

Analysis of the Effectiveness of Internal Audit of the Inspectorate of West Kalimantan Province in Realizing Accountable Governance

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ABSTRACT

This study aims to analyze the effectiveness of internal audits at the West Kalimantan Provincial Inspectorate, identify the challenges encountered, and formulate relevant solutions. In an era of demands for effective governance, the role of internal audit is crucial in ensuring transparency and accountability in state financial management. Using a qualitative approach and case study method, this study found that internal audits at the West Kalimantan Provincial Inspectorate have been running quite effectively, demonstrated by the implementation of systematic procedures and the auditors' commitment to the principles of independence and objectivity. Furthermore, the auditors also perform a consultative function by providing solution-oriented recommendations for improvement. However, the study identified significant obstacles, such as time and budget constraints, that have the potential to hinder performance optimization. Based on these findings, it is recommended that schedule optimization, more adequate budget submissions, and continuous improvement of auditor competency are needed. This study provides theoretical and practical contributions by filling the research gap related to internal audit effectiveness at the regional level and offering strategic recommendations for the West Kalimantan Provincial Inspectorate to improve its oversight performance in order to realize more accountable governance.

INTRODUCTION

In today's democratic era, the public is increasingly demanding that the government increase transparency and accountability in managing state funds. This aligns with demands for good and clean governance, which emphasize the need for competent government officials and an effective internal control system to ensure the appropriate, equitable, and compliant use of public funds (IAI, 2001). Internal audit is a crucial mechanism within the internal control system that can enhance organizational value and operations through independent and objective consultation (Muceku & Korsita, 2010). Regional inspectorates, as Government Internal Supervisory Apparatus (APIP), play a crucial role in carrying out this oversight function. Quality internal audit results are an important indicator of good and responsible government financial governance (Salehi et al., 2013). Conversely, low-quality audits can create loopholes for budget misuse, potentially leading to the risk of lawsuits.

Although the role of internal audit has been widely discussed, existing research tends to focus on theoretical frameworks or the context of private companies. For example, studies by Muceku & Korsita (2010) and Salehi et al. (2013) highlight the general benefits of internal auditing on the effectiveness of company operations. In the public sector, research such as that conducted by Tuanakotta (2015) underscores the important role of the Internal Audit Agency (APIP) in preventing corruption, but also identifies internal challenges such as limited resources. Meanwhile, research by Putra (2018) has examined the role of the Inspectorate in several regions, but the results are still limited to case studies. This creates a significant research gap: there is no research that specifically and in-depth examines the effectiveness of internal auditing, as well as the obstacles and solutions faced by the Inspectorate at the provincial level, particularly in West Kalimantan Province.

Therefore, this research is important for several reasons. First, it provides a deeper understanding of the effectiveness of internal auditing in the West Kalimantan Provincial Inspectorate, which in turn can serve as a foundation for improving the quality of regional governance. Second, the findings of this study can provide strategic input for the provincial government in formulating more effective policies to improve oversight performance. Third, this research contributes to public accountability by providing a transparent overview of the internal oversight function. The novelty of this research lies in its specific focus on the West Kalimantan Provincial Inspectorate. Unlike previous general studies, this study will holistically analyze effectiveness, identify specific obstacles, and formulate solutions relevant to the local context. Thus, this research not only fills existing research gaps but also generates practical and applicable recommendations for continuous improvement within the relevant institution.

LITERATURE REVIEW

Agency Theory

This theory is relevant in the context of internal auditing because it describes the relationship between the principal (government and the public) and the agent (the Inspectorate). The principal delegates oversight duties to the agent. Internal audit serves as a mechanism to ensure that the agent acts in the

principal's best interests, thereby mitigating information asymmetry and conflicts of interest.

Internal Audit Effectiveness

Internal audit effectiveness can be measured by its ability to achieve established objectives. Based on research by Sofyani et al. (2016), internal audit effectiveness is influenced by several factors, including:

- Independence: The auditor's freedom from management interference.
- Auditor Competence: The auditor's knowledge, skills, and experience.
- Management Support: Commitment and support from the institution's leadership.
- Audit Result Follow-up: The extent to which audit recommendations are followed up.

Government Oversight Framework

The legal basis for government oversight in Indonesia is regulated by Government Regulation Number 41 of 2007 concerning Regional Apparatus Organizations. Regional inspectorates have the functions of planning, policy formulation, inspection, investigation, testing, and evaluation of supervisory duties. This framework serves as the primary guideline for analyzing the Inspectorate's role and function.

