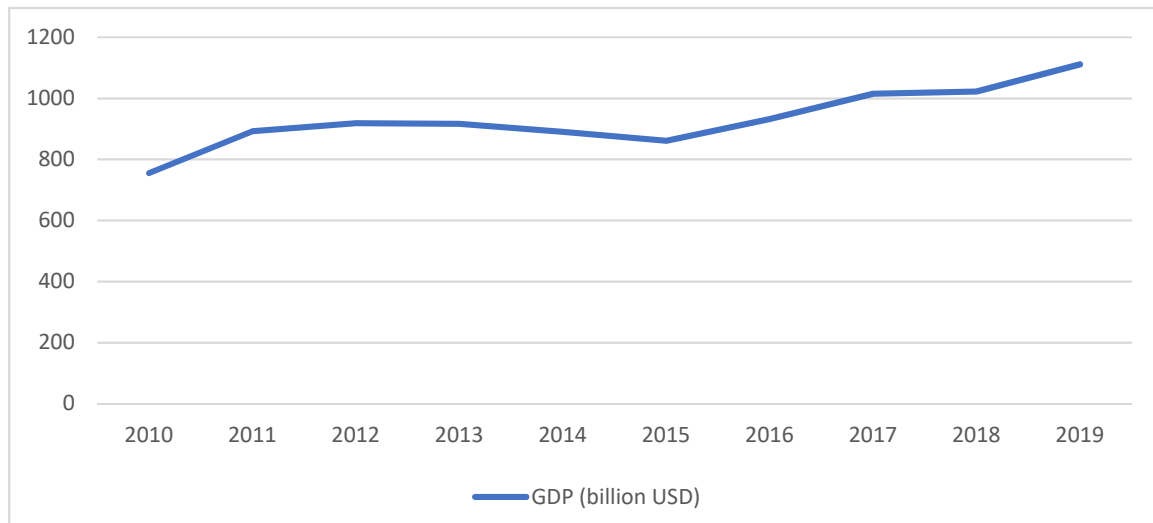
Chapter 2 Institutional Background in Indonesia

In this chapter, we describe Indonesia's economy, the state-owned companies aimed at Indonesia's development, and the Indonesian corruption prevention systems.

1. Current and outlook economy

According to World Economy Outlook released by the IMF, Indonesia's economy is the largest in Southeast Asia as well as the 16th largest in the world, with an annual gross domestic product (GDP) valued at approximately 1,022.45 billion US dollars in 2018 ("Gross Domestic Product," 2020). Indonesia's GDP has increased significantly to roughly 932.07 billion US dollars, around 90 billion US dollars more than two years. Indonesia's GDP increase from 2010 to 2019 shown in Figure 2.1 below.

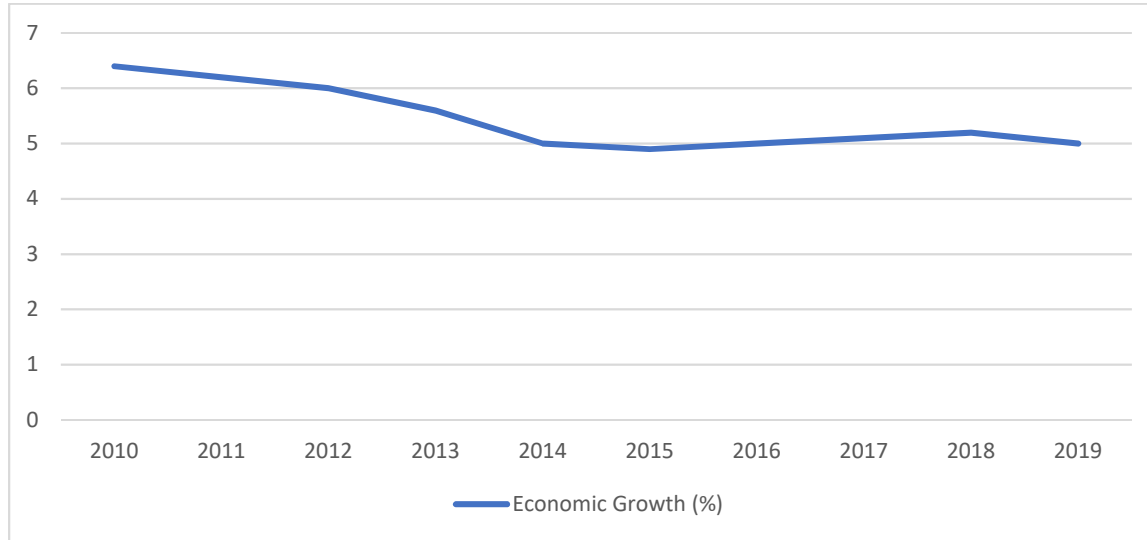
Figure 2.1 Indonesia's GDP



Sources: IMF Data Mapper

Furthermore, Indonesia's economic growth achieved a stable percentage of 5.2% in 2018, slightly better than the world average of 4.5% ("Real GDP Growth," 2020). These numbers mean that Indonesia's economic growth has been steadily around 5% since 2016 and has reached 5%, 5.1%, and 5.2% in 2016, 2017, and 2018, respectively. Indonesia's economic growth during this 10 year-period is shown in Figure 2.1.

Figure 2.2 Indonesia's economic growth



Sources: IMF Data Mapper

The Asian Link Business states that the subsequent years of economic growth have elevated Indonesia into the top -20 world economies, to earning its membership in the G20 group of nations. However, Indonesia's economy has significant differences from its neighbors, such as Singapore and Thailand. In particular, Indonesia's economy is largely driven by domestic activity rather than exports, which helped to cushion it from the global crisis in 2008 and 2009 ("The Indonesia Economy," 2019). Indonesia is a market economy in which state-owned companies and large private business groups play a significant role. There are hundreds of diversified, privately held business groups in Indonesia that work together with the state-owned companies which dominate the domestic economy. Furthermore, according to an economics situation forecast released by the Economist Intelligence Unit, Indonesia is on track to become the world's fourth-largest economy in 2050 following China, the United States, and India (Nikkei Asia, 2015).

2. The State-owned companies

The state-owned companies of Indonesia have played an important role in Indonesia's economic growth. In fact, to support Indonesia's development and economy, as of December 31st, 2019, there are 118 state-owned companies in Indonesia that continuously contribute to Indonesia's development. These companies are categorized as state-owned if they are fully or partially (more

than 50%) owned by the Indonesian government. All these companies are involved in accelerating Indonesia's development in various sectors such as plantations, farming, forestry, manufacturing, mining, telecommunication, electricity, banking, insurance, etc. According to the ministry performance annual report, in 2018 all state-owned companies of Indonesia had of 8,118 trillion rupiahs in total assets or an increase of roughly 12.6% compared to the previous year. Moreover, those companies had total equity of 2,479 trillion rupiahs, a slight increase of 92 trillion rupiahs compared to the prior year, even though the net income had declined by about 21% in 2018. This situation likely indicates that the increase of total assets was unable to generate an equal amount of net income in the same period. However, those companies could contribute to the high number of dividends and taxes to the government, about 454 trillion rupiahs in 2018, by working to revitalized it and increase its performance.

Although these state-owned companies have not achieved a significant increase in net income through the years 2015 to 2018, (which had a difference of only 5 trillion rupiahs), the companies have reached a significant increase in revenue of 661 trillion rupiahs. Their other important contributions to Indonesia's development and economic growth include widespread development in areas such as the development of railways which were able to increase their length to 885 kilometers around Indonesia in 2017 compared to 561 kilometers in 2014. They have also established five high capacities of TEU ports per year in 2017, and new electricity networks serving 23 million households. Additionally, they have increased airport capacity to 195 million passengers in 2017 compared to 158 million in 2014. They have provided funds with very low interest loans to low and middle micro-businesses by transferring around 222 trillion rupiahs over Indonesia in 2017 as well as other important contributions to Indonesia's economic growth.

3. Corruption prevention system

This subchapter describes the corruption prevention systems in Indonesia, including three institutions that were incorporated into the agreement to prevent, combat and handle the corruption cases in Indonesia, the specific regulations and functions of the internal audit of state-owned companies, and other audit systems surrounding state-owned companies. We briefly expose the audit entities that conduct audit concurrently with the internal audit.

3.1. Corruption prevention institutions

Following the statute law no. 31 in 1999 regarding corruption eradication, the Indonesian legislation authorized and issued the statute law no. 30 in 2002 to establish the eradication corruption commission (KPK). The KPK has been jointly incorporated with other government institutions, including the attorney general of Indonesia and the national Indonesia police, into the memorandum of understanding (MoU) incorporating agreement to eradicate corruption cases in Indonesia. The MoU established by these institutions in 2017, synergizes the handling of corruption cases, supervision to the law enforcement officials, data and information request, and improvement and development of human resources capacities. The methods for handling corruption cases include coordinating, supervising, preventing, eradicating, and reporting.

According to the statute law no. 31, these three institutions have the authority to handle corruption cases. These authorities have some overlap in power to disrupt fraud, because they have similar authority to investigate, probe, and prosecute corruption cases. However, they are independent authorities in order to eradicate corruption following the establishment and assignment' process of the head and deputies. The head of the KPK, committee members, and deputies are appointed by the Indonesian legislators with an independent selection process. In contrast, the attorney general and national police are headed by the government officials who have been appointed by the President of the Republic of Indonesia.

3.1.1. The Corruption Eradication Commission of Indonesia

According to statute law no. 30, the KPK has several mandates, including investigating and prosecuting corruption cases, preventing corrupt practices, identifying related corruption within government offices, supervising corruption cases handled by other law enforcement authorities (including the national police and attorney general), and monitoring the implementation of good governance throughout the country. The KPK has specifically focused on big cases which have high possibility of government losses as well as a significant amount of money to send back to the government.

The establishment of KPK in 2002 followed the then-current issue of the former president of Indonesia, overlooking law enforcement institutions which had not handled corruption cases

well, as they could not jail the proper number of culprits. This situation led many rules for improving law enforcement in Indonesia, particularly with regards to corruption. Also, in 2001 the consolidated team for eradicating corruption was disbanded by judicial review by the supreme court of Indonesia. This strongly indicates that the elimination of corruption had not been supported by the law enforcement offices in Indonesia. Thus, the president proposed the establishment of the KPK in 2002. Nowadays, the KPK incorporates ideas from international institutions for eradicating corruption, including the United Nations Convention Against Corruption (UNCAC) review implementation and the anti-corruption working group G-20.

3.1.2. The Attorney General of Indonesia

The Attorney General of Indonesia is the governmental institution that exercises the prosecutorial power of the state. As an institution with authority over law enforcement and justice, the attorney service has a wide range of core duties and powers, from the investigation of special crimes to the execution of court sentences. Based on article 30 in statute law no. 16 of 2004, the attorney general is a competent institution that has the authority to advise the Indonesian government on matters of law. The attorney general represents the government in the supreme court as well as being a cabinet-level official. They have authority to prosecute crimes, to enforce judicial orders and make final decisions, to supervise those serving a conditional sentence, placed under supervision orders, or released on parole, and to investigate certain types of suspected crime as stipulated by the law.

As the government institution appointed by the President of the Republic of Indonesia, the attorney general has the authority to enforce the corruption case laws along with the national Indonesia police. Article 18 in statute law no. 28 in 1999 regarding a clean Indonesian government free of corruption, collusion, and nepotism states that if there are potential fraud and government losses found by the audit institutions appointed by the government, they must submit their audit reports to either the attorney general or the national police to be processed. Another statute law no. 31 of 1999, mentions that the head of the attorney general coordinates and controls all the audit institutions in Indonesia as well as investigations, special examinations, and inspections related to the enforcement and prosecution of corruption cases.

3.1.3. The National Indonesia Police

The national Indonesia police (POLRI) was separated from Indonesia military in 1999 with the key tasks of maintaining security and public order, enforcing the law, and protecting and servicing to the community. Prior to 1999, the POLRI had been a part of the Indonesian military for many years. The POLRI is also responsible for law enforcement and policing duties all over Indonesia. According to article 50 of statute law no. 30 of 2002, it states that they coordinate investigations of corruption cases with the KPK to be created in the future. In POLRI, there is an anti-corruption unit that aimed not to take over the role of KPK, but to later be incorporated into the KPK to combat corruption.

As revealed in the sub-topic of the attorney general in article 18 in statute law no. 28 in 1999, if there are potential fraud and government losses found by the audit institutions appointed by the Indonesia government, the audit institutions must submit their audit reports to either the attorney general or the POLRI to be processed. The POLRI also has a memorandum of understanding with the financial and development supervisory agency (BPKP), to eradicate big corruption cases in Indonesia by jointly investigating all potential corruption at all government institutions and state-owned companies as well as measuring government losses related to corruption cases.

3.2. Regulatory reform of corporate governance for state-owned companies

The ministry of state-owned companies of Indonesia issued regulation no. 117 in 2002 concerning principles and implementation of good governance for state-owned companies. However, in accordance with the government law reform aimed at state-owned companies and highly competitive and changes in business sector development, to improve the implementation of good governance, the ministry amended to issue a new regulation, no. 1, in 2011. According to the new regulation, good corporate governance is defined as the principles that constitute the processes and mechanisms of corporate governance to adhere to statute law and the ethics of conduct. The state-owned companies are required to implement good corporate governance consistently and continuously based on the guidelines set by this ministry regulation. The

guidelines lay out five principles of governance: transparency, accountability, responsibility, independence, and fairness.

To implement good governance, the board of director must establish several components, including 1) a manual board, 2) manual risk management, 3) an internal audit, 4) internal control, 5) a potential fraud report mechanism, 6) IT management, and 7) ethics of conduct. By establishing these components and implementing the five principles of governance, the government expects the state-owned companies to be able to achieve the main objectives of: 1) improving company's performance and efficiency, 2) increasing corporate value and lowering the risk of conflicts of interest, 3) improving the investors' trust, 4) improving stakeholder's satisfaction, 5) enhancing the direction and control of work performance, 6) improving responsibility of company's management to the stakeholders, and 7) encouraging and supporting effective business development, resources development, and risk management.

Moreover, with high commitment and consistence to implementing good governance, the company convinces that they can prevent corruption, collusion, and nepotism in the company. The following subchapters describe detailed internal audit transformations to contribute to good governance in order to deter fraud within state-owned companies.

3.2.1.Regulations of Internal audit in state-owned companies

The existence of internal audits at state-owned companies has been transformed into several regulations. Firstly, according to the Indonesian government regulation no. 3 in 1983, state-owned companies must establish an internal audit unit to help the Chief Executive Officer (CEO). The internal audit has functions to evaluate internal control to reduce inefficiency in the company by auditing management, composing audit findings, and making audit recommendations. These audit functions are expected to contribute to the successful management of a company by effectively performing audit and fulfilling the requirements of professional skepticism, high integrity, objectivity, and sufficient competency and experience.

Furthermore, the existence of the internal audit has been strengthened by the statute law regulation of state-owned companies no. 19 of 2003 issued by the President of Indonesia. In this regulation, in addition to the internal audit being directly responsible to the president director,

the board of directors is required to underline the internal audit results and to undertake further actions to follow up the audit results.

The Indonesian government has revamped the prior regulations to develop the existence of internal audits at state-owned companies in the good governance regulation no. 1 of 2011. In this regulation, the internal audit is one of the main components to be established in the state-owned company to contribute to good corporate governance. The internal audit has the main functions of evaluating the effectiveness of internal control, risk management, and corporate governance process. Additionally, internal audit evaluates the effectiveness and efficiency of the company's financial, operational, human resources, information technology, and others.

