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**THE PROFESSIONAL PROFICIENCY OF  
INTERNAL AUDIT FUNCTION IN INSPECTORATE  
REGENCY/CITY IN WEST SUMATERA**

**THESIS**



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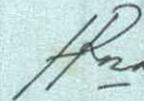
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## CONTENTS

THESIS APPROVAL LETTER	
ABSTRACT	i
ACKNOWLEDGEMENT	ii
CONTENTS	vii
LIST OF FIGURE	viii
LIST OF TABLE	ix
CHAPTER I INTRODUCTION	
1.1 Background	1
1.2 Problem Definition	3
1.3 Research Objectives	4
1.4 Research Benefit	4
1.5 Research Scope	5
1.6 Writing systematic	5
CHAPTER II THEORITICAL FRAMEWORK	
2.1 Internal Control	6
2.2 Internal Audit	8
2.3 Government Internal Audit	10
2.4 Inspectorate Regency/City	13
2.5 Professional Proficiency of Internal Audit	15
2.6 Standard Professional Proficiency of Internal Auditor	16
2.7 Previous Research	19

## CHAPTER III RESEARCH METHOD

3.1 Populations	21
3.2 Sample	22
3.3 Variable and Measurement	
3.3.1 Variable Identification	23
3.3.2 Variable Measurement	23
3.4 Data Collection Method	25
3.5 Data Analysis	25

## CHAPTER IV RESULT OF THE RESEARCH

4.1 Sample Overview	27
4.2 General Information of Inspectorate that Taken as sample	27
4.3 Research Result	
4.3.1 Staffing	30
4.3.2 Knowledge, Skill and Discipline	31
4.3.3 Supervision	32
4.3.4 Compliance with Standard of Conduct	34
4.3.5 Knowledge, Skill and Discipline of Internal Auditors	35
4.3.6 Human Relation and Communication	38
4.3.7 Continuing Education	39
4.3.8 Due Professional Care	40

CHAPTER V CONCLUSIONS

5.1 Conclusions	44
5.2 Research Limitation	46
5.3 Research Implications	46
5.4 Suggestion	47

REFERENCES

APPENDIX

## LIST OF FIGURE

Figure 1.1 Inspectorate Regency/City Organization Structure

14

## LIST OF TABLE

Table 4.1 Questionnaires Distribution	27
Table 4.2 Process of sending and Receiving Questionnaires	28
Table 4.3 Data Respondents	28
Table 4.4 Personnel Numbers and Gender in Internal Audit Department	29
Table 4.5 Personnel specification background of internal Audit Function	29
Table 4.6 Distribution Answer for Owing Criteria for Selecting Staff	31
Table 4.7 Inspectorate Knowledge about Government Standard	32
Table 4.8 Reviewing and Supervising Audit Program	33
Table 4.9 Accordance with Standard of conduct	35
Table 4.10 Standard Conduct in each Inspectorate Regency/City	36
Table 4.11 Level of Knowledge, Skill and Discipline Internal Auditor	36
Table 4.12 Major Skill Background of Internal Auditor in Inspectorate Regency/City	37
Table 4.13 Internal Auditor Submitted the Report	38
Table 4.14 Meeting Period of Internal Auditor and Bupati/Walikota	39
Table 4.15 Availability of Continuing Education Program	40
Table 4.16 Step after Finding Fraud	41
Table 4.17 Compilation Plan of Annual Audit	42
Table 4.18 Documentation of Discussion Activity	42

## CHAPTER 1

### INTRODUCTION

#### 1.1 Background.

Internal auditing can also be recognized as an organizational control that functions by measuring and evaluating the effectiveness of other controls. When an organization establishes its planning and then proceeds to implement its plans in terms of operations, it must do something to monitor the operations to ensure the achievement of its established objectives. These further efforts can be thought of as *controls*.

Internal controls comprises the plan of organization and all of the coordinate methods and measures adopted with a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies (Moeller and Witt).

While the internal audit function is itself one of the types of controls used, there is a wide range of other controls. The special role of internal audit is to help measure and evaluate those other controls. Thus, internal auditors must understand both their own role as a control function and the nature and scope of other types of controls in the organization.

Inspectorate is element to support in every department to apply controlling for action in government environment. Task and function of inspectorate are difference between departments. Generally, inspectorates do function as controller

and Investigator for common administration, finance and performance (Agoes and Hoesada, 2009).

Governmental and nonprofit accounting and reporting principles and standard evolved separately from those for business enterprises. Furthermore, unique principles and standard evolved separately for each of the several major types of Government and Nonprofit Organization (Freeman and Shoulders, 2003).

Existence of Inspectorate Department in the government is important function for controlling. To evaluate effective and efficient all part of regency/city of government, Inspectorate do the function consist for the norm. In Government Regulation No. 79, 2005 Chapter 24 verse 1 & 2 explain; (1) Controlling about Government arrangement in territory area doing by Government internal control apparatus concordant with function and authority, (2) Government internal control apparatus as meaning in verse (1) are General Inspectorate Department, control unit government institute non department, Inspectorate of province, and Inspectorate of Regency/City. In the explanation, Inspectorate as internal control but not discuss more specific about the part of job description and authority.

This topic continue to Government Regulation No.60, 2008 Part II about Internal Controlling in doing task and function in Government Instance : Government Internal Control Apparatus doing controlling consist of audit, review, evaluation, monitoring and other control activity. From this regency, the changes are the task description more explain specific. As internal control the task input internal audit. And theses focus on internal audit function.

As a profession, inspectorate department do professional job concordant with function and authority. The purpose of the Standards for the Professional Practice of Internal Auditing is to provide auditors with specific professional guidance relating to the responsibilities of internal auditing.

Internal audit function will be effective if it is support by the good quality of internal auditor. The good quality of internal auditor is internal auditor that having professional proficiency in operating internal audit function. various method can be conduct to known the level of internal auditor, some of them are through employee position method, level of ability and knowledge of internal auditor, internal auditor supervision, compliance to the standard, relationship and communication, continuing education and due professional care (*Standards for the Professional Practice of Internal Auditing*).

General Inspectorate also have their own vigilance department to investigate matters relating to fraud, misappropriation etc. additionally, there are also periodic inspections. All these activity help government to ensure that all departments in government operations are running properly in the manner as to achieve its objectives. The statutory auditor depends upon the finding from these independent checks to evaluate the efficacy of internal control systems in the Inspectorate and plans the extent and nature of audit accordingly.

## 1.2 Problem Definitions

Based on the description in problem background above, problem to be discuss in this research can be formulate as the following :

1. How the professional proficiency levels exist on Inspectorate in West Sumatera?
2. Are Inspectorates in West Sumatera having effective professional proficiency for internal audit department?