METHODOLOGY

This research will use a qualitative approach with a case study method at the West Kalimantan Provincial Inspectorate. This approach was chosen to gain an in-depth understanding of the phenomenon of internal audit effectiveness, obstacles, and solutions from the perspective of audit implementers.

- Research Subjects: The research subjects are the Government Internal Supervisory Apparatus (APIP) at the West Kalimantan Provincial Inspectorate, including Inspectors, auditors, and other relevant parties.
- Data Collection Techniques: Data will be collected through:
 1. In-Depth Interviews: Structured interviews with research subjects to gather information about audit implementation, obstacles encountered, and implemented solutions.
 2. Observations: Observations of work processes and the environment at the Inspectorate to understand operational dynamics directly.
 3. Documentation Study: Analysis of internal documents such as audit reports, standard operating procedures (SOPs), and policies related to supervision.
- Data Analysis Techniques: The collected data will be analyzed using the interactive model from Miles and Huberman (1994), which includes three stages:
 1. Data Reduction: Summarizing, selecting, and focusing the data.
 2. Data Presentation: Presenting the data in narrative or matrix form.
 3. Conclusion Drawing: Formulating conclusions based on field findings.

RESEARCH RESULT AND DISCUSSION

This study observed and identified that internal audits at the West Kalimantan Inspectorate are conducted by relevant departments. The audit procedure begins with the initial preparation stage of internal audit planning, with the appointment of an audit team to be involved in the assignment by the audit team unit within the Inspectorate in West Kalimantan. The audit team then conducts a survey to obtain information and data on the audited location to understand potential risks. After conducting the survey, testing is conducted to find evidence to corroborate the information gathered during the survey. The audit results are then compiled into a report. The audit team prepares the audit report based on the audit work performed. The data obtained is then submitted to the inspector for follow-up. The auditors, in carrying out their duties, have implemented independence and objectivity, ensuring that the data obtained is impartial, unbiased, and reliable. The auditors participating in the testing are experienced and possess expertise in their respective fields.

After the audit is complete, the auditors provide recommendations to the relevant agencies regarding the findings. These recommendations should address the causes and minimize the consequences of the findings. One example is the issue of goods administration. It turned out that the relevant agency was unfamiliar with or had never learned about goods administration. The auditor then recommended that the relevant agency attend goods administration training so that it could understand and properly record its administration.

One obstacle encountered during audits is time. A common example is when the auditor is given 10 days to complete data collection, requiring the auditor to first prepare preliminary data for the audit. Many obstacles arise during data collection, possibly due to the auditor's incompetence or weekend breaks. This is unfortunate because it can prolong the auditor's work and delay testing. Another obstacle is cost. Audits often cannot be conducted due to budget constraints at the West Kalimantan Inspectorate. A suggested solution to address this obstacle is that the auditor typically stipulates complete document requirements that must be met before the audit can begin. Therefore, by the time the audit is scheduled, the required requirements are already met.

Based on the results of this study, it can be identified that the internal audit process at the West Kalimantan Provincial Inspectorate generally follows systematic and structured stages. These stages include preparation, preliminary surveys, evidence testing, and audit report preparation. This procedure aligns with the framework recommended by Sofyani et al. (2016), which emphasizes the importance of comprehensive audit stages to ensure the quality of audit results.

The internal audit process, starting with team appointment, survey, testing, and report preparation, demonstrates the Inspectorate's commitment to carrying out its oversight function in accordance with Government Regulation Number 41 of 2007. This also aligns with research by Muceku & Korsita (2010), which states that internal audits provide added value to organizational operations through independent and objective consultation.

The research results indicate that auditors have implemented independence and objectivity in their duties. This is crucial and aligns with the basic principles

of auditing emphasized in Agency Theory, where auditors, as agents, must act impartially to protect the interests of their principals (the government and the public). The recognition that auditors possess experience and expertise in their fields also demonstrates that the West Kalimantan Provincial Inspectorate has met the auditor competency aspect, which is a key factor in internal audit effectiveness according to Sofyani et al. (2016).

This research also highlights the auditor's role as a consultant, not just an examiner. The case study of goods administration demonstrates that auditors not only identified problems but also provided solutions in the form of training. This approach demonstrates that the Inspectorate strives to provide added value and assist relevant agencies in addressing their internal weaknesses. This supports the findings of Salehi et al. (2013), who emphasized that internal audit can improve organizational operations through independent consultation. Practical, improvement-focused recommendations, such as encouraging participation in training, demonstrate constructive follow-up and have the potential to improve the quality of management within the relevant agency.