Potential fraud report mechanism and internal audit are two main factors to build good governance at the state-owned company. Effective internal control and risk management and governance improvement are two objectives to be achieved by the internal audit. According to the IIA (2009), the internal auditors use the appropriate tests to evaluate risks faced by the company based on audit plans. Based on risk evaluation, the internal auditors can identify the signs and possibilities of fraud within a company by detecting symptoms that may accompany fraud. The internal auditors provide a better understanding of the company's internal control system with their continual presence in the company. Thus, specifically, the internal auditors examine and evaluate the adequacy and the effectiveness of internal control to assist fraud deterrence in the company. Regarding fraud deterrence, the internal auditors have the roles to initially or fully investigate suspected fraud, conduct root cause analysis, and make improvement recommendations, monitor reports in the whistleblower hotline, and provide ethics training sessions. To support these assignments, internal audit must have sufficient skills, including knowledge of fraud schemes, investigation techniques, and laws. Internal auditors can conduct proactive auditing to search for misappropriation of assets and information misrepresentation including the use of computer-assisted audit techniques and data mining to detect types of fraud. The board of directors has a responsibility to oversee and monitor management's actions to manage fraud risks. Specifically, the board evaluates the identification of fraud risks, and implementation of anti-fraud measures and the tone at the top. The internal auditors are to assist the board of directors in detecting fraud within corporate governance.

3.2.2.The details of the regulatory reform of internal audit

In regulation no.1, one of the main components to achieve good governance in state-owned companies is the establishment of an internal audit division. Furthermore, to become effective, an internal audit is required to have three main stages, which are described in Table 2.1 below:

Table 2.1. Description of requirements of effective and quality internal audit

Three main parts of effective and quality internal audit	Detailed attributes of three main parts
1. The creation of internal audit charter	1. Approved and decided by the board of directors to consider the commissioners' suggestions 2. Following internal audit professional standard established by the IIA with the International Professional Practices Framework (IPPF) of internal auditing 3. Must consist of at least internal audit position and scope in the company, internal audit authority to access to all company's records, employees, and assets. 4. Regularly checked and updated as needed
2. Internal audit attributes to support successful audit performance	1. Direct responsibility to the president director 2. Direct access to report audit results to the commissioners and audit committee 3. Sufficient number of auditors 4. High level of auditor competency 5. Internal audit guidance, work mechanism, supervision, and assessment of security plan and quality improvement
3. Internal audit performance to achieve audit results with company's value added and operational improvements	1. Annual internal audit plan approved by president director and submitted to the board of commissioners 2. Internal audit assignments and results reported to the board of directors and commissioners 3. Internal audit results to contribute to governance process, risk management, and internal control improvement 4. Internal audit inputs and recommendations on effectiveness and efficiency of the objectives and results of programs, operations, and activities to contribute company' business strategy 5. Monitoring of audit recommendations from both internal and external auditors to be reported to the board of directors and commissioners

Three main parts of effective and quality internal audit	Detailed attributes of three main parts
	6. Implementation of audit recommendations to improve operational activities

Sources: The ministry of state-companies regulation no. 1 in 2011 with the specific articles and explanations of internal audit

According to the regulation, the internal audit charter approved by the board of directors is required firstly before designing an audit plan. The internal audit charter is important for guiding further audit work phases. Following the approval of the charter, the internal audit has official function, authority, and responsibility to conduct audits. The charter enables the internal audit division to access to the company's records, personnel, and assets that are relevant to their audit assignments. Additionally, the contents of the charter conform in responsibilities to follow the internal audit professional standards established by the Institute of Internal Auditors (IIA) with the IPPF of internal auditing. The ministry of state-owned companies refers to the global standards of the IPPF to the internal audit practice in the company.

To perform audits, the internal audit is required to prepare the auditors' requisite plan and workload analysis to support enough auditors. The head of the internal audit must hold recognized certificates such as a Certified Internal Auditor (CIA) and a domestic certificate of Qualified Internal Auditor (QIA). The auditors must have sufficient knowledge and expertise to earn the proper certificates in a certain level of auditors. The internal audit must continuously develop the auditors' expertise by maintaining the professional certificates and engaging auditors in education and training.

Moreover, the head of the internal audit determines the policies and procedures to guide the internal audit activities. The forms and contents of guidance have to be adjusted to fit the organizational structure, size, and complexity of the company's business process. The internal audit is supposed to be reviewed or assessed periodically every five years by the independent assessor to determine whether or not it complies with the internal audit charter, standard, ethics of conduct, and efficiency and effectiveness in order to meet the stakeholders' needs.

The annual audit plan should be designed with risk-based auditing. An audit plan is designed as guidance with the timetable. The audit plan must be approved by the president director before submission to the board of commissioners and the audit committee. The internal audit is required to submit the results of the audit and independent assessment to the board of directors, the commissioners, and the audit committee. The internal audit has to deliver audit recommendations that enhance the governance process, contribution to risk management and internal control in the company, as well as provide inputs about the company's business strategy. The effectiveness of the governance process, risk management, and internal control are expected to contribute to fraud prevention.

The internal audit guidance in regulation no.1 conforms with the IPPF issued by the IIA. Before the issuance of regulation no.1 in 2011, the IIA issued the IPPF standards in 2009 includes attribute and performance standards. The attribute standards cover the purpose, authority, and responsibility formally defined by an internal audit charter (standard 1000), independence and objectivity (1100), proficiency, due professional care and continuing professional development (1200), and quality assurance and improvement program (1300). The internal auditors must possess and enhance their knowledge, skills, and other competencies to perform their works and apply the professional care and skill expected to be reasonably prudent and competent.

There are seven performance standards including planning, executing, reporting, and monitoring audit activities. Standard 2000 regarding managing internal audit activities consists of planning, communication and approval, resources, policies, procedures, coordination, and reporting. Other standards include the nature of audit work of governance, risk, and control (2100), engagement planning (2200), performing the engagement (2300), communication results (2400), monitoring progress (2500), and resolution of senior management' risk acceptance (2600). The head of the internal audit must create the risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. Each engagement is required to include objectives, scope, timing, and resource allocations and must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. Communication results have to include the engagement's objectives and scope as well as applicable conclusions,

recommendations, and action plans. The head of the internal audit must establish and maintain a system to monitor the results that are communicated to management.

3.3. Other audit system surrounding the state-owned companies

In this subchapter of the audit system, we describe other audit institutions that conduct evaluation, audit, and assessment to the state-owned companies.

3.3.1. The Supreme Audit Institution of Indonesia

The supreme audit institution of Indonesia (BPK) was established to audit management and accountability of the state financial according to article 23E term 1 of the 1945 Indonesian Constitution. Furthermore, this article states that the audit results and reports generated by the BPK shall be regularly submitted and presented to the Indonesian parliament in the form of a public hearing regularly. The members of the BPK, are elected and authorized by the Indonesian parliament. Additionally, in statute law no. 15 of 2004 regarding audits of the state responsibility with and management of finances, the BPK is independently mandated to conduct audits of the state-owned companies.

Specific audits of state-owned companies, according to the statute law no. 19 of 2003, the BPK has authority to audit these companies in terms of their finances, performance, and special purposes following established regulations. In the specific regulation no. 15 of 2006, the BPK functions to audit the state's management of finances including state-owned companies. This regulation was issued to strengthen the BPK authorities following statute law no. 15 of 2004 to further regulate the BPK.

3.3.2. The Financial and Development Supervisory Agency

In 1983, based on the President of the Republic of Indonesia decree no. 31, the financial and development supervisory agency (BPKP) was established as an internal auditor of the president to strengthen government accountability and management. The BPKP has to be directly responsible to the president to monitor and control the government budget, government projects, and state-owned companies. They report all audit results to the president either monthly, quarterly, or annually. However, they must be ready to report whenever the president

needs an audit result. They may also submit their audit results early to either the KPK, attorney general, or national police if they have found a high potential fraud during an audit.

The President of Indonesia has already strengthened the roles of the BPKP in assisting the president to control, monitor, and evaluate all government budgets, projects, and state-owned companies by issuing President decree no. 192 in 2014. In this decree, the BPKP have the power to do conduct the above functions, even though the BPK regularly conducts similar audit to the BPKP. However, the BPK and BPKP differ in to whom they are responsible. The BPK submits its audit results to Indonesia's parliament, whereas the BPKP reports their results to the President. Moreover, according to the decree of the secretary of the ministry of state-owned companies of Indonesia no. 16 in 2012, regarding good corporate governance evaluation implementation, the BPKP evaluates and assesses corporate governance in state-owned companies.

3.3.3.The Inspectorate of General of the Ministry

The President of the Republic of Indonesia issued decree no. 7 in 2015 regarding ministry organization in Indonesia. In this regulation, several articles state the duties, functions, and responsibilities of the inspectorate of the general of ministries. The inspectorate enforces internal supervision and is responsible to the minister for evaluating, reviewing, controlling, auditing programs, activities, finances, projects, unit within the ministry to enforce good governance and clean government. They also evaluate several aspects of performance including human resources, finance, inventories, systems and methods, and public services of all vertical offices under the ministry. In specific cases, according to the ministry of state-owned companies' policies, there is no exception for state-owned companies that have been audited by the inspectorate of general if required. The inspectorate of general conducts an operational audit of state-owned companies. Based on the specific area of company business, the state-owned companies are responsible to the specific ministry regarding their activities and performance.

3.3.4.The Certified Public Accountant

According to the statute law no 19 in 2003 regarding state-owned companies, the certified public accountant (CPA) conducts an audit of historical financial statements from state-owned companies when decided by a shareholder's meeting. In the evolution of the CPA, a statute law

no. 5 issued by the President of Indonesia in 2011 regulates the existence of CPA in Indonesia regarding with their rights, obligations, and rules they must follow. One of the articles in this regulation states that the CPA must follow the public accountant audit standard (SPAP) rules, professional ethics conduct, and other regulations authorized by other institutions in Indonesia when providing their assurance and consulting services. Another article explains that if the CPA does not follow all the articles in the regulation, the ministry of finance will follow up any violation of the rules.

Most recently in 2017, there is a specific regulation no. 13 regarding the uses the CPA services and the CPA in the financial service industry, issued by the Financial Service Authority (OJK) of Indonesia. The main points of this regulation state that companies in banking, non-banking finances, and the stock market must hire a CPA with competencies and experience in the industry who is listed in the OJK to audit to the financial statements. Then the audit reports issued by the CPA have to be submitted annually to the OJK, covering the types of audit, the audit opinion, and the audit team. According to regulation no. 29 in 2016 issued by the OJK about annual reports of companies listed in the stock exchange, the listed companies have to submit annual reports audited by the CPA by late April each year.

4. The stakeholders of internal audit in state-owned companies

There are several stakeholders with the authority to address issues relating to internal audit and state-owned companies. These stakeholders include the ministry of state-owned companies, the associations of internal auditors and public accountants, and the company's management.

4.1. The Ministry of State-Owned Companies of Indonesia

The ministry of state-owned companies represents the Indonesian government as the majority shareholders with the ownership of more than 50% of the company's shares. The ministry main duties are to organize, supervise, and control all state-owned companies. The ministry designs and issues policies to improve business development and strategy and strengthen synergy, competitiveness, and performance. The ministry also organizes law and regulations, human resources, finances, IT, and risk management for all state-owned companies. Based on the ministry's functions, if state-owned companies and their internal audit encounter problems, the

ministry is expected to address the issues. To effectively control the companies, the ministry appoints their officials as the members of commissioners at state-owned companies.

4.2. The Institute of Internal Auditors (IIA) of Indonesia

The IIA of Indonesia provides dynamic leadership for the global profession of internal auditing including advocating and promoting the value of internal audit professionals to organizations. Moreover, they provide practitioners and stakeholders professional education and development, research, dissemination, and promotion to enhance their knowledge of internal auditing and its appropriate role in control, risk management, and governance. They also educate the practitioners and other relevant audiences on best practices and bring together internal auditors to share information and experiences. The IIA Indonesia offers a comprehensive certification portfolio for internal auditors to enhance credibility, such as Certified Internal Auditor (CIA), Certified Government Auditing Professional (CGAP), Certified Financial Services Auditor (CFSA), Certification in Control Self-Assessment (CCSA), and Certification in Risk Management Assurance (CRMA) certification.

4.3. The Institute of Public Accountants of Indonesia

In Indonesia, the association of the institute of public accountants of Indonesia (IAPI) has been established to integrate the public accountants. As stated in article 43 of statute law no. 5 of 2011 about public accountants, the IAPI establishes and issues the professional audit standards that have to be followed by the CPAs. The IAPI provides human resources for professionals of accountants with global competency following global standards, public accountant professional standard and ethics of conduct following international standards. They also encourage service quality improvement for public accountants by strengthening the public accountant firms on good governance practice, corruption prevention, and qualitative financial information.

4.4. The state-owned company' management

The relationship between a company's management and its internal audit is strong. The position of an internal audit in the structure of a state-owned company is directly responsible to the president director. However, their position is lower than the board of directors and they are not part of the management. Therefore, the internal audit must report the audit plans, activities, and

results to the board of directors. The board of directors has functions to appoint, manage, and regulate the internal audit. Thus, the trust and support of the board are important to the internal audit. Trust can be gained when the board is convinced that the internal audit results are useful, and that it would be beneficial to follow up to develop the company business process. The support from the board for financial and employee systems is essential for the internal audit to perform their functions.

Chapter 3 Literature Review

In this chapter, we discuss the literatures concerning auditing, internal audits, and corporate governance for fraud prevention. We summarize and analyze the roles of audit in fraud prevention and specifically, internal audit used to deter fraud from the prior literatures. Also, we state the importance of corporate governance as part of internal audit function to reduce fraud. Governance functions are meant to enable public sector institutions to utilize their assets effectively and efficiently. We have used the prior studies to become additional guidelines regarding internal audit and fraud prevention for the analysis in the following chapters.

1. Audit functions and fraud prevention

A Statement of Basic Auditing Concepts (ASOBAC) defines auditing as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users. This definition broadly conveys the basic idea that an audit is an investigative process and sufficiently comprehensive to encompass many different purposes for which an audit might be conducted. This definition also encompasses the variety of subject matter that might be focused on in a specific audit engagement (Silvoso, 1972).

Based on this basic concept, an audit refers to the process of obtaining and evaluating evidence, ascertaining conditions and criteria, and communicating the results. Furthermore, this concept develops to the comprehensive functions of the investigative process to reach different purposes. Thereby, audit functions are conducted for several purposes. One of the purposes is preventing corruption in the public sector of government and public services. The comprehensive investigative process in this concept of an audit is a key factor to be highlighted. Several researchers have conducted studies of audit function to prevent fraud.

There are several studies that show the efficacy of audits to prevent fraud. In the public sector of government, according to Avis et.al. (2017), improving regulatory efficiency through means of an audit to the government is an important part to prevent fraud. They reveal that audit is an integral part of any management system within firms, as well as the governments. Furthermore,

audit provides a tool to identify the improvement of opportunities and risks, measure the performance of production processes, and ensure that individuals and organizations are compliant with regulations. The audit functions are also implemented to monitor projects to reduce corruption of public works (Sohail and Cavil, 2008). Sohail and Cavil (2008) stated the nongovernment organization (NGO) of Concerned Citizens of Abra (a city in the Philippines), for good government, trains community beneficiaries to conduct audits and monitor project implementation to reduce corruption in the construction of public works. This audit is aimed to ensure that project specifications and proper equipment requirements are completed satisfactorily and to monitor that contractors are more likely to ensure that quality standards are met, hence ensuring project longevity.