### 1.3 Research Objectives

The purposes of performing this research are:

1. To obtain explanation about profile of internal audit function of Inspectorate in West Sumatera.
2. To assess whether professional proficiency of internal audit function owned by Inspectorate in West Sumatera run effective in supporting government to control and give learning for all part included.

### 1.4 Research Benefits

The benefits expected of conducting the research are:

1. The result of the research can be used by the researcher to understanding about professional proficiency of internal audit function of Inspectorate in West Sumatera.
2. This research can give information for any people who need to know about role and profile of professional proficiency of internal audit function of Inspectorate in West Sumatera, beside that it can evaluate the quality of internal auditor dong maximal as function of internal audit department in Government.

## 1.5 Research Scope

This research was conducted with a focus on Professional Profession of Internal Audit function in inspectorate. A part of Standard for the professional Practice of Internal auditing, there are; Independence, *Professional Proficiency*, Scope of Work, Performance of audit Work and Management of internal Audit Department. Other part not analyze in this thesis.

Sample of organization are Inspectorate of Regency/ City in west Sumatera. Inspectorate are control tool for Government, Internal audit are separate function in Inspectorate are doing by all Inspectorate Employee. Profession will analyze are employee does function as internal audit in action.

## 1.6 Writing Systematic

The writing systematic of this research comprises five parts. The first chapter describes background, problem definition, research design, research purpose and benefit and also writing systematic. The theoretical framework of The Professional Proficiency Of Internal Audit Function in General Inspectorate Department of Regency/City in West Sumatera are identify in the second chapter.

The research methodology including the research design, scope of the research, data resources and population and sampling method are review in the third chapter. The analysis of the research results and other factors that could influence the findings applied in the fourth. And the fifth part presents the conclusions, limitations and suggestions of this research.

## CHAPTER II

### THEORETICAL FRAMEWORK

#### 2.1 INTERNAL CONTROL

Controlling is a various actions done by a management to improve the possibility of reaching objective and goals. (Elder, Beasley and Arens, 2008)

COSO has developed this definition of internal control:

*Internal control is a process, affected by an entity's board of directors ["governance body" like an owner], management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, Reliability of financial reporting, Compliance with applicable laws and regulations.*

For internal control to be effective, the COSO Framework requires all five of these components to be effective. These derived from the way management runs a business and integrated with management process. These components presented by the COSO study are:

1. Control Environment. The core of any business is its individual attributes including integrity, ethical values and competence, and the environment in which they operate.
2. Risk Assessment. The entity must be aware of and deal with the risk facing. It must set objectives, integrated with sales, production, marketing financial and others activities so that the organization is operating in concert.

3. **Control Activities.** Control policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risk to achievement of the entity objectives are effectively carry out.
4. **Information and Communication.** These enable the entity people to capture and exchange the information needed to conduct, manage and controls its operations.
5. **Monitoring.** The entire must be monitored and modification made as necessary.

Internal auditor should develop an understanding of internal control. In the absence of controls, the door is wide open for error or fraud. As trusting as we might be of the quality of the accounting and integrity of people, there are constant reminders in the media that we should "Trust, but verify." We have also seen how after-the-fact misunderstandings over who said what to whom and when often arise when frauds and misstatements are discovered. What auditors seem to think is obvious often results in a concern over "why did you not tell me?" Who is at fault when the trusty bookkeeper absconds with the funds? Those charged with governance are often heard to say "That's what we hire you for." Well, it is now reemphasized in the literature that control gaps need to be explicitly communicated by the auditor. And since more attention will be given to the design of the controls, you can expect that more issues will be identified.

## 2.2 INTERNAL AUDIT

Internal auditing is described in the Statement of Responsibilities of Internal Auditing as an independent appraisal activity within an organization for the review of operations as a service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls.

The institute of internal auditors defined internal auditing as an independent, objectives assurance and consulting activity designed to add value and improve an organization operations. It help organization accomplish its objectives by bringing a systematic, discipline approach to evaluate and improve the effectiveness of risk management, control and government process”.

(Moeller and Witt) internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The remainder of the IIA’S statement covers a number of important terms that apply to internal auditing work:

- 1) Independent. Is used for auditing that is free of restrictions that could significantly limit the scope and effectiveness of the review or the later reporting of resultant findings and conclusions.
- 2) Appraisal. Confirm the need for an evaluation that is the thrust of internal auditors as they develop their conclusion.
- 3) Established. Confirms that internal audit is a formal, definitive function in the modern organization.
- 4) Examine and evaluate. Describe the active roles of internal auditors, first for finding inquires and then for judgmental evaluation.

Internal auditors give assurance to board of directors about the condition of internal operating problem. Several of its activities are required support from management. Internal auditor should have written agreement from management. In implementation, an internal auditor should behave professionally. This professional attitude will increase performance of internal auditor itself.

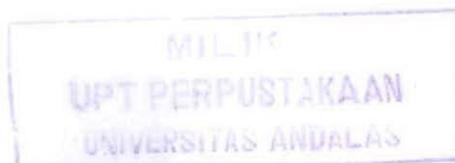
(Tunggal, 2010) Management periodically assesses the quality of internal control performance to determine that Controls are operating as intended that they are modified as appropriate for changes in conditions (monitoring). The five categories of control activity are;

1. Adequate separation of duties
2. Proper authorization of transaction and activities
3. Adequate document and record
4. Physical control over asset and records
5. Independent checks on performance

### 2.3 GOVERNMENT INTERNAL AUDIT

Government Fund are largest amount, the responsibilities for fund using to operational government activity should support by Internal Control department to control fund distribution are flat to all public sector. So, the affectivity and efficiency useful of fund can responsibility by government.

(Freeman and Shoulders, 2003) Aspect of Government and Non-Profit Organization operations that may be regulated or otherwise controlled include the following: Auditing, frequency of audit; who is to perform the audit; scope and



type of audit; time and place for filling the audit report; who is to receive or have access to the audit report.

Internal Audit are separate function in Inspectorate Regency/City. This function will responsible to conduct all internal audit activity. (Moeller and Witt) Functional organizations have the potential for major efficiencies. Each functional unit should be designed to operate in its own area of responsibility and expertise. In a functional organization, policy and direction come down from higher levels and problems requiring resolution flow up to appropriate levels.

(Agoes andHoesada, 2009) Government internal audit is Professional Internal Audit that work in government instance, main task is to audit and financial responsibilities that report by unit organization or Government entity. Internal audit will responsibilities the audit result and do consultation with auditee then report to Government.

