Can the Risk Management Implementation Intensify the Internal Auditor Expertise Finding Risk in Local Government?

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Abstract

Many cases of fraud in the form of corruption and bribery are findings of external examinations. It shows internal supervision is not sufficient. The internal supervision of companies and local governments have not been able to detect fraud. In this study, we suspect the internal auditors' workload, which makes their ability to detect fraud poor. If the company or local government has implemented risk management, the workload will not be as heavy as if it has not implemented risk management. The company and local government can apply a Risk-based internal audit if they have implemented risk management. Based on this explanation, conclude that finding auditor expertise of the fraud is influenced by workload, the implementation of risk management, and risk-based internal controls. The population of this research is the internal auditors of the provincial government of North Sumatra. This study uses primary data obtained from distributing questionnaires to the research sample. Data were analyzed using multiple regression analysis with the help of PLS applications. The findings showed that risk management application and risk-based supervision audit has a significant effect on detecting fraud and the workload is not affect to the ability to detect of fraud finding. The interviews with several informants concluded that if they have implemented risk management and risk-based internal audits, the internal auditors will not have a high workload. Because since the beginning, it has been identified which activities have an increased risk.
Keywords

Risk Management, Risk-based Internal Audits, Workload, Fraud Detection

JEL Code Classification: M42, M48.

Introduction

So far, many findings have been obtained by the Legal Audit Board of the Republic of Indonesia regarding fraud and misuse of state or regional finances. There are several cases of fraud in the form of corruption and bribery occurring in local governments, ministries/agencies, and state/regional state-owned companies. One example is the bribery case at PT. Krakatau Steel Tbk. The bribery case in the procurement process for goods and equipment at Krakatau Steel. This case is not the first fraud case within a state-owned company. One of the officials construction company, PT Wijaya Karya (Persero), was named a collusion suspect in the Bangkinang Bridge project or the Waterfront City Bridge, in Kampar, Riau. Followed in early August, the Corruption Commission Board (KPK) also managed of the board of directors of Angkasa Pura II with PT INTI is a Caught Operation. Besides, there are still many fraud cases in BUMN circles that have been successful or are being investigated by the KPK. According to researchers from Indonesia Corruption Watch (ICW), most corruption cases in BUMN are related to BUMN income, expenditure, and investment. The most effective form of deviation that is most often committed is the misuse of assets, the unclear economic value of assets, and fraud in the presentation of financial statements.

It indicates that the internal government auditors or local government inspectorates failed to detect fraud. Internal auditors should be better able to detect fraud than external auditors (Albawwar et al., 2021). The internal audit function of government auditors is to review financial reports before being submitted to the Supreme Audit Agency of the Republic of Indonesia. ACFE Global survey and research results show that every year an average of 5 percent of an organization's income is a fraud victim. On the Financial and Development Supervisory Agency (BPKP) website, private companies and even state-owned enterprises (BUMN) are inseparable from the risk of fraud. It can be seen from the corruption cases involving BUMN officials that have increased dramatically in the last two years. In the end, fraud control is the responsibility of the company.

The results of previous studies found that forensic accounting, experience, professional skepticism, quality of human resources, application of risk management, workload affect the finding to fraud (Erlina 2018 & 2019, Sihombing, 2019, Nasution, 2020). Several studies did not provide the same results (Erlina et al., 2020). Several regional
governments in North Sumatra have a relatively modest number of internal auditors, while the number of programs and activities that need to be supervised is quite high. This causes a major supervision auditors, resulting in fatigue, which results in decreased work quality. Besides, local governments have not implemented risk management, so they have not been able to apply risk-based internal auditors. If risk management has been implemented since the beginning of the year, the local government has identified the risk of possible fraud so that the internal auditors can focus their supervision only on certain audit objects.