The comprehensive financial and physical audits are being a specific powerful combination that should be undertaken by audit professionals that are responsible for auditing construction industries (Kenny; 2009). These comprehensive audits are expectedly improving efficiency and outcomes due to lower transaction costs and more informed decision-making. In Brazil (Avis et.al, 2017), there is a monitoring program including public potteries, consisting of random audits of the municipalities of their use of federal funds. The auditors are sent to the municipalities to examine accounts and documents, to inspect the existence and quality of public work construction, and to verify the delivery of public services. These auditors are hired based on a competitive public examination and earn highly competitive salaries. Thus, their incentives for corruption are lower than those of other bureaucrats on the federal level. Moreover, the inspections are conducted by a team to reduce opportunity for fraud among individual auditors.

Additionally, information and communication technologies (ICTs) have been developed to support audit functions. E-government technologies can simplify processes by reducing or eliminating the intervention of the government officials. Strand (2010) observes that ICTs can increase the coordination, dissemination, and administrative capacity of the public sector. They allow the creation of a digital audit trail that holds bureaucrats or the agent become accountable. An automated and decentralized system for the provision of public services takes away control over processes. Thus, it can reduce the potential abuse that an agent can have over certain functions of government. The implementation of e-government initiatives can reduce corruption

because processes have to be reviewed and changed to accommodate automation. These implementations are also expected to be able to detect the bribery that occur in a company (Samuel and Lowen, 2010). For example, the e-government aims to increase the use of technology to improve government efficiency by reducing the discretionary power of government officials as well as provide high incentives to auditors, which can reduce corruption.

2. Corporate governance, internal audit, and fraud prevention

In the specific governance of a company, the world bank highlights the importance of corporate governance because better corporate governance adds value by improving the performance of firms through more efficient management, better asset allocation, better labor policies, and similar efficiency improvements (World Bank, 2005). Corporate governance mainly refers to the responsibility of the board of directors along with systems built to be directed and controlled by the company. However, it clearly states that the board does not work separately which necessitates another party to control and supervise the corporate governance systems.

Internal audit functions the main part of the control and supervision system. An internal audit refers to several functions, such as a permanent review of the economic activity of an entity; an independent assessment on behalf of the economic entity's management that involves examining the financial, accounting, and other kinds of operations concerning the services as a whole; an evaluation of tasks and conformity of the accounting entries, reports, assets, capitals, and results; or an attestation or a certification of financial accounting documents (Boulescu M., 2003). Through the extension of the role of an internal audit, internal auditors have become an essential monitoring mechanism in corporate governance along with external auditors, audit committees, and executive management (Gramling et al. 2004).

The internal auditors can also positively influence the oversight of risk management and internal control processes due to their positions within the company. The aims of corporate governance emphasize the importance of evaluation and improvement of risk management and internal control. Thus, the internal audit is a crucial part of corporate governance (Coram et.al, 2008).

Given that, better corporate governance influences management efficiency, better asset allocation, and better labor policies, it can lead to reduce corruption. However, there is limited

prior literature that investigates the positive impact of corporate governance on fraud prevention. For example, Sullivan (2001) states that corporate governance has become a position of great prominence from countries worldwide to combating corruption. The efforts to improve corporate governance, especially in the cases of transparency in corporate transactions, accounting and auditing procedures, purchasing, and all individual business transactions is a large-scale effort. Improving corporate governance procedures can also improve the management of a firm, especially in areas such as setting company strategy, ensuring that mergers and acquisitions are undertaken for sound business reasons, and that compensation systems reflect performance. Also, it emphasizes that corporate governance systems must include improvements in management systems. In this sense, good corporate governance is a way for the private sector to protect itself from external demands and for the public sector to prevent undue influence in governmental decision making. Thus, corporate governance systems are the main advantage to those countries seeking to fight corruption.

Kotieno (2013) shows that corporate governance is one of the main tools in controlling the supply side of the corruption equation. The mechanisms of corporate governance are the measures that eliminate the possibility of businesses getting involved in corrupt activities. Corporate governance mechanisms include accounting standards, financial market and ownership regulations, disclosure policies, access to information possibilities, and capital inflow control. These mechanisms are key tools in combating corruption. Corporate governance creates a transparent system, where the provision of corrupt payments or gifts is quickly exposed. Increasing number of sophisticated fraudsters create difficult problems for management and auditors (Bunget, 2009).

3. The importance of internal audit for fraud prevention

To further explore prior evidence about fraud deterrence through corporate governance from the perspective of internal auditing, we review several studies that examine and evaluate the importance of internal audit to deter fraud in the organization. Regarding the important roles of internal audit in fraud reduction, Petraşcu (2014) researched the analysis and systematization of literatures and rules governing the activities of internal audit. This was done by using different research methods to compare and present an analogy between internal audit and fraud with the

synthesis to drawing conclusions and offering solutions. This research analyzes that internal audit has a varied-set of responsibilities to support management to establish anti-fraud mechanisms, to assess fraud risks at the organization level and business process, to assess the connections between fraud risks and internal controls, and to support the specialists' efforts in fraud investigation and report to the audit committee. Moreover, during the assessment of fraud risk, an internal audit seeks sufficient and appropriate evidence of fraud and error. Another method used by internal audit in fraud prevention and detection is recognizing the early warning signs of a possible fraud. The important action is the establishment of appropriate internal control system with the responsibility. The internal audit can adapt their work methods and procedures to increase the chances to identify and interpret the signs of fraud (Munteanu Et.al., 2010). Internal auditors with sufficient knowledge established by executives can assess fraud risks and anti-fraud measures independently by identifying the signs of possible fraud, being attentive to the indication of the fraud cases, and investigating the cases.

Coram et.al (2008) assess the importance of internal audit to detect and self-report fraud through misappropriation of assets within organizations. They compared the detected and self-reported level of fraud when internal audit of an organization is conducted either by themselves, outsourced or a combination of the two. They find that the internal audit adds value through improving the control and monitoring the environment within organizations to detect and self-report fraud. Also, organizations that conduct internal audit functions are more likely to detect and self-report fraud than others without such an audit function.

Furthermore, Bailey et al. (2003) examined and evaluated an internal audit of fraud detection. They note that unlike in past responses to corporate scandals, many companies understand the internal audit function as part of the solution to the perceived control, reporting and ethical problems in the corporate sector.

Church et. al (2001) investigates the internal auditors' consideration of fraudulent financial reporting by conducting an analytical procedures task as an explanation for an unexpected difference in operating income. There are specific factors, such as the direction of the differences, the use of a bonus plan, and debt covenants that can affect the internal auditors' consideration of fraudulent financial reporting and may have the potential impacts to design audit plans. This

study finds that internal auditors assign a higher likelihood of fraud when income is higher than expected, and when an earnings-based bonus plan is used, and debt covenants are restrictive.

Regarding how the internal audit practice to reduce fraud, the objective assurance and consulting are independently designed to add value and improve the operations in an organization (Eulerich et al, 2017). Also, Internal audit can bring a systematic and disciplined approach to evaluate and improve effectively risk management, control, and governance processes.

4. The limited implication of the literature to the practice

According to the prior literature, internal auditor functions to conduct audits, evaluations, and assessments to improve good governance, risk management, and internal control of an organization. The good governance implementation in a company can add value to the company with more efficient management, better asset allocation, and labor policies to reduce fraud. Regarding risk and control functions, internal audit has the responsibility to support management to assess fraud risk at the organization level and business process and to make connections between fraud risks and internal controls. By assessing fraud risk, the internal audit seeks sufficient and appropriate evidence of fraud.

Collectively, the prior studies indicate the importance of internal audits on fraud deterrence. The literature has provided the theory and results that internal audit and governance can deter fraud and a theoretical framework of what kind of governance is considered effective. However, prior research is silent on the practical issue of how to increase and maintain the effectiveness of internal audits in state-owned companies, even though, the fact that the practitioners require more practical inputs to be used.

Turning to Indonesia's situation, the framework and standards of internal audit have been regularly updated and developed by the association of internal auditors and the government institution. Regulation no. 1 issued by the Indonesian government over the corporate governance reform in state-owned companies is one of them. Given this background, it is worth discovering the actual practice and the problems faced by the practitioners. Moreover, we have to find the external factors that could leave problems unresolved even after the implementation of this regulation in Indonesia. This is because the discovery of them will provide the inputs for further

discussion about the development of effective internal audits of state-owned companies, which are based on the actual cases. The current study addresses these issues and fills the research gap between the accumulated evidence provided by the literature and the practical inputs required by the parties surrounding internal auditors of Indonesia's state-owned companies.

Chapter 4 Research Design

1. Research procedure

The purpose of this study is to explore how to improve the effectiveness of internal audits in state-owned companies to deter fraud in the public sector in Indonesia. To this end, we examine (1) the extent to which the corporate governance reform is achieved as per the law and (2) the problems and obstacles in the internal audit practice.

We proceed with the research in two stages. First, we identify how internal audit practitioners of state-owned companies and their stakeholders perceive the actual situation and problems and how the stakeholders address those problems. Second, based on these parties' perceptions, we detect the external factors that inhibit the corporate governance function taken by the internal auditors. In other words, we analyze the issues surrounding the internal audits of Indonesian state-owned companies from the perspectives of internal and external factors. We employ these two perspectives because we believe that the factors at the company level (internal factors) and the institutional level (external factors) have prevented corporate governance by state-owned internal auditors from working functionally despite the successive governmental efforts and the stakeholder's countermeasures.

We conduct several interviews to advance these research processes. There are two types of interviewees: one is the internal audit practitioners of representative Indonesian state-owned companies, and the other is stakeholders to those practitioners. We determine the state-owned companies to be interviewed, which are large and representative of their respective industries.

We conduct the interviews consecutively. At first, we limit the interviewees to the internal auditors to clarify their situations and problems of their practice. After we summarize the interview results with the practitioners, we proceed to the next interviews, which are with the stakeholders. Those stakeholders include the Ministry of State-Owned Companies of Indonesia, the Institute of Internal Auditors (IIA) of Indonesia, and the Institute of Public Accountants of Indonesia (IAPI). We employ these consecutive steps to ask the stakeholders questions about the problems faced by the internal audit practitioners, which are discovered in the first stage interviews. As one of the stakeholders, we detect the management of a company with whom we

interviewed in the first stage. This is because we could find the company has a more effective corporate governance system than other state-owned companies through interviews with the internal auditor. We intended to explore the factors that lead the company to achieve good practice by interviewing its corporate executives.

2. The interview details

We determined ten Indonesian state-owned companies to interview. For eight of them, we interviewed the head of internal auditors. In several of the companies, the head has attended the interview session with the senior audit manager. For the two remaining companies, because the head could not be interviewed due to other business commitments, the senior audit managers were represented at the interviews. In one company, the senior manager was supported by a law manager. The industries of the state-owned companies we interviewed include a wide range of industries, including investment and restructuring, technical construction, banking and financing, insurance, housing development, transportation, governmental printing, pharmaceutical, water resources supply and management, and cement manufacturing and supplier. One company in a remote area was interviewed by chat, phone, and email.

Table 4.1 provides the internal audit practitioner interviewees, the date and duration of the interview, and the industry sector of the company. To conduct interviews with the internal audit practitioners, we developed the questions, following the requirements established by regulation no.1 on corporate governance in 2011. The interview questions are three-fold: internal audit attributes, internal audit functions for fraud prevention, and the problems faced by the practitioners. Appendix 1 provides further detail about the questions asked. Although we aim to identify the actual situations and the perceived problems through conducting well-structured interviews, some related further questions were also asked for clarification purposes when necessary.

Regarding the interviews with the stakeholders, we accessed the parties representing the entities, such as in higher positions of the ministry, association, and corporate executives. More specifically, we conducted the group discussion with several officials of the ministry of state-owned companies. We approached the executive director of the IIA of Indonesia and the IAPI

directly. As in the interviews with the internal auditors, we interviewed the entities through chat, phone, and email upon their availability.

Table 4.2 provides the list of the stakeholder interviewees and the date and the duration of the interviews. We developed the interview questions to ask each stakeholder the relevant questions about the internal auditors' problems. For instance, if there is a problem related to the regulation imposed by the authority, it is appropriate to ask the Ministry of State-Owned Companies of Indonesia about their recognition and countermeasures to the problem. We first asked the stakeholders whether they recognize any problems in practice and how they address them. Moreover, we also asked about any issues they face in implementing their countermeasures. As in the interviews with the internal audit practitioners, we conducted structured-interviews and occasionally asked further clarification questions. Appendix 2 provides the detailed questions.

Table 4.1 Interviewees characteristics of internal audit practitioners

Company ^s (Internal Audit Division)	The number of Respondents In Position of Interviewee (n)		Interview Time		Business Sectors ^c
	Head (n)	Senior Audit Manager (n)	Date	Duration (hour: minute: second)	
Company 1 *	1		March 15 th , 2019	00:13:26	Investment and assets restructuring
		1	March 15 th , 2019	00:40:12	
Company 2	1	1	September 23 rd , 2019	00:12:12	Construction examination, monitoring, and evaluation
Company 3	1	-	September 27 th , 2019	00:29:34	Financing and investment
Company 4	1	-	September 30 th , 2019	00:23:35	Indonesia military and police insurance
Company 5	-	1	October 7 th , 2019	00:38:00	Housing development, new establishment, and management
Company 6	1	-	October 10 th , 2019	00:51:21	Air traffic services and navigation
Company 7	1	-	December 30 th , 2019	01:06:32	Governmental Documents' printing and Production
Company 8	1	1	January 14 th , 2020	00:29:06	Pharmaceutical producer and distributor
Company 9	-	2	January 21 st , 2020	00:50:47	Water resource supply and management
Company 10 **	1	-	January 22 nd – 24 th , 2020	Chat, Phone, and Email	Cement manufacturing and supply

^s refers to the sequence of companies (internal audit division) held in the interview session

ⁿ number of the respondents of the heads and senior managers

^c Characteristic of business sector

*There were two separated interviews in which the audit senior manager first to be followed by the head due to their busy time

** The company is located in Gresik, East Java. Due to limited time and cost, the head agreed to take the interviews conducted by phone, chat and email. We communicated several times for several days with the attached explanation and document of interview results

Table 4.2 Interviewees characteristics of stakeholders

Related Entities ^s	The number of Respondents In Position of Interviewee (n)		Interview Time		Institution/Association/Management
	Executive Director or Head (n)	Senior Official or Manager (n)	Date	Duration (hour: minute: second)	
Entity 1 **	1 Head of Inspectorate	3 Senior Officials	January 8 th , 2020	00:54:19	Government Institution – the Ministry of state-owned companies of Indonesia
Entity 2 **	1 Executive Director	- -	September 20 th , 2019	00:10:40	Association of Internal Auditors – The Institute of Internal Auditors (IIA) of Indonesia
			December 19 th , 2019	00:18:27	
Entity 3 **	1 Executive Director	1 Managing partner CPA	January 10 th , 2020	00:34:22	Association of Public Accountants – The institute of Public Accountants (IAPI) of Indonesia ***
Entity 4 **	1 Head of Division	2 Senior Managers	February 10 th – February 12 th , 2020	Chat, phone, and email *	Company C3 Management

^s refers to related entities issuing measures surrounding the internal audit division of state-owned companies

ⁿ number of the respondents of executive director of the association, head of inspectorate general of the ministry and senior officials

* Due to the busy schedules of the management and internal audit division, the company C3 agreed to respond to the interview questions through chat, phone, email after a first discussion. They explained clearly and completely to satisfy the interview questions and results

** All respondents of four-related entities revealed that they represented the institution, association, and management instead of personal views

*** we had several discussions with the managing partner CPA by phone, chat, and talking about the audit systems in Indonesia

Chapter 5 Research Results

1. The regulation of good governance achieved in practice by the internal audits

Before clarifying the problems and obstacles faced by the internal audit at state-owned companies, we briefly explored what the internal audits have done so to adhere to regulation no. 1 of good corporate governance. According to the interview results, all companies have established an internal audit charter as per the first requirement which has been approved by the board of directors and commissioners. The annual audit plan has been designed further to follow the charter before conducting the audit. Most companies have recruited, hired, and developed the auditors' capability as other requirements, even though several companies have encountered the problems of meeting the requirements sufficiently. They have performed various internal audit activities such as audit, evaluation, control, and assessment to contribute to the governance process.