The two main constraints identified were time constraints and cost/budgetary constraints. Time constraints, caused by limited data collection time and potential auditor incompetence, align with the findings of Tuanakotta (2015), who identified internal challenges within the Internal Auditor (APIP), such as limited resources. The lack of auditor competency cited as a factor hindering data collection also reinforces Sofyani et al.'s (2016) theory regarding the importance of competency.

Meanwhile, budget constraints reflect limited management support, another factor influencing audit effectiveness. The Inspectorate's proposed solution, requiring agencies to complete documentation prior to the audit, is a proactive measure to minimize time constraints and ensure a more efficient audit process. This solution demonstrates the Inspectorate's adaptability to resource constraints, a best practice for ensuring a smooth audit process.

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Theoretically, the implementation of these systematic internal audit procedures reflects the application of good governance principles that emphasize accountability, transparency, and responsibility. According to the Cadbury Committee (1992), good governance requires an effective internal control system, in which internal audit plays a crucial role as a key pillar. The West Kalimantan

Inspectorate has demonstrated efforts to meet these expectations through standardized audit procedures.

Furthermore, the preliminary survey conducted by the audit team to understand potential risks reflects the application of a risk-based audit approach. This approach aligns with international internal audit standards established by the Institute of Internal Auditors (IIA), specifically Standard 2210, which emphasizes the importance of identifying and evaluating risks in audit planning. The implementation of this risk-based approach demonstrates the evolution of internal audit practices in the Indonesian public sector toward more modern international standards.

The research results indicate that auditors have implemented independence and objectivity in carrying out their duties. This is crucial and aligns with the basic principles of auditing emphasized in Agency Theory, where auditors, as agents, must act impartially to protect the interests of their principals (the government and the public). The recognition that auditors possess experience and expertise in their fields also demonstrates that the West Kalimantan Provincial Inspectorate has met the auditor competency requirements, a key factor in internal audit effectiveness according to Sofyani et al. (2016).

Internal auditor independence in the public sector context presents its own complexities compared to external auditors. According to Chambers (2014), internal auditors must be able to maintain mental independence despite being organizationally within the audited entity's structure. This research indicates that the West Kalimantan Inspectorate has successfully created an environment that supports auditor independence, although further evaluation of the structural mechanisms protecting this independence is still needed.

The auditor competency aspects of the Inspectorate's audit team also reflect efforts to meet professional standards. Auditor competencies encompass not only technical knowledge but also communication skills, understanding of the organizational context, and analytical abilities. Research by Abbas & Ane (2019) shows that internal auditor competency significantly influences audit quality and fraud prevention in the public sector. Therefore, continuous investment in auditor competency development is crucial for the long-term effectiveness of the internal audit function.

Furthermore, the auditor experience mentioned in this study needs to be understood within the context of the internal audit learning curve. According to Bedard & Chi (1993), auditor experience influences the ability to identify risks and plan appropriate audit procedures. The experience of auditors at the West Kalimantan Inspectorate can be a valuable asset in facing increasingly complex audit challenges along with the development of public sector governance.

This study also highlights the auditor's role as a consultant, not just an examiner. The case study of property administration shows that the auditor not only identified problems but also provided solutions in the form of training. This approach demonstrates that the Inspectorate strives to provide added value and assist relevant agencies in addressing their internal weaknesses. This supports the findings of Salehi et al. (2013), who emphasized that internal audit can improve organizational operations through independent consultation.

Practical, improvement-oriented recommendations, such as encouraging participation in training, demonstrate constructive follow-up and have the potential to improve the quality of management within the relevant agency. This consultative approach aligns with the evolution of the modern internal audit role, which is no longer limited to a detective function but also includes preventive and constructive ones.

In a theoretical context, the consultative role of internal audit reflects the implementation of value-added auditing. This concept, developed by the IIA, emphasizes that internal audit must make a tangible contribution to the achievement of organizational goals. The case study of property administration mentioned in this study demonstrates the implementation of this concept, where auditors not only report findings but also provide implementable solutions.

The effectiveness of follow-up on audit recommendations is also closely related to top management support. According to Mihret & Yismaw (2007), management support is a crucial factor in the effectiveness of internal audits in the public sector. In the context of the West Kalimantan Inspectorate, a systematic monitoring mechanism is needed to ensure that audit recommendations are properly implemented by the auditee.