(James, Peters and Scott. 2004) Control in the sense used in this book is a synonym for steering or governance. Put abstractly, control is whatever keeps the state of any given system within some desired subset of all its possible states. To evaluate the existence or extent of control in that sense always involves judgment, and the existence of control can never be induced from indices of input or activity. In orthodox constitutional theory, the two classical institutional mechanisms for making executive government accountable and keeping it under control in liberal-democratic states are oversight by elected representatives and legal adjudication by an independent judiciary.

These two classical control mechanisms are normally held to have replaced the controls over government associated with earlier monarchical structures (including royal auditors, censors or procurators, inspectors or commissioners).

If one reason for this study is to explore similarity and difference in control over government across different societies, another is that control is central to contemporary doctrines about good governance. But those doctrines are contested in at least three ways. One is the debate about how effective oversight, in the sense used in the previous section, can be as a way of controlling public services.

Most descriptions of how government and public organizations are controlled tend to begin with an account of the formal oversight arrangements, but how far those arrangements deliver 'control' in the broader analytic sense defined above is much more debatable, and the equation of control with oversight can often be seen as a basic fallacy in the study of public administration and public law.

(Rupper, Warent. 2006) What makes not-for-profit organizations so special that they need their own best practices for their audit committees? The easy answer is that not-for-profit organizations do not have as their primary motive the objective to make a profit. But this answer does not explain what makes not-for-profit organizations unique, particularly from a financial accounting and reporting perspective.

Not-for-profit organizations are created by organizers that come to own no stock or other ownership interest in the organization. These organizations are set up according to various state not-for-profit corporation laws, and obtain tax exempt status after application to the Internal Revenue Service.

The organization has to be set up for purposes of pursuing what it defines as its objective, or *exempt function*, that is appropriate and allowable for a not-for-profit organization. The organization cannot be created for purposes of providing a private financial benefit to the organizers of the organization, successor governing board members, or management members outside of their normal compensation.

In other words, a not-for-profit that has accumulated significant net assets by consistently having excesses of revenues over expenses can't be sold or transferred to someone else, nor can the board, management, or the original organizers share in these accumulated resources for their own benefit. Not-for-profit organization audit committee members should be aware of these requirements because they are so different from those of business enterprises.

#### 2.4 INSPECTORATE REGENCY/CITY

Government regulation of Republic Indonesia No. 60, 2008. Inspectorates of Regency/City are apparatus for Internal Control in the government who have direct responsible to Bupati/Walikota.

Inspectorates perform internal control by Audit, Review, Evaluation, Observation and other control activity. The audit describe consist of: (a)

Performance Audit, (b) Audit with special purpose. Performance audit are audit for financial manager of country and action of job and function of government instance which consist of Economical, Efficiency and effective.

General function of inspectorate, (Agus andHusada, 2009) are:

- 1) Do function as controller and Investigator for common administration, finance and Performance.
- 2) Report the result of cont.
- 3) Rolling and investigate.
- 4) Monitoring and evaluate as continuity the result of controlling and investigate.
- 5) Developing and become perfect for control system.

(Permendagri No.44, 2008) describe about all standard using in internal audit activity doing by Inspectorate Regency/City;

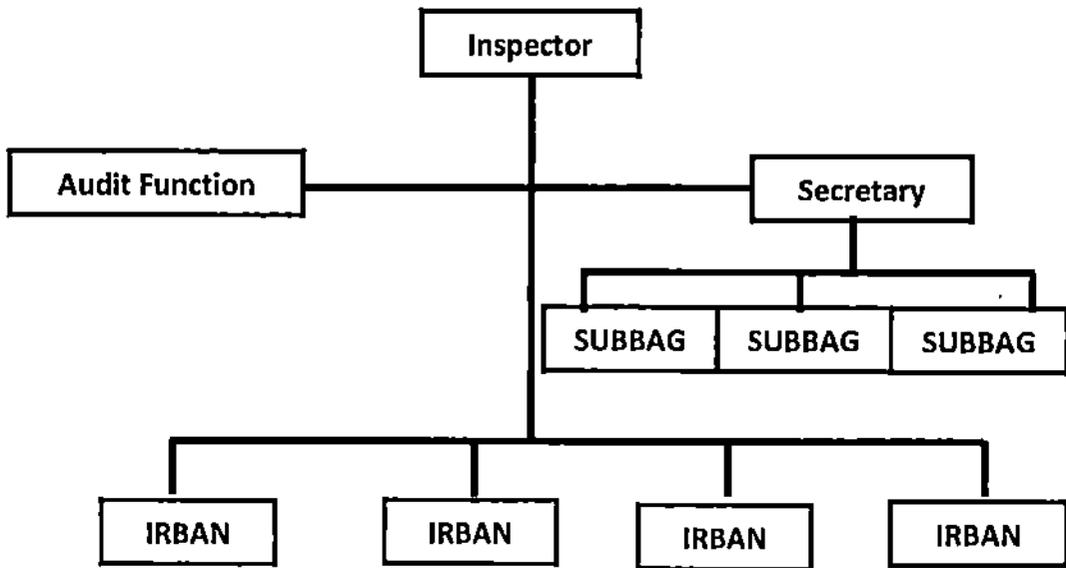
1. UU No.32, 2004. Local Government
2. Government Regulation No.79, 2005. Control guideline for Local Government Activity.
3. Government Regulation No. 41, 2007. Organization structure for Local Government.
4. Permendagri No. 57, 2007. Organization Structure Role.
5. Permendagri No. 23,2007. Internal Control role for Local government operating with focus to priority and add control object concordant with Government Control.



Internal Audit is one of functional in Inspectorate Regency/city, this information can show with Organization structure of Inspectorate regency/City;

Government Regulation No. 41, 2007, describe about Inspectorate Regency/City Organization Structure.

Figure 1.1  
Inspectorate Regency/City  
Organization Structure



## 2.5 PROFESSIONAL PROFICIENCY OF INTERNAL AUDIT

Department/function and the individual of internal audit have its own role to play and each has differing opportunities to further professional proficiency. (Moeller and Witt) Professional Proficiency is the responsibility of the internal auditing department and each internal auditor. The department should assign to each audit those persons who collectively possess the necessary knowledge, skill and disciplines to conduct the audit properly.

Professional proficiency is one of those interesting term that can be viewed at varying levels. At its highest level, the term encompasses the achievement of total internal auditing effectiveness. As used in the preceding paragraph, however, the term relates more to how internal audit work is carried out for particular assignment. As such, professional proficiency becomes the responsibility of both the internal auditing department and the individual auditor. Professional proficiency include the objective of matching staff personnel with audit assignment in a manner that best assures a high level of internal auditing services to the organization.