1.1. Internal audit charter

All respondents from the ten companies have an internal audit charter that has been established and approved by the president director and the board of commissioners. Several interviewees underlined the charter as the internal audit division's guidance to work through all audit phases. Based on the review results of internal audit charter of company C4, the charter consists of duties and responsibilities such as; preparing and submitting annual work assignment plan to the president director and audit committee; developing and maintaining company's internal audit guidelines to ensure all processes and advisory performed in accordance with the agreed quality standards; providing feedback to the board of directors related to the process of internal control systems, risk management, application of good corporate governance principles, and compliance with internal regulations and applicable laws; carrying out assignments based on the work plan of internal audit related to the internal audit guidelines, internal audit professional standards and general internal auditors' codes of conduct based on the Indonesia's internal audit profession consortium and the institute of internal auditors; and providing audit recommendations for the company' works improvement, and/or related to the impact of the weaknesses/deficiencies found in the audit assignments.

The charter also states that the internal auditors should conduct their audit with adherence to the internal audit professional standards and ethics established by the IIA of Indonesia. Moreover, the internal auditors have to report the audit results to the board of directors and commissioners. In terms of auditor's competency, there are also requirements that must be fulfilled by the auditors. The internal auditors must also meet the continuous improvement of audit training, knowledge, insights, etc. The charter also clearly states that internal auditors are required to understand good governance principles.

1.2. Internal audit attributes

In accordance with the interview results, nine out of the ten companies support a sufficient financial budget to develop internal auditors' capability. For example, the head of internal audit of C8 explained that when the internal audit designed and proposed the audit program with the budget, they did not have any financial problems to obtain the approval of an annual audit plan. The senior audit manager of C4 explained that the human resources department approved the financial budget when the internal audit division proposed it to develop internal auditors' capability.

Moreover, with financial support, internal audit at several companies continuously develop their professional education to improve their capability. The head of internal audit of C4 explained that the auditors have been sufficiently educated and trained by attending the training to obtain certified auditors, such as CIA and QIA. The head of C8 recognized that they have achieved the maximum amount of audit training required to support their competency. The senior audit manager of C9 also stated that the qualifications and development of internal auditors have met the audit charter standards, such as the minimum requirements of auditors, the basic audit training, development of auditors' level, and basic experience to work in the company to understand the company's business process. The head of C3 revealed that all internal auditors have achieved the minimum requirement of 30 hours of audit training per year.

The internal audits of two companies have been assessed by the IIA of Indonesia and independent assessor. The IIA assessed the implementation of the standards to the internal audit of C3 regarding whether their practices conform to the standards. Regarding another attribute

of assessment of quality improvement, the internal audit of C9 has been assessed by an independent assessor, including evaluation and assessment of the complete guidance, regulations, auditors' qualification in quality and quantity, audit results, performance, and recommendations. The internal audit is committed to be assessed by the independent assessor every three years to improve internal audit quality, transparency, and performance.

1.3. Internal audit performance

Based on the interview results, the internal audits have contributed to the companies' abilities to achieve the main objectives of good governance, improving company's efficiency, lowering the risk of conflict of interest, enhancing control of work performance, responsibility of company's management to the stakeholders, effective management of company's resources and risk as well as prevention of fraud activities. The internal audits conduct an audit, evaluation, assessment, monitoring, and control of the company's resources, finance, activities, program, projects, budget, etc. Before performing the audit, the annual audit plan must be approved by the president director.

1.3.1. Annual audit plan

Following the approval of the internal audit charter by the board of directors and commissioners, all internal audits arrange the audit activities along with the timetable and budget into an annual audit plan as guidance for the year. The annual audit plan has to be approved first by the president director. The approval of the annual audit plan should be annual guidance for the internal audit division to conduct assurance and consulting practices over all divisions, units, and branches in the company. Sometimes the internal audit is needed to revise an annual audit plan to adjust any urgent changes of audit practices or to follow the external audit which conduct audit practices to the company.

1.3.2. Operational and compliance audit

The internal audit in all companies performs the operational and compliance audit to contribute to the company in achieving its objectives. An operational audit's main purpose is to identify and evaluate the company's processes, activities, programs, and internal control to find ineffectiveness and inefficiency. The auditors deliver and advise the audit recommendations

based on their findings of what activities and programs needed to be improved in the future to become more efficient and effective. The compliance audit is a review conducted on the company's adherence to regulatory and policy guidelines. Two heads of internal audit explained the detailed operational and compliance audit.

The head of C7 explained that they conduct an operational audit to perform audit works with the very detailed process at all activities and programs instead of only auditing a unit or division or branch in general. The head further explained that they have changed the prior method of evaluation to become practice for an operational audit. They check more detail on processes, procedures, and other important parts which are crucial to the company's operational and at a higher risk to be fraudulent. For example, they focus on the company's revenues first. They check the detailed processes starting from the sales order, revenues process, authorization, and the certain revenues theories to achieve transparency and accountability of revenue recognition. Later, they focus on other important parts with a high impact on the company such as the company's projects, cash flow of the projects, margin, and financial responsibility.

The internal audit of C9 applies the compliance audit by extending the scope of the audit criteria of the regulations to address current problems in the company, such as using the ministry and association regulations in addition to the internal rules. They have also improvised methodologies to obtain the evidence in the compliance audit by means of sampling interviews, observation, physical checks to the sites, etc. to generate a high quality of compliance and operational audit.

1.3.3.Risk management design

Most internal audits (eight of ten companies) have implemented the risk-based audit plan to replace the unit-based audit. The risk-based internal audit² enables internal auditors to determine which parts should be focused on during the year, in accordance with the level of risk. The annual audit plan can be redesigned to follow the result of the risk-based audit plan. A unit-based means that the company focuses on the units, divisions or branches to be audited

² Risk-based internal auditing (RBIA) is a methodology of an internal audit plan that links to an organization's overall risk management framework. The RBIA allows internal audit to provide assurance to the board that risk management processes are managing risks effectively (Institute of Internal Auditors, 2014).

regularly. The internal audit changed the audit plan to focus on the units, branches, divisions, accounts, parts of the company with a higher risk to be fraudulent and make misstatements. The two remaining companies have not utilized the IT system and instead use a manual system for their audit activities. Specifically, the internal audit of C3 creates the risk control matrix to measure the main risks for every activity to be audited. They established a risk and compliance unit in all divisions that enable to become a forum to represent itself on governance, risk management, and compliance as well as all supporting external and internal audit.

Internal audits of three companies implement risk fraud identification and assessment. The internal audit of C7 identifies the risk profiles to the divisions or units that have the potential risks. They have regular risk identification to strengthen the audit functions of the specific units or divisions. The internal audit of C3 conducts the risk fraud assessment to early mitigate the frauds, errors, and irregularities. The internal audit identifies and assesses the possible risk by itself during the audit works. They have a unit risk and compliance manager to identify and to assess the risk. The internal audit of C8 implement the identified risk by itself to prevent corruption. They identify activities that have a high risk of fraud during the process. These risk identifications are going to become potential fraud.

1.3.4. Monitoring audit and assessment activities

The internal audit of two companies regularly monitor the feedback and assessment results. The internal audit of C10 regularly monitors the results of corporate governance assessment conducted by the independent assessor. The assessor requests the internal audit to monitor the specific implementation of the governance assessment and whether the company follows each requirement. The president director is also involved in the monitoring of governance results with the internal audit. The internal audit has been positioned as the third line of defense to ensure that the governance implementation complies with the established design or not. Then, the results are reported to the president director and the audit committee.

The internal audit of C4 focuses on monitoring the feedback of the internal audit results from the auditees consulting activities for corporate governance improvement. Also, if other

divisions have important problems with their activities that need to be addressed, the internal audit provides their consulting activities to them.

1.3.5. Internal control evaluation

The internal audit in all state-owned companies regularly evaluate the implementation of the internal control system in all functions and activities. The head of internal audit of C7 considers the standard operation procedures (SOP) as an important part of internal control design, though they sometimes have weaknesses that lead to problems in the company. The SOP³ consists of the flow of documents with the proper authorization and right processes to be filed and controlled. One of the internal audit's functions is to evaluate internal control by addressing the weaknesses of SOP to prevent fraud.

1.3.6. Investigative audit

An investigative audit is an audit that gathers facts and evidence accepted by the law and regulations in order to disclose fraud cases to be followed up with legal action. The internal audit also practices an investigative audit when an audit finds potential fraud and based on alleged fraud information received from the public, employees, etc.

The internal audit of two companies conducted an investigative audit. The senior audit manager of C2 revealed that the internal audit has an important role to deter fraud in the company. This manager described that the internal audit performed an investigative audit to handle three cases of potential fraud in several branches in 2019. These assignments were requested by the board of directors. The internal audit of C9 conducted an investigative audit based on audit findings of potential fraud. The further investigative audit on the audit findings followed a decision from the president director. After obtaining the assignment from the director, the internal audit performed the investigative audit to develop the audit findings.

1.3.7. Monitoring the whistle blower system (WBS)

³ Standard operation procedures (SOPs) refer to a set of written instructions that document a routine or repetitive activity followed by an organization. SOPs are documents which increase performance of the determined process, so helping coming into being processes which increase quality (Bodur, 2017).

All ten companies provide a Whistle Blowing Systems (WBS) hotline to the public, employees, officials, etc. to report any alleged fraud, bribery, collusion, etc. in the company. The head of internal audit of C8 explained that the internal audit has attempted to advertise the WBS program to all officials, employees, and the public. The internal audit of C9 utilizes the WBS to design the audit plan for the next period. They report the information from the WBS to the board of directors. The board further requests the internal audit to follow the WBS information. The execution of the WBS information is performed by the internal audit to involve other divisions. There is a team formed by the board of directors and headed by the head of internal audit division, to check the sources and the reliability of the WBS information from both internal and external sources. After checking and reviewing the information and deciding that the information is clear and reliable, the internal audit conducts an investigative audit. The results of an investigative audit are submitted to the president director.

In adherence to regulation no. 1 regarding good corporate governance, the internal audits have reached the minimum requirements to become effective internal audit, including creation of internal audit charter, attributes, and performance. All internal audits established the internal audit charter that is followed by the internal audit to design an annual audit plan. Most internal audits are supported with sufficient finances. Several internal audits have continuously developed the auditors' capability to reach the minimum requirements. Most internal audits have performed operational and compliance audits as well as internal control evaluation to contribute to company's value and make operations more effective and efficient. Several internal audits have applied investigative audits to detect and combat fraud.

2. The problems faced by the internal audit practitioners of the state-owned companies

Beyond an internal audit establishment, the internal auditors have been conducting their activities according to regulations. The internal audit in every company has developed many essential ways to improve their roles in governance and fraud deterrence. However, based on the interviews, the internal audit in several companies could not effectively perform their functions. Thus, fraud cases have been still high. Consolidating the results of the interviews, we find that state-owned companies in Indonesia are faced with five major problems. The following sections describe these five problems in detail.

2.1. The structural issues in the internal audit

We found there are several structural issues in the internal audit at state-owned companies that lower the quality of audit functions, such as policies regarding employee turnover, salary and the employee system.

2.1.1. Employee turnover policies

The internal audits in several companies have faced a high turnover of the auditor's staff that hindered the improvement of auditor capability, particularly with regards to enriching auditors' training and experience. The company's management suddenly moved the head and auditor's staffs in and out within a period of fewer than 3 years. They considered that a minimum of three years of experience in the internal audit division is quite sufficient for the head and staff to reach the proper capability. This difficult situation the turnover is often faced by most companies when audit staffs have reached sufficient level of training and education. Although the head of internal auditor has built the auditors' capability in the internal audit division by providing more education, training, workshops, seminars, auditor certificates both domestically and internationally, the audit staffs have suddenly been removed by the management to become a better position in the branch outside headquarter. The management policies are so strict that this cannot be discussed and the internal auditors are not informed before the fact. The internal auditors are unable to enrich their greater audit experience to continuing their work in the internal audit division. The senior audit manager of C5 determined that the high turnover of internal auditors has affected the development of auditor competency in the statements below:

“I think this weakness occurs in other most state-owned companies of Indonesia if the auditor staffs have reached out the sufficient education and experience in the division within 3 years, but suddenly they move out to the operational division as the management policies. Then we receive the new staffs with less experience that they have to learn again.”

The head of internal audit of company C6 also expressed a similar thought regarding turnover of internal auditors being a problem that hinders the capability improvement, below

“I have the education and training plan for the auditors. I have successfully educated them by providing training and experience. But no more than one year, suddenly the directorate needs

them to contribute for them. I could not avoid this situation”. I am thinking that the internal audit at this company could not become more advanced part to contribute to the company in the future”.

These issues have mainly been encountered in C5 and C6 with branches and divisions over Indonesia. These companies provide career opportunities for employees in the branches and divisions that are not available to the internal audit division. The internal auditors have to be moved into a branch or division for better career. Thus, turnover is necessary for auditors to attain a better career in the company. These turnover policies have become a dilemma for an internal audit head to continuously develop the auditors’ competency. Competency development may become worthless to the auditors.

2.1.2. Salary and employee system

The interviewees argued that the career level and rewards from the internal audit position are not sufficient to detain the auditors from move to the branch and division with a better position. The auditors need better salaries and the certainty of a higher-level career in the company. However, the internal audit division does not provide sufficient salary to support them. This situation has caused the auditors to intentionally move to the division or branch for better positions. They become less impressed by working continuously in the internal audit division. The head of internal audit of C6 revealed the situation in the comments below:

“Literary in this company, implement the official certificate such as the aviation security officials, if they have an aviation security license, they can obtain a licensed benefit. There are basic, advanced on the benefit or allowance. There will be rupiahs (denomination). I am going to formulate such this license benefit to the auditors with its certification. If they have a certain certificate, the benefit would be risen up. For example, if the staff is being a team leader, they would be different. They need supports from the human resource development division to realize it. Right here, we only consider the structural level of the salary. Thus, they do not work optimally.”

Additionally, the head of internal audit of company C8 supports the head of company C6 regarding better career opportunities in operational units than as an internal auditor in the statement below:

“I think the prospective career and level in the operational units is more impressive in the future than in the internal audit division”.

Furthermore, the head of internal audit of C6 has made effort to propose better career and salary systems to maintain auditors’ retention in the statement below:

“I have proposed to the management that I right here want all auditors to become a functional staff with the particular benefit and level of salary, so, they are going to be comfortable. But this proposal has not been realized yet at all”.

Based on the general structure of the internal audit division at state-owned companies, there is no clear position of auditor levels. The auditors may be uncertain about their future career. The auditors have no chance to obtain a higher position within an internal audit division. If they want to reach a higher position within the company, they need to be promoted into a division or branch with a wide range of positions.

2.2. The lack of auditors’ capability

Most interviewees clearly expressed that they have areas of weaknesses regarding auditors’ competency in terms of quality, quantity, and audit certificate.

2.2.1. Audit expertise and experience

Company C6 has more auditors with technical capabilities than audit expertise. The board of directors prefers to hire internal auditors with technical ability rather than audit ability. The head of internal audit must build and improve their capability as they lack audit capability as commented below:

“The problem right here, the most auditors have the capability in technical of business process, instead of dedicated auditor areas. They come from the technical unit. So, we have educated and supervised them, but unfortunately, when the technical directors need auditors to work for them, they took them out from the internal audit division”.