Review the Literature

1. Fraud

Fraud is a deliberate fraud to the scam perpetrator (Salomon and Solts, 2021). Fraud generally occurs because there is pressure to commit fraud or an urge to take advantage of current opportunities, and there is (generally accepted) justification for the action. Ordinary people often assume that fraud is a criminal act or an act of corruption. Fraud exists in both companies and governments. In essence, fraud in an organization is an act of deliberate fraud based on dishonesty that can be done by someone, both employees and leaders, which results in harm to the organization.

The types of fraud that occur in each country may be different because each country's conditions positively influence each fraudulent practice (Ahmad et al., 2021). In developed countries where law enforcement has been running well, the people's general economic situation is sufficient or more than adequate. The modus of fraudulent practices is less. There are indications of fraud or fraud/deviation in a company or government agency committed by its employees. This deviation can occur in various layers of work in the organization, both in the company's top management and high officials of an agency. The efforts made by company owners, company managers, and employees who work to improve performance will never be achieved if the company still has fraudulent acts. In order to provide a deterrent effect, minimize losses due to fraud and improve the control system, if there is a strong indication of fraud, the company is expected to take appropriate action by conducting an investigative audit.

Companies that have the risk of financial loss due to the act of fraud that has occurred can reveal who the party who committed the fraud will then be held accountable to compensate for the company's losses. Furthermore, in order to have a deterrent effect, it is necessary to take both administrative and legal action against the perpetrators of fraud. With regard to legal follow-up on found fraud, the company must have careful
consideration, including the financial aspects of the company and the legal aspects related to the regulation of employees and the company.

Methodology

The population used in this study are all inspectorates that have a certificate of auditor position in the several regency/cities in North Sumatra Province, Indonesia. The questionnaires to distributed to several respondents. Data were analyzed using multiple regression with PLS application. The research variables consisted of independent and dependent variables. The ability to detect fraud is the dependent variable, while risk management, and workload are independent variables. The validity and reliability of the research questionnaire were tested before testing the hypothesis.

Result and Finding

1. Result

Based on PLS algorithm method the loading factor above 0.7. This result show in Figure 1 below:

![Figure 1 The Model Result](http://www.webology.org)
AVE values for $X_1$, $X_2$, $X_3$, and $Y$ are above 0.5, meaning that the latent construct is valid. The average variance result test show in the table 2 as a follows:

<table>
<thead>
<tr>
<th>Table 2 The Average Variance Extracted Test Result</th>
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<tbody>
<tr>
<td>The Cronbach's Test</td>
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<td>---------------------</td>
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<tr>
<td>Fraud Detection</td>
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<tr>
<td>Risk-Based Internal Audit</td>
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<td>Risk Management</td>
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<tr>
<td>Workload</td>
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</table>

Sources: SmartPLS (2021).

Based on Table 2 the AVE values has > 5. Its means the construct has met the convergent validity. The inner model of Risk Management Implementation and The Risk based Internal Audit Implementation is positive, while the workload has a negative. (Table 3 and Figure 2). The estimated coefficient for all statistical values resulting from resampling to bootstrap method on exogenous latent constructs), so that these constructs have a significant effect. In contrast, the workload construct has a T-count value lower than 1.96, so that the construct is declared not to have a significant impact.

<table>
<thead>
<tr>
<th>Table 3 Path Coefficient Value</th>
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<tbody>
<tr>
<td>The Sample Value</td>
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<tr>
<td>Risk-Based Internal Audit -&gt; Fraud Detection</td>
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<td>Risk Management -&gt; Fraud Detection</td>
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<td>Workload -&gt; Fraud Detection</td>
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Sources: SmartPLS (2021).