To achieve the objective, there must be both adequate audit department capabilities as well as strong sensitivity for exercising due professional care. Of course, measurement and evaluation in these areas is very difficult. So consideration must be given to the concepts of reasonableness, the significance of activities being audited, the costs of audit work and the expected benefits. Thus, judgment becomes the final determinant.

The standard guidelines relating to due professional care focus on concerns in such areas as fraud, compliance and conservation of assets. Despite this protective orientation, however, an internal auditor should not forget the relevance of due professional care in carrying out the broader management improvement types of audits. The needs for proper opportunities for greater management effectiveness and profitability. These dual objectives of protection and improvement often distinguish the internal from the external auditor.

## 2.6 STANDARD - PROFESSIONAL PROFICIENCY OF INTERNAL AUDITOR

Internal audits should be performed with proficiency and due professional care.

- 1) Determine if audit personnel are familiar with the *Code of Ethics* of the Institute of Internal Auditors.
- 2) Review and evaluate the education and background of the auditing staff, continuing professional education, and the personnel performance evaluation process. See detailed review procedures below - Professional Proficiency - Standard 220
- 3) Evaluate supervision to learn if it is a continuing process. See detailed review procedures below - Supervision - Standard 230.
- 4) Determine if the entity has adopted a policy to ensure that the internal audit director is notified promptly of existing or suspected fraudulent situations.
- 5) Determine whether the internal auditors comply with their responsibilities as they relate to deterring, detecting, investigating, and reporting fraud. See detailed review procedures below - Due Professional Care - Standard 280.
- 6) Evaluate technical references and library facilities.

### Standard 210 - Staffing

- 1) Review the educational and professional background of the internal audit staff members. Determine if the staff possesses the appropriate accounting, auditing, MIS skills, and related experience and education.
- 2) Review job descriptions for staff positions. Determine if:
  - a) Position descriptions exist for each level of audit staff.
  - b) Job descriptions provide suitable criteria for education and experience.

- c) Each staff member meets the criteria of education and experience.
- d) Job descriptions for each level of audit staff are appropriate.

#### Standard 220 - Knowledge, Skills, and Disciplines

- 1) Review information on specialized skills required by the auditing department. Determine if:
  - a) The director of internal auditing is a certified public accountant or a certified internal auditor.
  - b) Any specialized skills or expertise are required to meet the unique need of the entity effectively.
  - c) Specialized skills are needed. Does current staff possess these skills?
  - d) Any consultants were used during the review period. If so, were the qualifications of the consultants and the type of assistance provided appropriate?
- 2) Continuing Education
  - a) Review continuing education.
  - b) Determine if there is a written continuing education policy.
  - c) Determine if departmental policy requires a specific number hours per year of continuing professional education for each auditor and if it meet the requirements of government auditing standards.
  - d) Review the department's training records. Determine if they are sufficient, complete, and current.
  - e) Review the courses taken during the past two years.
- 3) Performance Evaluations

- a) Review samples of performance evaluation forms.
- b) Determine if all personnel receive at least annual performance appraisals and counseling.
- c) Determine if a policy exists regarding the evaluations of internal auditors after each audit

#### Standard 230 - Supervision

- 1) Determine the working papers provided evidence of supervisory review. Describe the method used (dates and initials on individual working papers, memo describing the nature and extent of review, etc.).
- 2) Determine whether the director of internal auditing or another supervisor provided opportunities during the audit for staff members to discuss changes to the scope, objectives, or procedures.
- 3) If appropriate, determine whether the auditors could communicate differences of opinion beyond their immediate supervisors and whether the working papers show how they resolved the situation.
- 4) Determine whether the supervisory review appeared to have addressed:

#### Standard 280 - Due Professional Care

- 1) Determine if internal auditors met their responsibility for assisting in the deterrence of fraud by evaluating and testing the adequacy and effectiveness of internal controls commensurate with the exposure and risk of the audited area.
- 2) Determine if internal auditors were alert to opportunities that could allow fraud.

## 2.6 Previous Research

There is some previous research about this issue, that researches becoming the base of this research. WahyuniIntanSuri (2009), research about The Professional Proficiency of Internal Auditing Function of Bank Companies in Padang. The research find that generally bank companies that being samples have internal audit function and have focus to the professional proficiency of its department and its internal auditor, and also to assess effectiveness of internal audit function of bank companies in Padang to establish the existing of good corporate governance.

(Prihartono. 2005)General Inspectorate for Agriculture Departments is important in government operational running good governance and clean governance. Control activity is influence by auditor performance, all action and behavior in doing audit activity still concordant with code of ethics and audit standard. Auditor behavior and relationship between auditors should make well communication. For this purpose, auditors must understand about how to make a good team and organization purpose.

Other country has conducted research about internal audit function of listed company. One of the surveys conducted globally in the year 1975 by Institute of Internal Auditor (IIA) (Chamber, 1981, 137). From this research, it is known that more than 30% internal audit department examined all of company activities. Internal audit department gives the report to the directors or higher level functionary by 54%. Fifty three % internal auditors have qualified accountant. Regularly, 77% internal auditor's head office conducts meeting with audit

committee. And 92% internal audit departments discuss the finding and its recommendation with audile.

In the same year, IIA also conducted research in England (Chambers, 1981, 160) and found that 56% manufactured companies owned internal audit department. From that research also known 97% listed companies England already have internal audit department.

In Indonesia, research about internal audit function of listed company (Amdeni, 2004) found that generally listed company have internal audit function and focus to the professional proficiency. I used this research as a basic for my research. The differences between both researches are; in this research I used General Inspectorate of Regency/City in West Sumatera as population, the variable identification and measurement for this research are same with previous.

## CHAPTER III

### RESEARCH METHOD

This chapter explains about the method that used in this research. This explanation includes population and sample, identification and measurement of the variables, data collecting method and data analyzing method.

#### 3.1 Populations

Population of this research is General Inspectorate of Regency/City in West Sumatera. The totals of population that can be identified are eighteen Inspectorates. The names of each Inspectorate are:

1. Inspectorate of Dharmasraya Regency
2. Inspectorate of Sijunjung Regency
3. Inspectorate of Sawahlunto City
4. Inspectorate of Solok City
5. Inspectorate of Solok Regency
6. Inspectorate of Solok Selatan Regency
7. Inspectorate of Padang City
8. Inspectorate of Pesisir Selatan Regency
9. Inspectorate of Padang Pariaman Regency
10. Inspectorate of Pariaman City
11. Inspectorate of Agam Regency

12. Inspectorate of Bukittinggi City
13. Inspectorate of Padang Panjang City
14. Inspectorate of Payakumbuh City
15. Inspectorate of Limo puluh Koto Regency
16. Inspectorate of Pasaman Barat Regency
17. Inspectorate of Pasaman Timur Regency
18. Inspectorate of Tanah Datar Regency

### 3.2 Sample

Researcher chooses some inspectorate to distribute the questionnaire in some inspectorate. Total sample are five Inspectorates from eighteen total in West Sumatera or 28%. Number of five samples are choose by researchers because limitation of time and cost because to get information from Regency should follow the procedure and need minimal a week.