Furthermore, the senior audit manager of company C2 also supported the statement from C6 that revealed similar obstacles in audit expertise, as stated below:

“..... We back to the other obstacles in auditor quality and experiences, even though they have high skilled in technical works such as technical survey, inspection service, law, finance, and IT. They do understand a lot of technical skills. However, they need to improve the ability in audit process”.

In contrast, company C8 has more auditors with accounting and auditing backgrounds than the operational or technical backgrounds. As result, the auditors have difficulty to understand the operations and activities of the business. The head of internal audit underlined that it is very important for auditors to have operational and technical capability as revealed below:

“Most auditors have an educational background in accounting but they have a lack of experience in technical capability. I am hoping that there will be several auditors who have expertise and experience in operations of the company’s business, so they could have understood the company’s operational technically.”

In one company, due to a lack of prior technical and operational experience, the auditors have difficulties when conducting audit. There is a company that spends time and money to improve the auditors’ expertise without the prior background in audit and accounting.

2.2.2. Audit certificate

Limitations regarding audit certificates have been faced by most respondents. In most companies, at least one or two auditors hold QIA (qualified internal auditor) or PIA (professional internal auditor) certificates, which are domestic internal audit certificates. However, it is difficult to obtain international audit certificates such as the Certified Internal Auditor (CIA), the Certified Fraud Examiner (CFE), and Certified Information Systems Auditor (CISA). Based on the interview results, there are only two of ten head of internal audits holding a CIA. The head of internal audit is required to have a CIA according to the ministry regulation. They have difficulties passing the CIA examination as the head of C8 states below.

“as the head of internal audit, I still don’t have the CIA yet. But I have a QIA or domestic certificate. The CIA schedules are tough to manage to the audit schedule over here. I think the questions are very difficult, that’s so many theoretical questions. Also, that’s much memorizing. If we have little mistakes, we are going to take all the mistakes”.

The head of the internal audit of C4 also does not hold a CIA. Even though he and his staff have struggled to pursue the CIA, they still have not passed the CIA exam.

“We, I and auditor staffs, all have struggled to attend the professional education and training of CIA, while we have struggled on our work pressure..... we all attended the CIA examination but no one of us passed the exam. We recognized that is difficult to pass. That is part of our learning. The important thing is our commitment to the board of directors to pursue the CIA”.

Additionally, the head of C4 revealed that due to most auditors not qualifying for a certain level of certificate, they could not design the audit program properly. They first need to learn the best practices and a basic knowledge of audit functions. He also realized that the audit theories sometimes would not be applied properly in the audit practice according to the statement below:

“However, my audit staff still do not have a certain level of audit certificate. They should need to learn the best practices to strengthen the basic knowledge of audit functions first. They still do not understand well to design the proper audit program. The understanding of proper audit theories does not make sure similar ways to the practice.”

The senior audit manager of C2 also determined that most auditors in the company have not met the high qualification to be an auditor. They certainly needed to improve their capability by education and training with the auditor level system. As result, they are still not yet able to improve corporate governance, as he stated below:

“as long I have been knowing through now, I think the audit staffs in internal audit division still are not qualifying yet as an auditor so they need to improve education and training, then there is a level system of auditor training. The audit procedures are still not able yet. Thus, their roles to improve the corporate governance of accountability and transparency are still in the process to reach out the improvement of audit function on governance.”

In company C10, there are only two of ten auditors holding either a QIA or PIA. This is not sufficient to meet the requirements of auditor competency that an auditor has to hold at least either a PIA or QIA. The head of internal audit commented on this below:

“To cope the gap (there are only two audit staffs having either PIA or QIA of 10 auditors), team leader usually assists and supervises to the auditors during audit works to keep the right steps on audit objectives. Also, we have no auditor holding an international audit certificate in fraud such as CFE and CCFA (Certified Corporate Forensic Auditor). However, the company provides and supports auditors to adhere to fraud audit training.”

The incomplete fulfillment of the required audit certificates has been a big issue for most respondents because it affects their ability to contribute to governance improvement, proper audit program design, understanding of audit implementation in practice, etc.

2.2.3. Auditors' quantity

Several companies have faced a limited number of auditors. Most auditors do not have enough time to improve their audit techniques to follow the IIA standards updates. They have spent all their time on the audit, evaluation, and assessment. As result, they could not generate good quality of audit recommendations. The senior audit manager of C5 expressed this in the statement below:

“..... in the field of audit, we think that we do need to finish audit work so fast. We have an obstacle of the personnel. There are only 7 staffs including auditor staff and managers to cover a lot of branches over all provinces in Indonesia. We could only cover one week for one project. That's too much and not effective. We only know the clues of the potential fraud. If there is potential fraud, we develop to conduct a special audit or investigative audit. Thus, it's hard to make improvisation on audit functions”.

He considers that the internal audit has achieved only about 75% in terms of quality and quantity following the basic requirements in the IIA standard. They only have six auditors to conduct all audit, evaluation, and assessment for all divisions and branches over Indonesia. They are only provided one week maximum to audit each division or branch. They realized that internal auditors could not effectively explore additional evidence or audit findings to improve corporate

governance and corruption prevention. They could not perform deep audit. The senior audit manager of C5 further commented below:

“We have main obstacles in auditor quantity. Actually, there are only three auditor staffs and four senior managers to cover many branches over Indonesia. There is a branch in every province. So, we only provide one week to audit one project or one branch. We could not work optimally to be able to obtain a lot of audit results. In contrast, we only know the clues to be potential of fraud. The external auditor takes fifty days to perform an audit in one branch”.

The head of internal audit of C7 explained that before the board of directors appointed him as head, there were only three auditors including a head who covered nine branches across Indonesia. The auditors have met sufficient requirements to conduct audit. But they could not effectively audit, evaluate, and assess all branches and divisions.

“There are four staffs of internal auditors and administrative. We previously had only two auditors. There are nine active branches over Indonesia. They meet the sufficient requirement in education and experience.... I inquired to the president director to imply sampling on five branches. I could not cover all of those. It’s hard to cover nine branches with only four auditors. I explained if we are using sampling to evaluate in the branches. We convinced that is not possible to audit one branch within one week”.

Several companies have faced a limited number of audit personnel to cover many branches and divisions. This situation affects the internal auditors’ ability to generate proper audit results.

2.3. Lack of IT capability and implementation

Several companies have implemented an IT system for their audit. However, we found that one big company has not yet integrated all of their reports and performance with the IT system. Instead, they still use the manual system for the company’s transactions. This situation has impacted internal audit works as the auditors have difficulties regularly evaluating the company’s business process. They have to be more careful when checking reports due to the manual system’s inefficiency. The senior audit manager of C5 expressed this:

“... We have tried to improve the audit work continuously. But there is one obstacle in the administration stuff which is not reliably computerized yet for recording transactions. Actually, we have an IT implementation of ERP, but that is still trial and error. The manual transactions have the weaknesses, so the auditors have to be prudent to detect the fraud”.

Moreover, several companies have designed the IT system for the WBS (whistle blower system) to report any potential fraud in company. However, the system is not used properly. It does not indicate that there is no fraud in the company. The head of internal audit of C6 recognized that the WBS does not meet expectations in the statements below:

“Actually, there is a fraud deterrence. We have the (WBS) with the mechanism of how to use the system. But, unfortunately, there is no employee, official, external party to report fraud, allegation fraud in the WBS. So, I would recognize the system does not work well.”

Another head of internal audit of C8 expressed a similar opinion, stating that the WBS could not work effectively to reduce the fraud in the company. The first time that the WBS was launched, the system received a lot of alleged fraud reports. But unfortunately, there are no current reports, as stated by the head below:

“At the time when the WBS was launched to the public, there were a lot of reports. But right now, there is no report. Actually, most employees do not prefer to use the system. Instead, they direct report the potential fraud to the units. Basically, if we obtain the report from WBS, we follow up very soon directly to the site incorporated with the operational and law division. We do not work on the report by ourselves. We do work with the operational and legal division to resolve the report. However, there is a punishment if the alleged employee does not pay such a penalty fee, they are going to get into the custody then.”

The internal audit is a key part in processing the WBS reports by conducting an investigative audit or reviewing the contents and reporting them to the board of directors. However, the WBS is not useful if all parts of the company do not take advantage of this system to report any potential fraud. Also, the WBS does not effectively prevent fraud if there is no further action from the internal audit to follow up with the reports.

2.4. Lower quality of audit recommendation

We obtained evidence from interviewees that the audit recommendations have not satisfied the head of internal auditor. The auditors have not significantly improved good governance and fraud prevention. They did not evaluate all activities and programs in depth, as the head of company C6 stated the comments below:

“... we here only recognize the structural functions between head and staffs in the employee system. They could not optimally work on audit functions. This is the situation which I am facing now. ...I wanted to seek the audit findings quality, instead of the number of findings. I looked at the number of audit findings. There are a lot of findings but the recommendations are not good in quality..... auditors do only take the cover of problems and I think the audit reports did not meet my expectation. The most audit recommendations are only the administration stuff and that's only regular audit work to meet an audit plan”.

“... now I would like to inquire auditors to become more structured to prefer to focus on governance, compliance, and risk control than finding administrative things. I required them to explore such audit findings instead of seeking other unnecessary things. Moreover, I would ask the audit senior manager to become the audit quality assurance, instead of only becoming the audit leader”.

The head of C7 stated that in the previous period, the internal auditors just emphasized the flow and authorization of standard operation procedures (SOPs) instead of improving the weaknesses of the SOP during audits. The auditors should not only focus on the activities and functions of the unit, but they should also change the audit process to conduct a risk-based audit, as the head mentioned in the statements below:

“Even though we cannot say that now we have the effective functions of the audit result. However, for now, we just have transformed into a new pattern. The auditors right here had more focused on the branch or unit-based with the sampling audit. Thus, the audit recommendations could not convince the board of directors. Now they have changed to preferably focusing on the functional and such activity of production, focus on production to extend to marketing activities then, etc. with the risk-based audit, thus we highly hoped to

begin the last quarter of 2019 to become more effective functions and roles to the board rather than a previous period”.

There is also a company in which the lower quality of audit recommendations did not convince the board of directors. Consequently, they cannot contribute to governance improvement and fraud prevention by providing low-quality audit findings.

2.5. The low trust from the board of directors

Several companies have faced low trust from the board of directors. The board may consider the internal audit as a party that only finds problems. The board does not seem to fully believe in the internal audit because the audit recommendations are not yet fully implemented by them. The head of internal audit of C6 explained how he has struggled to convince the board to trust internal audit and develop a good relationship. Thus, the board finally does believe in the audit results, as described in the statements below.

“I talked ever to the president director. The president positioned the internal audit which has functions only to find the company’s problems. Then, the internal audit informs the problems to the president director. If we want to meet the president director, the president said what the other problems you found and brought to me.... finally, now the president director started to have trust in internal audit. I have to obtain the president's trust. Trust is really important. The president director could not cover all works’ areas. Trust is the key. If the relationship with the board of directors is good, there would be the maximum of audit result”.

The head of C7 shared their experience with altering the board of directors’ mindset to gain their trust. The directors had the mindset that if there are findings gathered by the internal audit, the directors think that they are not a good leader. The head has successfully convinced them that the internal audit must perform its functions well to be able to find any problems, mistakes, and potential fraud in the company to help them to control all company activities. Even though they took much time to be convinced, the board has finally begun to act on recommendations suggested by internal audit.

“I just successfully convinced the president director. The president director has the mindset that when the findings have been found by the internal audit, that means that we have the

mistakes and bad performance. So, I convinced him to say that the findings have to be found by the internal audit. You need to follow the audit recommendation. Or you will have another situation that we did not disclose the finding to you. Then the external auditor found the findings and they assume our company with the weak internal control. Well, there was the situation that the president director had the wrong mindset so the internal audit was difficult to develop the functions.”

The senior audit manager of C2 stated that the board of directors does not financially support the internal audit adequately. The limited financial support has influenced the audit process and there is still room to be improved in the future to achieve good results, as commented below.

“We have been positioning as the main roles to the president director for corporate governance. However, we have a lack of financial support with the limitation in financial. We have to cover all branches and units or divisions with limited financial support from the management. We need to allocate the financial budget to all branches... it’s not possible to use the budget to reach the ideal works. The audit processes still have to be improved.”

Sufficient trust from the board of directors is very important. If the trust is achieved, the audit recommendations can be followed up by the board. The internal audit can maximize their performance to deliver good quality of audit results. Also, the internal audit will be supported by the board to improve the auditors’ capability.

3. The countermeasures taken by the stakeholders to address the problems

At the interview, we also asked about countermeasures taken by the stakeholders to address internal audit problems. The Indonesian ministry of state-owned companies issued and implemented regulations and policies related to the audit systems and internal auditors’ capability. The IIA of Indonesia has the duties and functions to organize internal auditors’ competency improvement and quality of audit recommendations. The IAPI has the duties and functions to organize and regulate the CPA as an external auditor for state-owned companies. In this sub-chapter, we explain the countermeasures being taken by each stakeholder.

3.1. The Ministry of State-Owned Companies of Indonesia

Since 2011, regulations of internal audit have been improved. The board of commissioners has the authority to appoint and disband the head and staff of the internal audit division to improve the internal auditors' quality. Then, the commissioners have access to the internal audit reports. As part of a control system, with this access, they can control the effectiveness and quality of internal audit. In contrast, the prior regulation mentioned that if the commissioners need access to obtain the audit reports, they must acquire a permit from the board of directors. Also, the head of internal audit is required by the regulation to hold a CIA to obtain a high quality of internal audit. A sufficient number of auditors with high competency in education and experience is another requirement.

The ministry has proposed that the quality assurance regulations should be implemented in the internal audit. The internal audit should be assessed by the independent external auditor such as PwC, KPMG, etc. Another assessment can be done among state-owned companies. Specifically, an internal audit of a state-owned company with a good practice may evaluate another company. Therefore, a state-owned company can gain new knowledge, insights, and additional expertise and experience. The random method can be applied to choose which company will assess the other company as long they have a good practice of internal audit. Nevertheless, the ministry has not yet completed this process to become a regulation. The ministry suggests to the state-owned companies to implement an independent assessment or inter-assessment.

3.2. The Institute of Internal Auditors (IIA) of Indonesia

Regarding the low quality of internal audit recommendations, the IIA provides the framework for the internal audit in all industries to achieve their goals. The IIA publicly delivers the framework to the internal audit practitioners in all industries in Indonesia. As long as the practitioners have adhered closely to the IIA, they should understand how the framework helps to improve work. The frameworks include the auditor competency requirements, how the audit process should be conducted by the internal auditor, and ethics of conduct. If the internal auditor understands the framework delivered by the IIA, they should not have problems in their audit practice. The IIA considers the basic keys for improvement of internal audit capability that are how they design an audit plan to improve competency and adopt the IIA frameworks. The IIA also advises internal

audit design plan to support their capability improvement. This advocacy has been done by the IIA to help them improve.

In the IIA of Indonesia, there are two approaches to auditors' competency improvement which are audit training both by the state-owned company and the IIA office. The internal audit can also choose which payment scheme the IIA offers. For example, if the internal audit does not have a sufficient budget to send out their officials to attend the audit training provided by the IIA, the internal auditor can receive free payment for the training. The IIA strongly encourages the internal auditors to improve their capability, even if they do not have the sufficient budget to do so. The IIA considers that by attending audit training with other internal auditors in different areas and sectors, the auditors can gain advantages when sharing their experiences with others. This is also a main objective that the IIA intends to reach as an output of the training. The IIA has scheduled forum and conference to support the sharing of experiences among internal auditors.

The IIA evaluation of internal auditors is mandatory. An evaluation will depend on the frequency of the interaction between the internal auditors with the IIA. If the internal auditor has enough CIA, QIA, and other certificates that need to be maintained, they will interact with the IIA more frequently than others. The IIA also conducts quality assurance assistance with the internal audit practice to improve their quality. The IIA has advocated for the internal audits of state-owned companies if they have difficulties with their audit practice.