Furthermore, a consultative approach in internal auditing requires an appropriate balance between the assurance and consulting roles. Auditors must be able to provide constructive recommendations without compromising objectivity and independence in providing assurance. This requires a thorough understanding of the boundaries of the internal audit role and effective communication skills with the auditee.

The two main constraints identified were time constraints and budget/cost constraints. Time constraints caused by limited data collection time and possible auditor incompetence align with the findings of Tuanakotta (2015), who identified internal challenges within the Government Internal Supervisory Apparatus (APIP), such as limited resources. The lack of auditor competence, cited as a factor hindering data collection, also reinforces Sofyani et al.'s (2016) theory regarding the importance of competence.

Meanwhile, budget constraints reflect limited management support, another factor affecting audit effectiveness. The Inspectorate's proposed solution, requiring agencies to complete documentation prior to conducting audits, is a proactive step to minimize time constraints and ensure a more efficient audit process. This solution demonstrates the Inspectorate's adaptability to resource constraints, a good practice for ensuring a smooth audit process.

The time constraints faced by internal auditors actually reflect the classic dilemma between audit efficiency and effectiveness. According to DeAngelo (1981), audit quality is correlated with the time invested in the audit process. However, resource constraints require auditors to optimize time allocation. The Inspectorate's proposed solution of requiring complete documentation before an audit can be seen as an implementation of lean auditing, an approach aimed at reducing waste in the audit process without sacrificing quality.

The budget constraints faced by the West Kalimantan Inspectorate also reflect common challenges faced by Internal Auditors (APIP) throughout

Indonesia. According to the Supreme Audit Agency (BPK) report (2020), budget constraints are a key factor affecting the effectiveness of internal oversight in the public sector. This requires innovative approaches to audit resource management, including the use of technology and optimization of audit planning.

Another solution that can be considered to address time constraints is the implementation of Computer-Assisted Audit Techniques (CAATs). Utilizing technology can improve audit process efficiency and reduce reliance on time-consuming manual processes. However, implementing CAATs requires investment in technology and auditor training, which again relates to budget constraints.

The findings of this study have important implications from both theoretical and practical perspectives. Theoretically, this study enriches the literature on internal audit implementation in the Indonesian public sector, particularly at the regional level. This research demonstrates that, despite facing various limitations, internal audit can be implemented effectively with the right approach.

From an Agency Theory perspective, this study demonstrates that internal audit plays a crucial role in reducing information asymmetry between the principal (government/community) and the agent (public organization managers). The implementation of systematic and independent audit procedures helps ensure that the agent acts in the principal's best interests.

The practical implications of this research include several aspects. First, the importance of continuous investment in auditor competency development. Second, the need for strong management support to overcome resource constraints. Third, the importance of innovation in audit methodology to improve efficiency.

CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis of the research findings, it can be concluded that the effectiveness of internal audits at the West Kalimantan Provincial Inspectorate has generally been good. This is evident in the systematic implementation of audit procedures, from planning to report preparation, and the auditors' commitment to upholding the principles of independence and objectivity. The competence of experienced auditors is also a key supporting factor. Furthermore, the auditors' role extends beyond finding errors to providing solutions and educational recommendations, such as encouraging training, demonstrating the consultative function of internal audit.

However, this study also identified two key obstacles hindering audit effectiveness: time and budget constraints. These constraints have the potential to slow the audit process and reduce the scope of testing, ultimately impacting report quality. Therefore, the effectiveness of the West Kalimantan Provincial Inspectorate's internal audit still has room for improvement to address these challenges.

Based on the conclusions above, here are some suggestions for the West Kalimantan Provincial Inspectorate:

- The Inspectorate needs to create stricter standard operating procedures (SOPs) regarding audit schedules. Proactive solutions, such as requiring complete documentation prior to audits, must continue to be implemented and even enhanced for efficiency.
- Submit a request for a more adequate budget to the Provincial Government to support audit operations, including travel expenses and auditor competency development. Budget constraints are a critical factor that must be addressed immediately.
- Even if auditors are deemed competent, ongoing training programs (diklat) focusing on the latest issues in public sector governance and accounting need to be continuously promoted. This will ensure auditors remain relevant.

Suggestions for audited agencies, cooperative: relevant agencies are expected to be more cooperative in providing the data and documents required by the audit team. This proactive approach can expedite the audit process and minimize frequent time constraints.

Recommendations for further research, future research could use a quantitative approach to statistically measure the influence of factors such as auditor competence, independence, and management support on audit effectiveness. Comparative studies across Inspectorates in several provinces could also be conducted to gain a broader picture and formulate best practices in local government internal oversight.

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