Sample choose randomly, by take all name of Regency/City in West Sumatera put in a Box and take five name randomly. For result, the names of Inspectorate are:

1. Inspectorate of Dharmasraya Regency
2. Inspectorate of Padang Pariaman Regency
3. Inspectorate of Solok Regency
4. Inspectorate of Padang city
5. Inspectorate of Payakumbuh Regency

Researcher will distribute 1 questionnaire to each Inspectorate. Sample of this research is the number of Inspectorate that returns the questionnaires to researches. Here, researcher hopes 100% of spreading questionnaires return. Determinations of sample about 100% because of researcher realize level of responding from responder higher through direct survey.

Using judgmental sampling method chooses the Inspectorate sampled. The data will collect from employee ever do internal audit, because audit staff is the people who responsible to the internal audit function and has information related to the research.

### 3.3 Variable and Measurement

#### 3.3.1 Variable Identification

The variable in this research are specific standard for the professional practice of internal auditing. This specific standard will divide into two part, internal auditing department and internal auditor. They are: for internal auditing department (1) staffing, (2) knowledge, skill and disciplines, (3) supervisions. And for internal auditor : (1) compliance with standards of conduct, knowledge, skill, and disciplines, (2) human relation and communication, (3) continuing education, and (4) due professional care.

#### 3.3.2 Variable Measurement

Internal audit function:

- 1) Staffing. This variable gives certainty to internal auditing function to considerate the techniques and the formal education of internal auditor.

The research used questions with dichotomous scale. So that the possibility of answer are "yes" or "no". Each answer will be calculated in percentage and finally researches will describe the result.

- 2) Knowledge, skill and discipline. This variable developed with using a closed-question and open ended question. These questions are measure by Lykerts scale with; score one for very good, score two for good, score three for good enough, score four for bad, and score five for very bad.
- 3) Supervision. The aim of supervisions is to control internal activities. These variables measured by dichotomous scales.

Internal auditor:

- 1) Compliance with standard of conduct. This variable assesses the compliance of internal auditor in conducting their job. This matter depicted in closed-questions, which are measured by dichotomous scale and open-ended question.
- 2) Knowledge, skill and discipline. This variable is depicted in closed-questions and open-ended questions. This variable measured by dichotomous scale and lykert scale. Open-ended question support closed-question.
- 3) Human relation and communication. This variable supported by question using category and dichotomous scale. The category scale uses multiple items to elicit a single response and respondents are asked to answer one of the answer choice.

- 4) Continuing education. Internal audit function is expected to improve technical ability of its internal auditor with continuing educations. This variable is supported by dichotomous scale question.
- 5) Due professional care. This variable supported by questions that measured using dichotomous scale and category scale.

### 3.4 Data Collection Method

Data collected in this research is primary data through questionnaires that directly distribute by researcher. Questionnaires using in order to get exact required data. Questionnaires using two kinds of questions such as open-ended questions and closed questions. Open-ended question allow respondents to answer in any way they choose and closed question, in contrast, closed question would ask the respondent to make choices among a set of alternatives given by the researcher.

### 3.5 Data Analysis

Data analyze using description analysis. It's used in order ascertain and be able to describe the characteristics of the variables, in this case is internal audit function of General Inspectorate Department in Padang City and to offer a profile relevant aspects of internal audit function.

The steps in data processing are:

1. Making tabulation of data from the gained answer through questionnaires for all questions in knowing profile of professional proficiency of General Inspectorate of Regency/City in West Sumatera.

2. Calculating the tabulation result from of percentage from every respondents answer. There are three types of questions in this research, they are:
  - a. The question that expected to be answered 'yes' or 'no'.
  - b. The question that gives several alternatives answered.
  - c. The question that expected sampling unit allowed respondent to answer based on the condition in the companies (no alternative answered).
3. The result of gained percentage described its exposition, and then it should be accordance with the performing of achieved data with standards for the Professional Practice of Internal Auditing.

## CHAPTER IV

### RESEARCH RESULT AND DISCUSSION

#### 4.1 Sample Overview

This research was conducted to measure the professional proficiency of internal audit function. The object of this study is Inspectorate regency/city in West Sumatera. There are five Inspectorate choose randomly as sample in this study. The questionnaires were given to internal audit function in Inspectorate regency/city. Process of data collecting is started at the 16 December 2011 by giving questionnaires to respondent through direct survey. All Inspectorate give positive impact for this study, no problem find by distributes these questionnaires. Table 4.1 shows the distribution of Questionnaires.

Table 4.1 Questionnaires Distribution

Type of Inspectorate	Questionnaires Given	Questionnaires Failed	Questionnaires Processed
Inspectorate Regency/City	5	0	5

#### 4.2 General Information of Inspectorate that Taken as Sample

Total of distributed questionnaires are five and all questionnaires return with answer. Complete illustration about the process of sending and receiving questionnaires shows in table 4.2.

Table 4.2 Process of Sending and Receiving Questionnaires

Sending Questionnaires	5
Receiving Answer Questionnaires	5
Percentage	100 %
Proper Questionnaires to be processed	5
Percentage	100 %

Based on table 4.2 above, we know that five sample can be analyzed with percentage is 100%. Respondent are employee that have authorize to answer question, choose by Inspector in each Inspectorate Regency/City. Information about respondent who give information will show in table 4.3.

Table 4.3 Data Respondents

Regency/City	Name	Position
Dharmasraya Regency	Mardinus, SE	Young Auditor
Padang Pariaman Regency	HariPurnama Kin, SE	Staff
Lima Puluh Kota Regency	Irma Esmeralda, SE	Sekretary
Solok Regency	SyamsulBakri, SH. MH	KasubagAdm and General
Padang City	Chanriyani, SH. MH	P2UD

From research known that male personnel of internal auditor function that being samples is in amount of male 61.5% and female only 38.5%. For numberinternal auditor of inspectorate regency/city in west Sumatera rather to choice male than woman in recruiting. Exclude Padang city, amount of male less

than female. Its mean, the recruiting of internal auditor function staff not depend on Gender. Clearly it can be shown in the next table.