Sometimes the IIA supports the internal auditors for free if they need to improve their competency in IT. For example, there are data analytics and risk-based preparation of annual audit plan programs provided by the IT company. They promote their IT audit products to internal auditors. If the internal auditors are going to implement such an IT tool, the IIA provides IT audit training on how to audit the IT company instead of how to use the IT tools for audits. Finally, the IIA strongly advises internal audit practitioners of the institutions and organizations to come to their office if they have difficulties in auditors' competency and audit result quality. Also, when the internal audits invite an IIA speaker to state-owned companies for a conference or forum for the improvement of auditor capability, the IIA supports the difficulties and problems that need to be resolved in the internal audit.

3.3. The Institute of Public Accountants of Indonesia (IAPI)

The IAPI regulates the members of the CPA in Indonesia who conduct audit on state-owned companies. The IAPI is also concerned with good governance and fraud prevention because the internal audit of state-owned companies has those as their main objectives. The IAPI, as an association of public accountants, focuses on the supervision, development, education, and regulation enforcement of the CPA firms, and works to implement good governance and public trust. However, the satisfaction of the CPA audit and assessment results depends on the stakeholder's evaluation. Moreover, the IAPI regulates CPA firms around Indonesia to make sure they follow the professional standards determined by the public accountant professional standards boards. There are two standard boards as the second was newly established at the end of 2017 to fully conform with international standards. Another board decides the local professional audit standards that are not regulated by international standards such as professional audit standards for sharia accounting, investigative audit, etc. Thus, the board establishes the professional standards if there is no standard for investigative audit. Also, the board adopts the audit standards that have been used by the other audit institutions. That means that this regulation could avoid the bias resulting from the duplication of works between the CPAs and the internal audit.

The IAPI issues the professional regulation to the members regarding what they must do during audit in terms of the ethics of conduct, integrity, etc., particularly when they audit state-owned companies. The ethics of conduct and integrity are always communicated to the internal audit division when the CPAs audit state-owned companies. The internal audit controls how the CPAs behave during the audit to comply with the ethics of conduct and integrity established by the professional standards board. The standards also regulate the relationship between the CPAs and the clients included in the ethics of conduct. The standards aimed to help prevent corruption in the company have been completely regulated by the board and can be easily accessed by the public.

The associations of the IIA of Indonesia and the IAPI have limited capabilities and authority to issue the regulations and implement their functions and activities.

Despite the IIA of Indonesia publicly delivering the framework for internal audit practitioners in all industries in Indonesia, the IIA is unable to assist all internal audits for an audit quality assurance. They have such a plan for the future, hoping to be able to cover all internal auditors. The IIA emphasizes that internal auditors should have awareness of professional capability. They can not only be assessed and evaluated regularly by the IIA, but also by other institutions. Thus, the internal audit can reach good quality of audit results without quality assurance by the IIA. The IIA made the statements below.

“Internal auditors’ evaluation is mandatory as we read the standards. We are still pursuing quality assurance. If the internal auditors hold the CIA, they are a close relationship with us. Actually, we have many members that they often interact with us. Thus, we encourage quality assurance. We help, assist, advise them. But we have a limitation to cover all of them. That’s our plan. However, basically, the need for self-evaluation is mandatory to the internal auditor. They have to know about that.”

In the same situation, the IAPI recognizes that is difficult to control all the CPAs' audits, particularly the ethics of conduct. Due to limited capabilities, the IAPI usually encourages the members of CPAs to attend continuous professional education about ethics of conduct. The IAPI works with government institutions such as the BPK, the ministry of finance, and the OJK to educate and control the ethics of conduct of the CPAs to minimize fraud during audits. The IAPI made the statements below.

“Actually, there are completely ethics of conduct and the professional audit standards. But the practice is difficult. The supervisory of the CPAs are conducted by the internal parts when the audit process and audit report come up. We can’t control when they are conducting the audit process. Thus, we do coach CPA members by providing professional education continuously. Every month, we ask the members to attend the professional education on ethics of conduct. That is a regular meeting. We have incorporated with the Indonesia regulators on professional education such as the ministry of finance, Bank of Indonesia, the OJK, and the BPK”.

The IAPI also has a limited number of team members to review audit report quality. There is a board of quality that reviews the quality of audit reports. However, they have too much work to review. Thus, they could not cover all of those responsibilities. They have worked with the ministry of finance to supervise the review process.

“We have the board of quality review to do review the quality of audit report per entity working on audit activities. That’s too much work, so we have incorporated it with the ministry of finance to process the review. We think this supervision is very effective. But we still have a lack of the number of team members. The ministry helps us a lot of things. The questions come up when the company has completed the financial statement. But just in case, when the company has to be restated financial statement after obtaining an audit result. Then there is a situation whether the management takes further measures for evaluation or not, that’s going to be management responsibility instead of auditor responsibility.”

The IAPI has limited authority to regulate the CPAs audits. The CPAs are required to conduct additional operational and compliance audits in addition to a financial audit. The IAPI thinks that these audits are the same as an internal audit for state-owned companies. The IAPI and CPAs do not have the authority to reject both audit types to the state-owned companies due to the regulation’s requirements. Even though there will likely be different results between the CPAs and the state-owned company’ internal audit, this situation will probably generate similar audit results. The IAPI expressed the statements below.

“Other than a financial audit, we do conduct compliance and operational audit. But this is a requirement from the Supreme Audit Institution (BPK) when the CPAs perform these audit works assigned by the BPK. Regarding the operational and compliance audit worked by the CPAs, the CPAs may have generated similar audit results with the internal audit. But the results are going to be different. The audit result from the internal audit is going to be complemented by the CPAs or the BPK result. The internal audit is not part of independent parties in the company. The internal audit works can be audited again by the CPAs or the BPK that may generate the different or the similar audit result”.

The Associations are still working on the big plan to cover all members to enhance effectiveness and quality of the audit system. They need the ministries and government institutions to issue the regulations and policies to address their limited capability and authority.

4. The external factors that prevent the internal audit from resolving the problems

After digesting and observing the interview results from the internal audits of state-owned companies and the stakeholders, we detected some evidence of important obstacles that prevent the internal audit problems from being resolved. The obstacles are divided into two parts. The first part is obstacles that prevent effective internal audits at state-owned companies. The second part is those that prevent the stakeholders' countermeasures from working.

4.1. External factors that prevent effective internal audits

The interviewees of internal audit practitioners expressed that there are two important obstacles to prevent the internal auditors from achieving effective and quality functions as we describe in the following subchapters. The two obstacles include the complicated regulations of the Indonesian audit system and low enforcement of these regulations and policies.

4.1.1. The complicated regulations of the Indonesian audit system

According to audit systems in state-owned companies, there are several external audit institutions who conduct audit, evaluation, and assessment. In several companies, the audit institutions sometimes come over the companies over a certain period of time to conduct similar audit to an internal audit. Consequently, the internal audit divisions are usually assigned to become a counterpart to those institutions. In one company C7, these situations have disturbed the internal audit with additional works, because they must follow the annual audit plan at the same time. The head of internal audit expressed the statements below.

"That was an obstacle in our audit works in December. We had external auditors at the time. The supreme audit institution (BPK) came down to do audit work. The CPA also planned to do audit activities. All of those came at the same time to spread so many company's data to them. That's very complicated that we, internal auditors have to collect all company's data as needed by external auditors. We want a better situation that we are not only being a counter-part, but we need also other parts such as accounting, risk management. Even though they are very

busy with their activities as well, but they should help us to handle the external auditors... we work on our audit activities regularly and being counter-part at the same time. We highly struggled to pursue the deadlines to become a counter-part in December.”

Additionally, the head also expressed below that the similar audit conducted by the other audit institutions have destroyed the trust from the board of directors in the internal audit, as they would prefer to first look at the audit results from other audit institutions.

“... When the audit findings have been found by the internal audit, the president director was not sure about that. it should be followed up by the management, even though, the audit committee has known the findings as well the board of commissioners. Similar findings have been found by the external auditors, then the board of directors believes that the internal controls are weak.... Thus, the internal audit is difficult to be developed on its functions.”

In another company C4, at the same period, there are several audit institutions that perform audits every year such as the inspectorate of general of the ministry, the BPK, the CPA, and the audit committee. Additionally, another institution comes in as an independent assessor on good governance. There is a lack of coordinated timetables and schedules as other audit institutions suddenly perform audits and assessments suddenly. These situations reduce the auditors’ capabilities. They could not handle the scope of all their audit works due to their limited number of auditors as they have to spend so much time becoming the counterpart. The head of internal audit revealed the statements below.

“The obstacles occur as there is usually not a sufficient number of auditor staffs. Suddenly we have a lot of dynamic situations, such as general internal activities and external auditors’ works. Thus, we have to be a counterpart of the external auditors. The external schedules were at the same time as our audit schedules. That was a very tough time when we had several external audit institutions coming down to do audit works at the same time. Even though we could resolve this situation but we highly struggled to manage the schedules”.

“.. we also have to struggle in the limited time to work so many things started from obtaining the data, interviewing until clarifying into the field audit works. All auditors’ staffs directly

collected all those things into one formatted data. Thus, they could not optimally work to generate the audit results”.

The lack of coordinated timetables and audit plans among internal audit and external audit institutions is an issue in several companies. The internal audit has to spend so much time to provide what the audit institutions need such as making data available, clarifications, explanations, etc. This situation has increased internal audit workloads for a limited number of auditors. Also, in one company, the external audit results were considered first by the board of directors because the board had more trust in the external results rather than the internal audit.

4.1.2. The low enforcement of the regulations and policies

According to the interview results from the internal audit of state-owned companies, several companies do not fully enforce the regulations and policies issued by the authorities. In one company C8, there is a lack of commitment from the auditees such as the board of directors, managers, heads of divisions, and staff to follow up on the audit recommendation. The audit recommendations have not yet become the key performance indicators (KPI), which act as the guidance to measure performance. Other state-owned companies have included audit recommendations to be one of the key performance indicators. Also, there is no strict punishment as the auditees do not take further action on audit recommendations. The head of internal audit of C8 revealed the statements below.

“Mostly, the audit recommendations have focused on problems, but the auditees are not concerned about the audit results. There is no punishment. The audit result has not been yet the key performance indicators (KPI). In fact, we have proposed since last year. We hope our proposal will be started this year (2020). The followed-up recommendations are too from the auditees. We audited the branches over Indonesia, instead of only the entities. That’s quite tough on the monitoring”.

Another company C6 underlines the fact that the board of directors does not follow the regulations regarding the recruitment process of internal auditors. Technical and service capability in is preferred by the board over audit expertise. Based on the basic requirements of audit standards, the auditor is required to have an educational background in accounting and

auditing with sufficient audit training and experience. As stated in the subchapter on internal audit problems, this results the head of internal audit recognizing that the audit recommendations still do not meet expectations. The head of internal audit stated the recruitment process below:

..... Actually, there are company cultures. When we are intended to hire the fresh graduates or recruit the new staffs to be filled out with the education and training, however, the management rejected to hire them. They would like to prefer to take the employees having the technical expertise to become auditors”.

In another company C5, most auditors do not meet the minimum requirements of audit training. They encounter difficulties because of the limited time and audit workload to improve their competency. Thus, they sometimes did not attend the essential audit training to support internal audit activities. The senior audit manager of C5 revealed the statements below.

“For upgrading the competency, we don’t have enough time due to the limitation of time, but it's not a limitation of the audit budget. We just proposed to the human resources department. To describe the situation, I just came back from Semarang, I have to go to Palembang, so I delayed the schedules to not attend the training on time as required for PIA. One of the requirements of PIA is attending at least 6 times but I only had two times. I am thinking that all auditors have the same situation”.

The head of internal audit of company C1 argued that the internal audit structure in state-owned companies does not adhere to the best practices of the IIA that mentions that the internal audit is independent from the board of directors. The internal audit is supposed to report the audit results directly to the board of commissioners and audit committee instead of the board of directors. The internal audit is formally structured and controlled by the president director. The head expressed the statements below.

“I have the suggestion for being better on corporate governance, we need to get back to the best practice of IIA standards that the internal audit has to report functionally to be more independent to the board of commissioners and audit committee. In Indonesia, the internal

audit of state-owned companies is responsible to the president director instead. The direct report or responsibility should be adjusted to follow the standards issued by the IIA.

The insufficient minimum requirements of internal audit training have influenced the quality of audit recommendation in two companies. The head of internal audit of C6 is not satisfied with the audit results. The senior audit manager of C5 determines that the internal audit could only achieve 75% of the expected quality of audit results.

4.2. External factors that prevent the countermeasures by the stakeholders

The ministry of state-owned companies and the associations consider three obstacles that prevent them from effectively implementing countermeasures to the problems with internal audit. These obstacles include low enforcement of regulations and policies, government bureaucracies that process the regulations, and the political issues that influence the regulations and policies.

4.2.1. Low enforcement of the regulations and policies

In accordance with the interview results from the ministry of state-owned companies, the ministry underlines that state-owned companies still do not highly enforce the regulations. The ministry regulates the management systems of internal audit and audit committee that the board of commissioners has direct access to the audit reports issued by the internal audit. However, in fact, the board sometimes has difficulties obtaining the audit reports. The ministry inquires the board of directors' commitment to establishing transparency for the stakeholders including the board of commissioners and the ministry. The internal audit should also have no boundaries with the commissioners. The ministry suggests the board of commissioners should request an internal audit every month to regularly discuss the important discoveries within the company. The ministry exposes these situations in the statements below:

“The ministry regulates governance and the supporting components, including an agreement, what the companies have to do according to the agreement. However, the regulation only exists formally in the letter. For example, based on the regulation, the board of commissioners (BOC) or audit committee can have access to the internal audit reports. But, the BOC and audit committee are difficult to get access to the reports. Sometimes they hid the important cases

that occurred in state-owned companies. In consequences, the BOC and audit committee try to find the important cases by itself.”

The ministry regulates the minimum requirements that the head of internal audit is required to hold a CIA. Also, the internal auditors must hold either a QIA or PIA. However, there are only two of ten heads of internal audit in state-owned companies who own a CIA. Moreover, a lot of auditors’ staff do not have either a QIA or PIA. This indicates that most internal audit divisions do not adhere to the ministry regulations regarding the requirements for audit certificates. The ministry further states.

“According to the ministry regulation no. 1 of 2011 about good corporate governance as well as no. 16 of 2012 of GCG evaluation, there are complete criteria have to be fulfilled.... Started from education background and experience, the head of internal audit is mandatory to have the CIA certificate, a sufficient capability in number of staff and quality, a sufficient level of internal audit certification such as QIA, PAI, CIA regulated by the ministry. But in fact, there are different situations....”.

The ministry of state-owned companies suggested applying a quality assurance assessment to the internal audit. However, these proposals of intra-assessment have not been yet applied by most state-owned companies, as the ministry stated below.

“We suggested the state-owned companies conduct a quality assurance assessment from external part by implying inter state-owned companies but they did not imply. For example, a company A can learn from a company B. A company B can learn as well to a company C. We also proposed to the middle state-owned companies (in total assets) to ask formally the largest companies such as PT PLN, PT Bank Mandiri, etc. to assess quality assurance on their companies. But most state-owned companies also did not apply this method.”