Based on Table 3, the structural equation formed from the results of data processing is as follows:

Fraud Detection = 0.403 RBIA + 0.427 RM - 0.038 Workload

Its show that the risk-based audit approach as a tool for internal control to re-emerge and the risk-based approach is ineffective or the implementation method is inappropriate.
2. Findings

It is possible that the team work involved in implementing a risk-based audit approach may not yet understand this approach to auditing. A risk-based audit approach can only be implemented if the organization has implemented risk management. In the business world, risk management is defined as identifying, monitoring, and managing potential risks to minimize the negative impact they may have on an organization. Every area of business has its risks. For example, in information systems, potential risks include data security breaches, data loss, cyber-attacks, system failures, and natural disasters. Simultaneously, the potential risks that will occur in a manufacturing company are failing to reach the planned production target, machine damage, loss of orders from customers, product quality problems, and so on. An effective risk management process will help identify which risks pose the greatest threat to the organization and provide guidance for dealing with them. Risk Management is a series of procedures and methodologies used to identify, measure, monitor, and control risks from business activities.

The results showed that the application of risk management and risk-based internal audit has a significant effect on detecting fraud. The application of risk management, accompanied by the application of risk-based audits, will improve audit quality. The implementation of risk management and a risk-based internal audit will reduce internal auditors' workload in local governments. If the government has implemented Risk Management and risk-based internal audit, the workload will no longer reduce the quality of internal audit. The results of this study are supported by several previous studies. (Erlina et al., 2018). The risk-based audit approach argues that experience ability to assess future risks accurately. However, psychology shows that individuals tend to overestimate experiences when confronted with current risk cues as opposed to experience.

The risk-based audit approach has been widely used as a tool for internal control systems in the public sector but has not yet been applied in local governments. Based on the results of this study, the application of risk-based auditing will reduce corruption and fraud scandals that continue to reappear every year. It is suspected that the audit approach taken so far shows that both process-based audits and system-based audits are ineffective, and their implementation methods are inappropriate. Therefore, this study seeks to establish the effect of a risk-based audit approach on the implementation of an internal control system. The audit risk theory argues that the auditor's evaluation during the audit becomes more effective with the experience he has. Conversely, there is a risk that the auditor will rely on experience, which appears to be backward in nature, in addition to gaining specialized knowledge enhancement. Risk-based internal audit is applied to an
internal control system and risk management, which requires all departments to build risk management awareness, identify risk control points, take appropriate steps to control, and record various risk controls, create risk-based internal audits from important data sources (Sihombing et al., 2019). According to this theory, the responsibility to identify and manage risks belongs to management, while one of the main roles of internal audit is to provide assurance that these risks have been properly managed. The professional internal audit activity can achieve its mission as the best foundation for governance by positioning its work within the context of the organization's own risk management framework. This involves looking at how managers identify, assess, respond to, and report risks and how well managers monitor how responses to risk work. Based on this, assistance in local governments is needed in implementing risk based internal audits.

The workload is the amount of work a person has to do. Some researchers (Buchia, 2008 and Novita, 2015) found that the auditor workload negatively affects audit quality. Librayanti (2018) states that auditor workload can be seen from many clients that must be handled by an auditor or limited time (Novita, 2015). Auditors to perform the audit process. An auditor's workload is usually related to the busy season, generally in the first quarter of the year. Excess work during the busy season will result in fatigue and a tight time budget for auditors, which will result in low audit quality. The reason for the busy season from the auditors is that many companies ended in December for the fiscal year.

Conclusion and Suggestion

The research model conducted by Sihombing (2018) is different from this research model. Sihombing did not include Risk Management and Risk-based internal audit variables, thus giving different results. Based on the results of interviews with several informants who understand internal auditing in local governments, they said, by implementing risk-based auditing, problems related to workload will be resolved. The reason is, with the application of risk-based internal audit, not all universe audits are audited, only those with high risk. Internal auditors cannot carry out risk-based internal audits if the local government has not implemented risk management.

Based on the research results, we can suggest that local governments start implementing for it. In the early stages of risk management implementation, the internal auditor played a supervisory role by providing guidance and assistance in each regional work unit. After that, the application of risk management is mature, so the internal auditor can take a risk-based audit approach.
References