Table 4.4 Personnel Numbers and Gender in Internal Audit Department

Inspectorate	Male	Female
Padang City	3	13
Dharmasraya Regency	20	4
Solok Regency	30	16
Limo Puluh Kota Regency	27	23
Padang Pariaman Regency	16	4
Total	96	60
Percentage	61.5 %	38.5 %

From questionnaires data also get information about personnel's background of internal audit function that being the sample. In general, personnel of internal audit function have certified of Under Graduate Degree (UG) 57.7%, Master Degree is 9% and Junior High School is 23.7%. The respondent answer can be shown in table 4.5.

Table 4.5 Personnel Specification Background of Internal Audit Function

Background	Internal Audit Function	Percentage
Master Degree	14	9 %
Undergraduate degree	90	57.7%
Diploma	15	9.6%
Senior High School	37	23.7%

Total	156	100%
-------	-----	------

Internal Auditor with background Senior High School is old standard but still work until now. New standard change the criteria of internal auditor staff that have background minimal diploma. These changes are showing the increase quality of internal auditor in Inspectorate regency/city.

#### 4.3 Research Result

Using descriptive study, variable that related to professional proficiency of internal audit function will be described as given data by respondent. This analyzing will be grouped for some categories, which is able to explain the levels of its categories. By using the categories level, explaining about variable will shows the result of this research with the real condition.

The analysis is divided to two primary part from general standard for the professional practice of internal auditing, it consist of internal audit function and internal auditor, which is supported by staffing, knowledge, skill and discipline, supervision, compliance with standards of conduct, knowledge, skill and discipline of internal auditor human relation and communication and continuing education.

#### Internal Audit Function

##### 4.3.1 Staffing

The internal audit function should provide assurance that the technical proficiency and educational background of internal auditor are appropriate for the

audits to be performed. This variable discusses how to occupy internal auditor in the internal audit function in accordance with the qualification of good internal auditor.

Inspectorates are main function to control activity and tools to follow the performance of local government. Inspectorate Local government of regency/city is expected to recruit the member that is able to conduct the function and finally, it related with effort to reach goal of internal auditing function.

The question related with occupying personnel, distribution of respondents answer for owning criteria in selecting staff shows in table 4.6.

Table 4.6 Distribution Answer for Owning Criteria for Selecting Staff

Description	Numbers of answer	Percentage
Inspectorate have criteria in selecting staff	5	100%
Inspectorate don't have criteria in selecting staff	0	0
Total	5	100%

From data collected five respondents (100%) of inspectorate that being sample has criteria in selecting staff to audit work. It's in accordance with professional practice of internal auditing. For this condition we know that Inspectorate Regency/City in west Sumatera that being samples able to provide assurance that they have good internal auditor background. This statement should be supported with the condition of establishing criteria that can be implemented.

#### 4.3.2 Knowledge, skill and Discipline

The purpose of this analyzing is to ensure internal audit function obtains the necessary; knowledge, skill and discipline need to discharge its responsibilities. Internal audit function should have members from several disciplines. It's related with conducting internal audit process. The unqualified skill; knowledge and discipline will affect ineffectiveness of internal audit function.

Inspectorate Regency/city will Apply standard from government, by follow procedure inspectorate should adopt Standard from Government and then Regency/City will make own Standard that concordant with Government. Internal Audit Function should have knowledge about detail explanation in standard, they should have skill to understand and how to apply the standard. The information About Knowledge, skill and discipline can evaluate by give a question to respondent about standard. Table 4.6 will describe about Inspectorate Regency/City Knowledge, skill and discipline in Indonesia Government Policy No. 60 2008 part 5. All Inspectorates should prepare and apply code of ethic.

Table 4.7 Inspectorate Knowledge about Government standard

Description	Numbers of answered	Percentage
Prepare and apply code of ethic	2	40%
Not yet prepare and apply code of ethic	3	60%
Total	5	100%

Most of Inspectorates not yet to apply standard of Code Ethic. Inspectorate need more time to conduct new standard by follow procedure in each Regency/City. Generally, all Inspectorate have Knowledge about standard and will apply the standard. Inspectorates in some Regency/city are late to adopt government standard.

#### 4.3.3 Supervision

In professional standard for internal auditor said that internal audit function should provide assurance that internal audit are properly supervised. Supervision itself is a kind of continuing process.

The scope consist of providing suitable instruction to subordinates at the outset of the audit and approving the audit program, seeing that approved audit program is carried out unless deviation are both justified and authorized, determining the adequacy of internal audit program, making sure that the audit report are accurate, objective, clear, constructive and timely and determining that the internal audit objectives are being met.

One of the questions related to this variable is about reviewing and supervising internal audit program in the Inspectorate regency/City that being samples. The distribution of the answer is shown in table 4.8.

**Table 4.8 Reviewing and Supervising Audit Program**

Description	Number of answered	Percentage
Internal audit Function reviewed audit program	5	100%
Internal audit function do not reviewed audit program	-	0
Total	5	100%

From table 4.8 above, internal audit being samples reviewed and supervise audit program (100%). It indicate that audit program of internal audit function is generally supervised. The supervision is not only for the program but also in implementing and achieving the result.

From open ended question, got result that all internal audit function of Inspectorate in Regency/city being sample had official functionary to review internal audit working paper. The official functions consist of; Head of Internal Audit Team, Audit Management, Staff Controller of government and Inspector.

We can summarize that internal audit being samples able to provide assurance that internal audit working paper is adequate to support audit finding and in general internal audit department being sample provides assurance that audits are properly supervised.

Internal Auditor

#### 4.3.4 Compliance with Standards of Conduct

Internal auditor should comply with Professional Standard of Conduct in conducting the audit. The code of ethics of the institute of Internal Auditor sets for standard of conduct and provide basis for enforcement. The code calls for high standard of honesty, objectivity, diligence and loyalty to which internal auditor should conform. The internal auditor from Inspectorate Regency/City being sample has asked a question about accordance with professional standard of conducts. The distribution answer of this question will be showed in table 4.9.

Table 4.9 Accordance with Standards of Conduct

Description	Numbers of answered	Percentage
Respondents implementing standards of conduct	5	100%
Respondent don't implementing standards of conduct	-	0
Total	5	100%

From open-ended question has known that Inspectorate established standard from Government. From each Inspectorate have different answer, Inspectorate Regency/city use standard by Local Government that authorize by Bupati/Walikota. All standard apply in regency come from central Government. Information about standard compliance will show in table 4.10.