Furthermore, the ministry underlines the gap in evaluation results and facts regarding the regulation of good governance assessment. The ministry states that many state-owned companies received high governance scores based on assessments by the independent assessor. However, the ministry recognizes that most internal audits in state-owned companies still do not reach high audit capability, even though they have a good score in corporate governance. Also,

the ministry revealed that the internal audit results do not meet a good quality. The audit results are not going to probably state the true and honest situations in the company. The internal audit must report all audit results to the board of directors first, so it will likely be revised before it is delivered to other parties such as the board of commissioners and audit committee. The ministry indicates that the internal audit functions do not do their functions effectively regarding the enforcement of compliance and governance. Thus, there are still a lot of fraud and bribery cases found by the corruption institutions in Indonesia. The ministry suggests that the internal audit should be assessed honestly and fairly by the independent consultant. The ministry stated that.

“Good corporate governance assessment conducted by the independent consultant has met all criteria. The level of fulfilment has reached out 100%. This means there is a gap actually..... the average rate of fulfilment has been above 85%. I am confused but I understand that in fact, they are not capable of internal audit due to lack of competency or the status of the internal audit under controlled by the president director. The lack of competency is caused by the lack of expertise or the status of the internal audit.”

“Regarding the gap of good corporate governance assessment, we often discussed it in the forum of state-owned companies, we insist the companies become honest. When they have hired the independent consultant with the expensive fees, but the result always indicates “good”, this situation would be disappearing the good chances for improvement. But we think they have tried to make the high level of management to become fortunate.”

The high score of evaluation and assessment results regarding corporate governance lead the state-owned companies and internal audit to think that they have attained the effective functions, but in facts, auditors’ competency and quality of audit recommendations are still insufficient. The ministry strongly underlines this gap that must be addressed to issue either new regulation or amendment of corporate governance assessment in the future.

4.2.2. Governmental bureaucracies that process the regulations

We obtain evidence that the ministry of state-owned companies still has not yet completed the regulation process for the internal audit of state-owned companies. They have faced the governmental bureaucracies that take a long time and involve a complicated process for the new

regulations. They have a long time to process and issue the regulations. They first must submit and present the regulations to the ministry of law to obtain approval. Therefore, the ministry cannot optimally address the internal audit problems due to incomplete regulations. For example, the ministry has proposed a quality assurance on internal audit. They consider that the internal audit should have been assessed by the independent external auditor, such as the big and capable public accountant firms. Also, the assessment can be conducted by between state-owned companies as the internal audit of one state-owned company evaluates another state-owned company. However, the regulation proposal has not been officially approved, instead of the ministry suggestions. The ministry explained below.

“The merit system, recruitment process, career, have to be included in the company’s statutes and fully authorized by the management. We, the ministry has been asked by the internal audit of state-owned companies to establish the internal audit standards adopting the Institute of Internal Audit (IIA). But we think that all these rules are regulated by the associations, instead of the ministry. If the ministry regulates the rules, the standards would be changed anytime. That’s a complicated situation for the ministry if we have to change the standards anytime. Because all of the rules and regulations have to be submitted to the ministry of law justice and human rights to be processed then. Based on our previous experience, it takes so much time to process to involve the other institutions.”

Moreover, there is incomplete ministry regulation of the recruitment process in state-owned companies. The involvement of the board of commissioners for the employees’ recruitment process still has not happened. The ministry argues that the commissioners are going to become more independent than the management to process the recruitments. If there still is no independence, it is difficult for the companies to obtain competent internal auditors. However, there is still no regulation as the ministry does not have the authority to evaluate the recruitment process, instead of the ministry suggestion. Regarding audit results, the ministry receives the quarterly internal audit reports. The ministry evaluates the internal audit based on the quarterly report. There is still no regulation either. The ministry expressed the statements below.

“The board of commissioners should have an opportunity to look at the recruitment of new personnel. The personnel candidates should have obtained approval from the board with

certain requirements. I have applied it to the company. However, there is no regulation about that issued by the ministry.... The ministry does not supervise and has no authority for the internal audit reports. We only received the quarterly reports consisting of the progress of an annual audit plan, a list of findings, and monitoring of external audit reports. We only evaluate those contents, but we could not reach out evaluation to the management system.”

The long time and complicated process to issue the regulations has been faced by the ministry. As a result, they still have incomplete regulations for independent assessment and control to improve the quality of audit recommendations and auditors’ competency for internal audit. The ministry is an integral part of Indonesian government institutions that have bureaucratic to dominantly process and generate regulations and policies. Even though government institutions have continuously strived to reform the bureaucracies to improve the performance of civil servants and officials, the results still do not satisfy the public.

4.2.3. The political issues that influence the regulations and policies

The political issues in the Indonesian government have impacts on authorities when they issue the regulations and policies. The ministry of state-owned companies explained that the former minister did not consider internal audit as a strategic part of a state-owned company. The former minister did not involve the internal audit when making decisions for the companies. The ministry also did not pay much attention to the existence of internal audit. Thus, as a result, the ministry did not issue important measures. The ministry expressed this in the statements below:

“in fact, we (ministry of state-owned companies) were asked formally by the eradication corruption commission (KPK) to enforce the effectiveness of the internal audit function in state-owned companies. But there is an obstacle that the former minister considered the internal audit is not a strategic part of a state-owned company. We have a new ministry now. Thus, we have to empower and strengthen the internal audit. The KPK also insisted on the internal audit to become a similar level of position with the board of directors. But, this is still in a new ministry strategic plan.”

In addition to the ministry’s explanation, based on the presidential system in Indonesia, every-five years, the people elect a president. After the president has been appointed by the

parliament, the new president has the privilege to choose candidates for the ministers to assist and support their programs, plans, and goals. Moreover, a president considers the political issues before choosing the ministers. Different ministers might determine different policies and regulations.

The ministry further stated that another political issue is that there is no regulation of strong internal audit position in state-owned company from the former ministers. The ministry explained that the internal audit reports are discussed with the board of directors first before submitting them to the related parties such as the board of commissioners, audit committee, the ministry of state-owned companies, etc. The board of directors may have modified the audit reports first. The audit results might miss important audit findings and the potential fraud might not be disclosed publicly. Thus, the external audit institutions can find irregularities, manipulation, and fraud in the company. The ministry expressed the statements below:

“Even though the internal audit reports have been discussed with the president director, in regulation, the internal audit is positioned under the president director. In fact, several state-owned companies modified audit reports before issuing and submitting them. So, the audit reports informed only the usual and unimportant audit findings. It’s proved by some cases of caught bribery. It can be concluded that the internal audit could not reach the high level of management.”

As explained by the ministry, the political issues in Indonesia have influenced the decision to choose the ministry who issues the different regulations and policies between current and former ministers. In the last election, the president chose the current minister who is highly competent and has much experience in public sector corporations. However, the former minister was closely related to the political party, even though the former had a lot of experience in public companies. The former did not issue important regulations about the internal audit becoming a strategic and high authority.

We obtained another explanation from the IIA of Indonesia. The IIA exposed that the former minister had policies to spread out the internal auditors from government institutions to state-owned companies to strengthen the auditors’ capabilities. The IIA explained that the government

auditors must change their mindset when they work at public companies. The government auditors should follow IIA guidance to perform audit work at the state-owned companies instead of government audit guidance. Also, they should have a different view point when looking at the business process in state-owned companies because it is mostly different from the government's process. Thus, the IIA thinks that the spread of government auditors to internal audit divisions is not effective in improving auditors' capabilities, as the IIA explained below:

"The spread government auditors' policy to the state-owned companies, might have opened a good chance for improvement. However, there is one important thing to change which is the mindset. Actually, the government auditors are not being 100% internal audit. In fact, they have been positioned such an external auditor. That's different. They have to change the mindset to follow the guidelines and standards of the Institute of Internal Auditors (IIA)".

The historical and current political issues in Indonesia are very dynamic. Political issues are generally considered by the president when appointing the new ministers including the ministry of state-owned companies. Thus, the new ministers have different interests when issuing regulations and policies which are commonly drafted by the minister because of the urgency of the current issues or the minister's interests. Consequently, the regulations and policies may not meet the organizations or public expectations, specifically regarding an internal audit.

5. The good practice case of a state-owned company

In accordance with the interview results from ten state-owned companies, we obtained one company that has a good practice of internal audit. The company has reached a high score of good governance based on the last independent assessment. The high score indicates that the company has implemented good quality of governance principles such as transparency, accountability, responsibility, independence, and fairness to achieve the company's goals. Effective and high-quality internal audit is one of the main parts of good governance. We do not state only the good score corporate governance to determine a good practice of internal audit, we also obtained other indicators such as low fraud cases and no significant audit findings to be potential fraud exposed by external auditors within ten years. In this subchapter, we expose the

company profile that is distinguished from other companies and several important factors that contribute an effective and quality internal audit without significant problems.

5.1. The company's characteristics and achievements

As stated on the company's website, the company was established on 26 February 2009 under the mandate and coordination of the ministry of finance to become a catalyst of Indonesian infrastructure development to support the implementation of the Government and Business Entity (PPP) scheme. The company provides infrastructure financing to a wide range of development sectors including education, social, health, transportation, road and bridge, electricity, energy, tourism, water supply, telecommunication, etc. over Indonesia. The Indonesian government through the ministry of finance fully (100%) owned the company's shares. The company builds and develops strategic business plans as a guideline with flexible products and value-added and quality service to assure a continuous contribution to the infrastructures' development.

In addition to being supervised by the ministry of finance, as a state-owned company, they are required to follow the regulations of good corporate governance authorized and issued by the ministry of state-owned companies. That means that the company is responsible for adherence to regulations issued by the two ministries. In 2020, the ministry of finance received an award as the best government institution in Indonesia as it was free from corruption and had clean bureaucracies serving the public. The ministry of finance has achieved in getting roughly 78% of all units, divisions, and branches over provinces and cities in Indonesia to become free and clean bureaucracies. There are 214 of 279 units in the ministry of finance that have reached this achievement. The independent national assessors including the ministry of bureaucracy reform, the eradication corruption commission, and the Ombudsman of Indonesia decide if the bureaucracy is clean and free of corruption. The assessors evaluate together whether the unit, division, branch, etc. is eligible or not to receive free of corruption and clean bureaucracy.

The company also built several committees to improve good governance. Firstly, there is a committee that assists the board of commissioners in monitoring the implementation of risk management and assessing risk tolerance that can be taken by the company. This committee was

formed to improve corporate governance while maintaining the sustainability of the company's business. The company has implemented a risk management function that is in line with the risk management framework to ensure that the business activities do not cause the company's losses. Losses could disrupt their continuity of business to support accelerating national infrastructure development. Based on the interview with the head of internal audit, the company has achieved governance score of 96%, assessed by the independent assessor in 2018. The good governance implementation has contributed to lowering fraud cases and potential fraud in the company. There have been no significant audit findings from the external auditors within ten years.

5.2. Several important factors that contribute to effective and quality internal audit

After obtaining and observing the interview results from the company, we underline five factors in the company that help them to achieve effective and quality internal audit. Those factors include high enforcement of regulations and policies, high effort to maintain auditors' capability, high support and trust from the board of directors, implementation and development of the IT system, and mutual relationship with the external auditors. We further explore these factors in the following subchapters.

5.2.1. High motivation to comply with the regulations and policies

The internal audit of the company is highly committed to following the requirements of auditors' competency such as audit certificates, training, and experience. The head of internal audit meets sufficient requirements such as holding a CIA, higher educational background, and sufficient training and wide audit experience. The internal audit division always follows the internal auditor standards established by the IIA of Indonesia. Most internal auditors have fulfilled at least 30 hours of training per year, which is required by the key performance indicators (KPI). Moreover, the internal audit has been assessed by the IIA to meet a sufficient quality of competency. The head of internal audit revealed the statements below.

“The qualification of auditors follows to the IACF established by the Institute of Internal Auditors and implemented collectively as stated in the standard 1200. There is a requirement of training that the individual KPI (key performance indicators) is required to do training at least 30 hours per year.”

“We have been assessed by the IIA of Indonesia in form of the quality assurance review. The measurement indicated that we have the adequate and sufficient competency of internal auditors. In quality assurance, it can be evidenced by us that we have met the requirements in every standard such as standard 1100 about independence and objectivity, standard 2500 about monitoring progress, etc. I can say that all the required standards have been fulfilled adequately and sufficiently by us.”

In addition, the internal auditors have met the education background qualification according to the internal audit competency framework (IACF). The internal audit division has ten auditors with backgrounds in accounting, finance or business, law, and IT. Eight of ten auditors hold a bachelor's degree. One of the eight is still pursuing a master's degree. The two remaining auditors graduated with a master's degree.

5.2.2. The high effort to maintain auditors' capability

As part of the high effort to maintain capability, the internal audit has a regular meeting to evaluate all audit and consulting processes every week. The internal audit mostly can reach the target and meet company expectations. However, if the internal audit division does not meet the expectations as planned, they will outsource external auditors. The head expressed the statements below:

“We have ten auditors with sufficient competency based on the requirements in the framework. Also, we have met all the schedules as planned. If we could not meet what we have scheduled on an annual audit plan, we can do outsourcing. Now we have two auditors as the consultants who have been supervised by us. Also, we hired one IT auditor and another auditor with global expertise in procurement headlined by world bank. Even though they need high financial support, we have high sufficient funds to support auditors' capability. There is no limitation on the internal audit budget.”

The internal audit also provides a continuous program of audit training to support a high quality of auditors to make good quality of audit recommendations, as the head stated below.

“Audit recommendations can be expectedly improved by improving the auditors' quality. We have programs to train the internal auditors continuously in form of public training and

education development into a higher degree. As informed, one of the auditors is continuing education to obtain the master degree while the auditor is still working on the audit activities.”

“The HRD evaluation report is going to include the analysis of each staff needs for development and training and auditors’ turnover policies to be analyzed and decided at least once a year. This program of auditors’ turnover is very useful to develop their knowledge and insight about other functional areas.”

Furthermore, the internal audit has programs to support the company in preventing and detecting fraud in the early stages. They provide the training, seminar, and conference held by the ACFE (Association of Certified Fraud Examiners) to improve auditors' ability to prevent and detect fraud. They cooperated with other audit institutions to hold fraud audit workshops. They continuously try to improve their auditors’ capability, even though, there is no indication of fraud found in the company.

“Now, it has been no indication of fraud in the company. However, we continuously do educate awareness improvement on fraud. For example, we have incorporated to hold the fraud workshop with the corruption eradication institutions, such as the supreme audit institution, the attorney general of Indonesia, fraud audit consultants, etc. Moreover, we regularly send out at least two to three auditors with the number of 32 through 48 hours to attend the fraud training and seminar held by the ACFE.”

Their high efforts to maintain their auditors’ capability could meet the target scheduled in the audit plan and high quality of audit results. The enhancement of audit capability helps the company diminish potential fraud.

The company was established in 2009. The management recruited new internal auditors and appointed the head with a different process from other state-owned companies. Most state-owned companies were established many years ago and many of the employees had been recruited from government institutions. For example, if the company runs a business in transportation, the officials were appointed from the ministry of transportation office. Thus, even though most companies changed the recruitment process with transparency and fairness during most recent years, consequently, many officials still have the old mindset and work patterns. The

employee compensation and development programs in this company support the new recruitment process of the internal auditors. Additionally, internal auditors in this company have a new mindset and work patterns as well as a high commitment to improve and maintain internal audit quality.

5.2.3. The high support and trust from the board of directors

The board of directors is highly committed to supporting internal audit. The board supports them in terms of finance, salary and career systems, and human resources development. First, there is an evaluation program for internal audit performance for each employee to continuously improve satisfaction. The evaluation result is considered when determining salary increase, position change, and the design of the human resources development program. Also, there is a manual of procedures containing detailed information about the determination of training or development needs for each employee from the human resources department.

“Following the human resources department, the company’s management evaluates regularly the performance of internal audit personnel. We decided that the evaluation results are going to be considered as the basic decision to the salary increase, career improvement process, and human resources development program.”

The board provides sufficient salary compensation to the internal audit division. The board has a goal to strongly support the internal audit. The company has been operating its businesses for ten years now by implementing open-management culture. The head of internal audit explained the statements below.

