SUMMARY

MALIKI HERU SANTOSA. Development Strategy of Government Internal Audit System for Better Governance. Supervised by SYAMSUL MAARIF, ERIYATNO and TRIAS ANDATI

The problems on governance system such as frauds or management irregularities, namely unaccountable financial practices and poor public service deliveries have raised some questions to the effectiveness of Units of Government Internal Audit (GIA). One of the evidences indicating poor governance on GIA system is the low financial accountability of government institutions in 2014, where there are only 70.93% of central government institutions and 49.80% of regional governments received unqualified opinion on their financial statements, granted by the Supreme Audit Board. In 2015, the performance accountability was also poor, where 49.9% of Provincial Governments in Indonesia got CC (scored between 50-60) or lower, and such figure for municipal governments was 80.3%. The corruption perception index in 2015 was also very poor, putting Indonesia at no 88, below its neighboring countries Malaysia and Thailand. From the view point of ease of doing business, in 2016 Indonesia stand at number 103 in world ranking and at 7th position in the ASEAN.

Internal audit is recognized as one of the main pillars with valuable contribution to governance implementation, not only at operational level, but also at strategic level through its role on assurance, compliance (detecting and preventing frauds), and advisory. The effectiveness of internal audit function is very essential in establishing good governance, due to its role on the improvement of risk management, control, and governance in organizations. In line with the important role of internal audit function, the GIA should therefore be able to protect and promote effectivity of governance. However, various problems on governance today has raised questions to the effectiveness of GIA.

The existing value gap, the complexity of the role and functions of the GIA and the limited previous studies, make it necessary to study the GIA in systemic concept. The purpose of this study is to formulate (1) the factors that influence the effectiveness of the GIA; (2) holistic mechanisms in strengthening GIA in management and institutional aspects; (3) Strategy for the development of GIA systems and (4) Model of Institutional Strategy for GIA system development. This study is expected to identify systemic issues and provide policy strategy that is holistic and integrated in the development of the government internal audit system. The study was carried out using qualitative and quantitative approach, with system methodology that begun with a literature review, analysis of regulations, indepth interviews, Focus Group Discussion (FGD) and then continued with the instrument Analytical Hierarchy Process (AHP) and Interpretive Structural Modeling (ISM).

Settings on the GIA are spread over several regulations and policies. There has been no regulation governing the internal audit holistically, thus came the consequences of a lack of clarity, lack of harmony, inconsistency and tend to conflict either between the legislation or with the conception of best practices such as the conception of internal audit, oversight, internal monitoring, controlling and scope, activities, and issues related to independency of internal auditors. This is due to: (a) policy makers do not understand the role of the Government Internal Audit; (B) The commitment and support of stakeholders and issues management maturity. From the results of the situational analysis obtained through questionnaires on 205 (Chief Audit
Executive), it was concluded that the top priority would be changes to the human resources to be more professional and full with integrity, while the second priority was in regulations that put more emphasis on the independence and support from stakeholders.

The results of in-depth interviews with 24 informants or experts representing various stakeholders revealed the strategic issues on the professionalism of GIA’s human resources, independence and objectivity of the GIA, stakeholder supports, management maturity, as well as regulation and harmonization of regulations related to supervisory activities. AHP survey on 13 experts showed that in improving GIA system the main strategies would be the strategy of governance, risk management and control, which are believed to accelerate the improvement of the effectiveness of the GIA system. This suggests that the role of stakeholders who have quality and mature management is a prerequisite in creating an effective GIA system. The role of stakeholders with good management maturity is required in establishing effective GIA system, and the key success factors are professional, independent, and honest GIA practitioners, supported with clear and sufficient legal mandate.

Furthermore, from Interpretative Structural Modelling (ISM) with 10 experts on the maturity and professionalism of GIA’s human resources program, it was known that stakeholders play a major role in realizing this program. Elements of the needs, constraints and possible change directly relate to stakeholders. The relation among factor of effectiveness also converged on the role of stakeholders. The main changes required is to increase knowledge and awareness of the stakeholders as the foundation of a strong commitment to support and implement governance, risk management, and controls.

Building management maturity, including the maturity of governance, risk management and control, is a challenge and a very fundamental change in the context of management. This relates to the habits or culture through which these changes encourage the creation of governance, risk and control culture. On that purpose, we need a right change strategy by taking into account relevant important factors and the strategic issues.

The institutional modelling describes the abstraction of holistic and synergetic GIA system, which will accelerate the creation of better governance, taking stakeholders and relevant contextual factors into account, with appropriate change strategies, empowerment, active involvement of stakeholders, encouraging the creation of needs, justifiable and acceptability. Institutional Model of GIA system was derived from the convergence of systems analysis, strategic priorities and ISM with attention to the relationship of coordination and synergy between appropriate agencies of government structures. Increased competence and quality of the relationship between institutions and in both central and local government becomes the main thing in building this GIA system.

The policy implication is the need for structuring policies and regulations related to the program in addition to simultaneously build awareness, understanding of, the needs of the importance of the management maturity and professional GIA. Some of important policies are the Public Sector Risk Management Policy and the Law on Government Internal Supervision/oversight.

**Keywords:** Analytical Hierarchy Process (AHP), Government Audit Internal, Management maturity, Interpretative Structural Modelling (ISM), System.