Table 4.10 Standard conduct in each Inspectorate Regency/City

Inspectorate	Kind of Standard Conduct
Padang City	Operational audit standard
Dharmasraya regency	BPKP
Solok Regency	Bupati Policy No.36 2009 about Inspectorate Audit standard
Limo Puluh Kota Regency	Permendagri No.47 2011
Padang Pariaman Regency	Operational audit standard

#### 4.3.5 Knowledge, Skill and Discipline of Internal Auditor

Internal auditor should possess the knowledge, skill and discipline essential to the performance of internal audit. Internal auditor should possess certain knowledge and skill as proficiency in applying internal auditing standard, procedures, techniques and proficiency in accounting principles and techniques. From data given by respondent, the major discipline, which is mastered by internal auditor at Inspectorate being sample is accounting.

From data above, average number of respondent that assess their knowledge, skill and discipline as very good is about 20% and good 80% for Internal audit skill.

No one respondent valued their internal knowledge, skill and discipline as bad and very bad. This result indicate that respondent valued their internal auditor quality with sufficient.

Inspectorate Regency/city has higher level to disciplines basis of internal auditing, accounting, management, taxation and computer system. The complete information about this valuation will be showed in table 4.11.

Table 4.11 Level of knowledge, skill and Discipline Internal Auditor

Discipline	Criteria	Total	Percentage
Internal Audit	Very good	1	20%
	Good	4	80%
	Good enough	-	0
Accounting	Very good	1	20%
	Good	3	60%
	Good enough	1	20%
Management	Very good	1	20%
	Good	4	80%
	Good enough	-	0
Economic	Very good	1	20%
	Good	3	60%
	Good enough	1	20%
Taxation	Very good	1	20%
	Good	3	60%
	Good enough	1	20%
Computer System	Very good	1	20%
	Good	3	60%
	Good enough	1	20%

There is also information about the skilled background of internal auditor for Inspectorate Regency/city being sample in west Sumatera. It will show in next table 4.12.

Table 4.12 Major Skill background of Internal Auditor in Inspectorate Regency/City.

Discipline	Numbers of answered	Percentage
Accounting	30	25%
Economic	5	4%
Management	14	12%
Statistic	-	0
Information System	1	1%
Taxation	-	0
Law	19	16%
Other	50	42%
Total	119	100%

According table above, 25% internal auditor of Inspectorates being sample come from accounting. 1% from Information System, Government today moves to using Computerize for saving and make financial report. It's better if number information System skill improve. No people with statistic and taxation as background of study.

Government have role for staff that will apply internal audit function should got audit certifications by BPKP (BadanPemeriksaKeuanganPemerintah). Professional auditor should have background Undergraduate. Old standard describe about criteria for Internal Audit minimal have background senior High School and change to new standard for minimal background is Diploma.

#### 4.3.6 Human Relations and Communication

Internal auditor have own ability dealing with others and communicating effectively. In this case the auditor can understand human relation and maintain satisfaction relationship with audiles and internal auditor have to own professional proficiency in oral written communication so that they can clearly and effectively convey such matters as audit objectives, evaluations, conclusions and recommendations.

From data given by respondents, inspectorate give report the Audit opinion to high level position and all Inspectorate report all information to Bupati/Walikota. From this answer we indicate that internal auditor function in Inspectorates Regency/City that being sampled in conducting activity able to deal with others and try to take care of good relationship with auditee, by submitted the report. In forwarding this report, internal auditor of course have link with audit committee and with auditee in communicating its finding. The complete information can be shown in table 4.13.

Table 4.13 Internal auditor submitted the Report

Description	Submitted Report
Padang City	<ul style="list-style-type: none"><li>• Inspector</li><li>• Walikota</li></ul>
Padang Pariaman Regency	<ul style="list-style-type: none"><li>• Bupati&amp;WakilBupati</li><li>• BPK &amp; BPKP</li></ul>
Dharmasraya Regency	<ul style="list-style-type: none"><li>• Bupati</li><li>• BPK &amp; BPKP</li></ul>

Solok Regency	<ul style="list-style-type: none"> <li>• Bupati</li> <li>• Auditee</li> </ul>
Lima Puluh Kota Regency	<ul style="list-style-type: none"> <li>• Bupati</li> <li>• Auditee</li> </ul>

From research result also gathered that the Head of Inspectorate being sample doing periodical meeting with Bupati/Walikota. As we can see in table 4.13, 80% respondents were conducting meeting once a month with Bupati/Walikota and 20% Respondent doing meeting quarterly.

It indicates that internal auditor of inspectorate Regency/City have periodical schedule with Bupati/Walikota, so they can clearly and effectively recommend certain things such objective of an audit, evaluation and ideas.

Table 4.14 Meeting Period of Internal Audit and Bupati/Walikota

Period of meeting	Numbers of answered	Percentage
Once a month	4	80%
Quarterly	1	20%
Semi Annually	-	0
Annually	-	0
Total	5	100%

### 4.3.7 Continuing Education

Internal auditor has to improve their technical competence through continuing education. Internal auditors are responsible for continuing education in order to maintain their proficiency. They should keep informed about improvement in standard, procedures and techniques by Government. Continuing education may be obtain through attend at conferences, seminar and college courses.

From questionnaires answer, all Inspectorate Regency/City give answer that the internal audit function have continuing education program. Table 4.15 shows the continuing education program from internal audit function being sampled.

Table 4.15 Availability of Continuing Education Program

Description	Numbers of answered	Percentage
Internal audit function have continuing education program	5	100%
Internal audit function don't have continuing education program	-	0
Total	5	100%

Continuing education is important for internal auditor because internal auditor should develop their knowledge and skill to get update information and technology. So, internal auditors are able to find the inappropriate thins and frauds in the Government Instance.

#### 4.3.8 Due Professional Care

The auditors have to exercise due professional care, which is as proper as in executing an audit. This accuracy has to be adapted by the level of difficulty of an audit which is being conducted. In this case, internal auditor should be alert to the possibility of irregularity, errors, inefficiency, waste, ineffectiveness and conflict of interest.

An internal auditor told to own professional proficiency if they work with accuracy and able to find the fraud happened. These finding should report to management or Bupati/Walikota. By open-ended questions, respondent answer for consultation with Government Instance are 60%, majority Inspectorate Regency/City have authorize to Consultation with Instance directly after finding fraud. This information will be shown in table 4.16.

Table 4.16 Step after Finding Fraud

Description	Numbers of answered	Percentage
Consultation with Government Instance	3	60%
Give Report to Bupati	-	0
Consultation with Government Instance and give report to Bupati	2	40%
Total	5	100%

Next question that is supported this variable can be shown in table 4.16, about compilation plan of annual audit. All Inspectorate have plan audit periodic,

its means internal audit program in Inspectorate Regency/City are Structural. And have report annually. Good controlling activity, and as tools of measurement of Internal Audit activity at end of period.