“Right here is good culture and behaviour. All auditors are encouraged to find the risk of potential fraud. There is such a recovery program. If they could find the risk, they can get the reward. We supported them if they report the risk, they have to make the correction action plan. As long they work on the corrective plan, that is not going to be findings. We encourage risk assessment. But actually, there is not a lot of risks and frauds. There are probably sufficient compensations for the employees.”

The board also highly trusts to the internal audit division. The board has involved the internal audit in the company’s decision-making process.

“We are a new company that was established 10 years ago. We have new management. The management has been handled by the right persons. Over here, we have a good and open culture of management. The internal audit is always involved in the management process of decision making.”

Moreover, the board has been involved in the review process of audit results. After receiving the regular audit results from both internal and external auditors, they further check the results and control updated corrective actions based on the audit results.

“The president director regularly receives the corrective actions of the monthly internal audit reports from the divisions who have a responsibility to follow up with the audit recommendations. Thus, most audit recommendations from both internal and external auditors have been followed up completely by the divisions.”

The good support and trust from the board of directors could contribute to high compensation and continuous development of the internal auditors. As expected, the internal audit could reach the annual plan and good quality of audit results. The evaluation program of the audit process could contribute to low significant audit findings to be potential fraud in the company.

The fact that the company is a relatively new. This enables them to have positive interactions between internal auditors and the board. More specifically, the stakeholders appointed the new directors and managers with right people to create new systems, mindset, work-pattern, and cultures. The management is not significantly influenced by the old bureaucracies with corrupt-acts in mind. They are highly concerned about and committed to good governance and to implement transparency, efficiency, responsibility, and fairness to reduce fraud in the company. They involve the internal audit to reach those objectives. As the internal audit is a good quality, the board of directors can deliver support and trust to the internal audit to develop and maintain their good quality.

5.2.4. Implementation and development of the IT system

The company also supports the internal audit to implement and develop the IT system. The internal audit division has a big plan to digitalize all internal audit functions within 5 years with an automated management system and computer-assisted techniques and tools. The internal

audit has been implementing the online tool in which the forms to follow an automated internal audit and management system. This system uses audit tools of IDEA data analysis software and time analytics. They also have applied audit techniques based on statistics to make the audit conclusion. The head of internal audit explained the statements below.

“Techniques and tools. We have a plan in five years to high concern on digitalization of internal audit to be implied with an automated management system and computer-assisted techniques and tools. In the first to third year, we are implementing the systems into the internal audit. Later then we are asking all divisions to implement the systems in the third to fifth year. Finally, in the fifth year, we are expecting all divisions and units to imply similar tools ... we are developing audit tools with IDEA data analysis software and the newest tools of time analytics. Afterward, we are also developing the audit techniques-based statistics.....”

Furthermore, the company has Whistle Blowing Systems (WBS) to prevent and mitigate irregularities and frauds. The WBS is a system using a website or mail to report potential fraud directly from employees, officials, and public to the company. The internal audit holds the system by itself and actively controls the WBS to check its effectiveness. If there is no report from the WBS, they usually check the WBS to know if it still works well. Furthermore, if there is potential fraud reported through the system, they directly trace, check, and review the emails used to report to see whether the emails are valid in order to be eligible to follow up. The head stated the explanation below.

“... to prevent fraud, other than mitigation of errors and irregularities, we also have the WBS system. I hold directly the systems. If there is no report from externals, we are going to ask and test the effectiveness of the system to know it is running or not. We are also tracing the emails to be tested to know whether the email is valid or not. We also have updated the system with another part of the subsidiary of the world bank to check whether the system is still working or not.”

The implementation and development of IT have supported the internal audit in becoming more efficient in the audit process. The IT implementation also supports the internal audit to generate effective audit conclusions with the audit techniques-based statistics.

5.2.5. Mutual relationship with the external auditors

The audit system has impacts on several state-owned companies. However, in this company, the audit systems do not significantly influence the effectiveness of internal audit functions. The internal audit underlines the mutual benefit between internal and external audit. The head of internal audit explained that the internal audit charter consists of the relationship between internal and external auditors. The internal auditors are always open to cooperated with the externals. Also, during audit, the externals are required to cooperate with the internal audit as a counterpart to link to the management. The internal and external audits mutually benefit the audit results with an access of the reports and functions between each other.

To support a good relationship with the external auditors, the internal audit and management are highly committed to the audit findings and compliance from externals. All external audit findings are followed up before the audit report is released. Therefore, there has been no significant management letter from the CPA firms in the past ten years. The CPAs have been auditing for ten years, but, there is no significant fraud. The last audit report issued from the BPK, reveals that the company has complied with the rules, regulations, and manual internal procedures for all material matters. The company creates effective internal control for new business process. Thus, the internal and externals rarely find weaknesses in internal control, potential fraud, inefficiency, etc. in the audit findings.

To minimize the duplication of functions and audit workload, the head of internal audit proposes a revised annual audit plan to the president director and audit committee to be approved after the external auditors decide to audit certain areas. For example, in 2019, the director and audit committee approved a revision to the audit plan to adjust the external audit assignments, when the BPK conducted audit on the financing and investment directorate. The number of internal audit assignments was reduced at the time. The internal audit usually cooperates with the board of directors and the audit committee to formulate essential solutions to revise the audit plan. Thus, the internal audit division is always well-prepared to receive the externals when they come to the company to conduct the audit.

6. Discussion of the interview results

Through our several interviews with the internal audit practitioners and their stakeholders, we find that the state-owned companies' internal auditors try to achieve all the requirements set by regulation no. 1. Although several of the requirements are achieved, no firms consistently achieve all the requirements, except for one company. This means that the internal audit practitioners generally face some difficulties in practice. The interviews also enabled us to detect the problems faced by the practitioners, the countermeasures taken by the stakeholders, and the external factors that prevent problems within internal audits from being resolved. The problems faced by the practitioners include the structural issues in the internal audit, the lack of auditors' capability, lack of IT capability and implementation, low quality of audit recommendations, and low trust from the board of directors. Although the stakeholders have identified the issues and addressed them by taking some countermeasures, the problems are still unresolved.

We also extract some external factors as to why the problem remains unresolved from the interviews. Those factors include (1) the complicated regulations of the Indonesian audit system, (2) the low enforcement of the regulations and policies, (3) governmental bureaucracies that process the regulations, and (4) the political issues that influence the regulations and policies. The first three factors are likely to induce the problems faced by the internal auditors, whereas the last three factors are likely to prevent the counter

measures taken by the stakeholders from working. These results indicate that the low enforcement of regulations and policies are the common factor that inhibits internal audit from effectively performing their corporate governance function and stakeholders from supporting that function. Thus, these results may suggest that it is critical to overcome the low enforcement of the regulations and policies to improve internal auditors' function as assumed by regulation no. 1 in Indonesia.

However, the analysis on the good practice case has provided counterevidence. More specifically, even though the company is exposed to the same external factors as other state-owned companies, they overcame those issues and achieve effective corporate governance functions

taken by the internal auditors, as per regulation no. 1. This finding implies that addressing the internal factors could make the internal auditors work functionally as the regulation expects. The company's uniqueness is a relatively new and was established in 2009 after the government began tremendous reforms in the bureaucracies. Thus, the company appointed new directors and managers and hired people capable of managing and creating new systems, mindsets, work-patterns, and cultures. Those employees are highly concerned and committed to improve good governance to reduce fraud in the company by seriously engaging in the internal audit roles.

Collectively, the results indicate that it is necessary to reform the management organization and the employment of state-owned companies to improve the efficacy of internal audit for the purposes of achieving better corporate governance in accordance with the regulation. This is an important input to the discussion about developing effective internal audit functions in Indonesian state-owned companies.

Chapter 6 Conclusion

This study aims to explore how to improve the effectiveness of internal audits in state-owned companies to deter fraud in the public sector in Indonesia. To this end, we highlight the latest corporate governance reform and try to clarify the actual situation and problems faced in practice. More specifically, this study examines (1) the extent to which the corporate governance reform is achieved as per the law and (2) the problems and obstacles in the internal audit practice. We provide the institutional background, literature review, research design, and interview results in Chapters 2 through 5.

As discussed in Chapter 5, the state-owned companies' internal auditors try to meet the requirements set by the regulation, but most companies fail to achieve them all. There are some problems that hinder the internal auditors from working functionally and the external factors inhibit problem solving despite the several countermeasures taken by the stakeholders.

However, a state-owned company's good practice case indicates that the problems are addressable at the company-level. More specifically, if they reform the management organization and the employment of human resources of state-owned companies, they can improve the efficacy of internal audit functions to achieve better corporate governance in accordance with the regulation. This finding is important because it is difficult to reform the institutional (external) factors at the state level. If the improvements are achievable only by the reforms at the institutional level, it would require significant time and cost due to the formal procedures, which might require the modification of the constitution.

Collectively, although there are various institutional factors that may reduce the effectiveness of internal audits in state-owned companies, we find that the negative effects of these external factors on the functioning of internal auditing are not observed if the state-owned companies reform management organization and hire internal auditors on a competency basis. These findings mean that fundamental organizational reform at the level of state-owned companies is needed to improve the effectiveness of internal audits in state-owned enterprises to prevent frauds in the public sector.

We believe the current study has several contributions to the practice and literature. For a practical contribution, our results provide the implication for improving corporate governance function to be taken by Indonesian state-owned firms' internal auditors to deter fraud as the regulation expects. Moreover, our results may also have a practical implication for other developing countries if they have similar characteristics to Indonesia, such as countries in southeast Asia. This study's contribution to the literature regarding fraud deterrence in the public sector is to provide new evidence in the sense that we identify the factors surrounding the problems faced by corporate governance practice in the public sector and have found clues to their solution. Furthermore, in terms of fraud deterrence in the public sector, although previous studies have focused almost exclusively on the measures and systems at the national level, this study revealed that effective system for fraud deterrence could be achievable by efforts at the corporate level. This finding should be considered as another contribution to the literature.

Although we believe that this study has mentioned several contributions to the practice and literature, there are some limitations. First, we do not investigate the state-owned companies' actual corruption cases, which means that this study provides indirect evidence regarding the effectiveness of internal audit functions for fraud deterrence. If we seek more concrete and direct evidence, we need to detect fraudulent and nonfraudulent state-owned companies and compare their internal auditors. However, such an analysis was not applicable in our setting because it was difficult to access actual fraudulent companies and their data. Moreover, the state-owned firms and the stakeholders we examined are limited to the representative ones in Indonesia because of limited time and costs, indicating that our results' generalizability may be limited. Future research should collect further data and conduct interviews with more companies and stakeholders in the public sector.

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Appendix 1 The description of questions for interview to the internal audit practitioners

Sub Topic	Description of the Basic Questions
Internal audit charter establishment	Does the internal audit establish an internal audit charter and get approval from the board of directors and commissioners? What the basic contents and brief explanations of the charter?
The main attributes of internal audit	1. Auditor competency - how sufficient competency in education and experience? how audit training and certificate? how to manage the number of auditors? what the planning in the future, etc. 2. Audit Recommendation, have the recommendations met the expectation and target of the head? How the quality of recommendations has been resulted to meet the expectation? Which part of recommendations still do not meet the expectation? What the internal audit needs to improve the quality, etc. 3. The relationship with the board of directors and commissioners, how the board trust to receive the audit results to be followed up? How the board support in financial, salary and employee systems to improve the internal audit performance? How the annual plan, audit charter, audit reports to be updated and evaluated by the board, etc. 4. Audit performance, have the audit reports met the target based on the annual plan? What the obstacles to hinder the performance to meet the target and expectation? What the factors around company to influence the performance
How internal audit perform to contribute to good corporate governance	1. What the internal audit unit has been working to strengthen corporate governance? What types of audit, evaluation, assessment, etc. have been conducted to improve corporate governance? What does the internal audit have any other important ideas to improve the internal audit functions to strengthen corporate governance? 2. How internal audit improve the quality of audit recommendation to contribute to governance process, operational, activities, program effectiveness and efficiency, etc.? How implementation of audit recommendation for the auditees, such as the board of directors, managers, staff? How the internal audit does monitor the audit results and recommendation? 3. How the board of directors and its management have followed up the audit recommendation? How the board trust to take further actions on the audit recommendations?

Sub Topic	Description of the Basic Questions
How internal audit roles on fraud prevention	What roles of the internal audit to prevent fraud in the company? How does the internal audit prevent the fraud? What improvisations or ideas conducted by the internal audit to prevent fraud? what types of audit are developed to prevent fraud, what auditor qualifications, audit training and certificates needed to conduct the types of audit to prevent fraud, etc.? how qualification of internal auditors to meet the requirements to conduct investigative audit? Whom do the investigative audit reports need to be submitted?
What important Problems and obstacles of internal audit attributes and performance	What are the important problems faced by internal audit to influence auditors' performance? What are the obstacles and external factors surrounding the internal audit that reduce the quality and effective function and influence internal audit performance? Why do the problems and obstacles still exist in internal audit? what are the policies or solutions implemented by internal audit with limited authorities and functions to reduce the problems and obstacles? Does internal audit need the stakeholders' measures to address and resolve the obstacles, and the main causes? Which the stakeholders need to help the internal audit to address their problems and obstacles?

Appendix 2 The description of questions for interview to the stakeholders

The Stakeholders	Description of the Questions
The Ministry of State-Owned Companies of Indonesia	Does the ministry know the problems and obstacles faced by the internal audit? What has the ministry been doing to address these issues? What the countermeasures have been issued by the ministry to address these issues? How have the measures been implemented? What are important regulations and policies still incomplete to resolve the issues? Why are the measures still incomplete? What the main issues faced by the ministry when processing and issuing the measures? How do the main issues surrounding the ministry influence the measures issued by them? What has the ministry been doing to minimize the main causes that hinder the process and issuance of measures?
The Institute of Internal Auditors (IIA) of Indonesia	Does the IIA of Indonesia know the problems and obstacles faced by the internal audit of state-owned companies? What has the IIA been doing to address the problems and obstacles related to the IIA functions? What has the IIA been doing to improve the quality of auditors and audit result as their functions? What are the measures issued by the IIA to resolve the problems and obstacles? What are the main causes that hinder the IIA to process and issue the measures? What are the main issues faced by the IIA to implement the measures? How does the main issues influence the measures implementation? What are designs and plans in the future for the development of internal auditors at state-owned companies?
The Institute of Public Accountants of Indonesia (IAPI)	What are the IAPI roles as a professional association to address internal audit issues regarding the CPAs as the external auditors to the state-owned companies? Does the IAPI issue the policies to minimize impacts of audit conducted by the CPAs such as duplication and redundancy of audit functions? What policies to regulate the CPAs to minimize the impacts of audit system on internal audit? What are the main issues faced by the IAPI when implementing regulations and policies for the CPAs to minimize the impacts? How the main issues influence the measures issued by the IAPI? What regulations and policies are going to be issued in the future to contribute to regulating the audit system?
The company' Management	How does the internal audit receive trust and support from the board of directors? How does the relationship between internal audit and the board when the internal audit receives trust and support from the board? How does the internal audit process convince the board? How do the roles of the board that issues the measures to deliver trust to the internal audit? How does the board help improve internal auditors' capability in competency,

The Stakeholders	Description of the Questions
	employee, and salary system? What are specific programs issued by the board to minimize these issues of capability? How do the internal audit and the board cooperate to handle and resolve the impacts of the audit systems? What are policies issued by the board and internal audit to address the impacts of the systems? How could the internal audit minimize the problems and obstacles with gaining the trust and support from the board? How does the board cooperate with other stakeholders to regulate audit activities from internal and external auditors? How could internal audit manage the board' trust and support to maintain their high effective capability?