Table 4.17 Compilation Plan of Annual Audit

Description	Numbers of answered	Percentage
Respondents compile plan of annual audit	5	100%
Respondents do not compile plan of annual audit	-	-
Total	5	100%

All of respondent have compiled plan annual audit. This matter is indicated that respondents have owned good due professional care. In executing due professional care means to use efficiency and assessment of inspection properly and one of judgments an internal auditors known wide or scope from work of audit that is needed to reach of audit target.

Other related question in the questionnaires is about documentation of discussion activities show in table 4.18.

Table 4.18 Documentation of discussion Activities

Description	Numbers of answered	Percentage
Respondents make documentation of discussion activities	5	100%
Respondents do not make documentation of discussion activities	-	0
Total	5	100%

From above tables, all of the respondents have documented result of discussion activity that has been conducted in their audit working paper. With documentation of discussion activity, internal auditor has been careful in documentation so it can be as tool to control others activities.

Supervision of audit program also reflects the due professional care. If from this supervision could detect fraud, so due professional care of Inspectorate Regency/city in West Sumatera that being sampled in this context is effective.

## CHAPTER V

### CONCLUSIONS

This research show about profile of internal audit function of Inspectorate Regency/City in West Sumatera. Describe the professional proficiency of internal audit function and internal auditor. Assess effectiveness of Inspectorate regency/City.

Based on the result of the research that has been exposed in previous chapter, there are some conclusions and the limitations of the research.

#### 5.1 Conclusions

1. Professional proficiency of internal audit function in Inspectorate regency/city in West Sumatera that being sampled had internal audit function and focus to the professional proficiency of its function and internal auditor.
2. All Inspectorate Regency/City have criteria in selecting staff to audit work and able to provide assurance that they have good internal auditor background. This research find changes from last procedure can accept staff with background Senior High School can do Internal Audit Function, in new standard the staff can be internal auditor minimal backgrounds are diploma. Inspectorates Regency/City are increase quality of internal auditor will conduct internal audit function.
3. All Inspectorate regency/city review and supervise the audit program. It indicate that audit program of internal audit function is supervise by high

authority to control internal audit activity. High authorize also review internal audit working paper.

4. All Inspectorate Regency/City being sample have complied with professional standard of internal audit established by Government of Regency/City by conduct and adopt central government standard. Local Government has authority to make own standard but still concordant with role given by Central Government.
5. Major background of Internal audit Function in Inspectorate for Accounting are 25% and law 16%.
6. This research find that internal audit function in Inspectorate submit these report to Inspectore, Bupati/Walikota, BPK&PBKP, and auditee. It indicate that internal auditor in Inspectorate Regency/City that being sampled in conducting activity able to deal with others and try to take care of good relationship with audiles. When Inspectorate find fraud in government instance, Inspectorate will got consultation with audile to correcting any fraud and report to Bupati/Walikota, so we can assess there is communicating between Internal auditor, Bupati/Walikota and auditee.
7. All of inspectorate Regency/City that being sampled continuing education program for their internal auditor to increase Knowledge, skill and discipline.
8. Inspectorate Regency/City compiled plan of annual audit and documentation the result of audit as tools to control other activity.

9. The professional proficiency for internal audit function and internal auditor in Inspectorates Regency/City in West Sumatera Being Sampled are effective.

## 5.2 Research Limitations

Limitations of this research are:

1. From total Eighteen Inspectorate regency/city in West Sumatera, choose five as being sampled because limitation of time, cost and complete procedure. Researcher should follow procedure; get license from Research Department, get permit from Inspector before got employee to answer the Questionnaires and need a week to return of questionnaires.
2. In answering questionnaires, researches can't control and more explain directly about information needed for Inspectorate regency/city.

## 5.3 Research Implications

This research is expected can give advantage as judgment for any people concerned to know about profile of professional proficiency of Inspectorate Regency/City. Research can be as tool to evaluate the quality of internal auditor being better in maximizing the function of internal audit in government sector.

Researcher also expected can improve the knowledge of parties related and give contribution of literature developing, specialize for internal audit function. Give information about Internal Audit Profession in Government and the quality of internal audit function.

#### 5.4 Suggestion

Advices that can be given for further research excellence are:

1. Increase number of Inspectorate Regency/City being sampled, to increase accurately to analyses the professional proficiency are effectively.
2. Next Researches can improve the measurement for this research by add questions that will be show more information about professional Proficiency in Inspectorate Regency/City.

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## QUESTIONNAIRES

### Survey Internal Audit Function in Inspectorate Regency/City

**A. General Information about Inspectorate : (Please completed)**

1. Regency/City :
2. Office address :
3. Informer name :
4. Position :

General information about Internal Audit functions in Inspectorate.

1. That internal audit has criteria in recruitment staff to work as internal auditor?

Yes  
 No

2. That internal audit program are review and agreed by high authorize?

Yes  
 No

3. Who Auditor staff has authorized to review working paper?

- 1) .....
- 2) .....
- 3) .....
- 4) .....
- 5) .....

4. That Internal Audit Inspectorate in doing function have standard as reference?

Yes  
 No

5. If 'Yes' Which Standard are using in doing function as internal audit?

.....  
.....

6. That inspectorate plan and apply code of ethic to increase integrity and ethic in doing function?

Yes                       Still in process  
 No

7. Value for knowledge and skill of internal audit:

Internal audit  
 Accounting  
 Management  
 Economic  
 Taxation  
 Computer System

1 = Very good

2 = Good

3 = Good enough

4 = Bad

5 = Very bad

8. For who internal audit report will giving?

1) .....  
2) .....

9. That inspector periodically have meeting with High Authorize to discuss audit result?

Yes  
 No

10. If "Yes", Meeting periodic is:

Once a month  
 Quarterly  
 Semi annually  
 Annually

Other, .....

11. That internal audit / Inspectorate have continuing education program for internal auditor?

Yes  
 No

12. What step will doing if internal auditors find significant fraud?

- 1) .....
- 2) .....
- 3) .....
- 4) .....

13. That internal audit Inspectorate arranges annual audit planning?

Yes  
 No

14. That all audit activity will documenting in working paper?

Yes  
 No

Please completed table below:

a. Total internal audit staff :

	People
Male	
Female	

b. Amount of Internal audit background :

	People
Master	
Undergraduate	
Diploma	
Senior high School	

c. Amount of Internal auditor skill :

	Orang
Accounting	
Economic	
Management	
Statistic	
Information System	
Tax	
Law	
Other	

.....,..... December 2011

Informer

(.....)

For advancing Knowledge

Thanks for participation in this research