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THE EFFECTIVENESS OF INTERNAL AUDIT IN ACHIEVING GOOD GOVERNANCE

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ABSTRACT

Purpose: This study examines the role of internal audits in promoting good governance in the public sector.

Methodology/approach: A qualitative approach with a case study method was employed. Data were collected through document analysis, interviews with ten auditors and two auditees, and a focus group discussion (FGD) with Parepare Local Government Internal Audit teams. The data were analyzed using thematic analysis.

Findings: The study found that internal audits significantly contribute to good governance. However, challenges such as limited technical proficiency, high staff turnover, and inadequate follow-up on audit recommendations reduce their effectiveness. Additionally, lack of direct communication and incomplete distribution of audit reports to auditees hinder implementation.

Practical implications: The findings emphasize the need to improve auditor competence, management support, and follow-up processes to enhance the effectiveness of internal audits in public sector governance.

Originality/value: This study contributes to understanding how internal audit impacts good governance based on four dimensions: input, process, output, and outcome. It also offers valuable insights into public sector audit practices, particularly in developing countries.

Keywords: Audit Effectiveness; Good Governance; Internal Audit; Public Sector.



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ABSTRAK

Tujuan penelitian: Penelitian ini bertujuan untuk mengkaji peran audit internal dalam mewujudkan good governance di sektor publik.

Metode/pendekatan: Penelitian ini menggunakan pendekatan kualitatif dengan metode studi kasus. Data dikumpulkan melalui analisis dokumen, wawancara mendalam dengan sepuluh auditor dan dua auditi, serta diskusi kelompok fokus (FGD) dengan anggota tim Audit dari Inspektorat Kota Parepare. Data wawancara dan FGD dianalisis menggunakan analisis tematik.

Hasil: Hasil penelitian menunjukkan bahwa audit internal memainkan peran yang signifikan dalam mewujudkan good governance. Namun, terdapat beberapa tantangan, diantaranya keterbatasan kompetensi teknis auditor, tingginya tingkat mutasi staf, serta rendahnya persentase tindak lanjut terhadap rekomendasi audit yang mana dapat menghambat efektivitas audit internal. Selain itu, kurangnya komunikasi langsung dan permasalahan distribusi laporan audit kepada auditi juga menjadi hambatan dalam pengimplementasi rekomendasi audit.

Implikasi Praktis: Penelitian ini menekankan pentingnya peningkatan kompetensi auditor, dukungan manajemen, serta penguatan mekanisme tindak lanjut untuk meningkatkan efektivitas audit internal dalam mewujudkan good governance di sektor publik.

Orisinalitas/kebaharuan: Penelitian ini memberikan kontribusi dalam memahami bagaimana audit internal mempengaruhi good governance di sektor publik berdasarkan empat dimensi, yaitu input, proses, output, dan outcome. Penelitian ini juga memberikan wawasan berharga mengenai praktik audit internal di sektor publik, khususnya di negara berkembang.

Kata kunci: Audit Internal; Efektivitas Audit; Good Governance; Sektor Publik

INTRODUCTION

Over the past two decades, "good governance" has become a key concept in government discussions, emphasizing accountability, responsiveness, transparency, fairness, and efficiency (Bank, 2002). These principles, as highlighted by Alqooti (2020), are essential for achieving better performance and public trust. They also play an important role in strengthening oversight and regulatory processes in government institutions while improving

performance (Rahayu et al., 2020). In the public sector, "governance" has been adopted as a foundational principle to ensure the effectiveness of government operations. Internal audit serves as a crucial component in achieving good governance in the public sector, as it supports the roles of oversight, insight, and foresight (Jolta Kacani et al., 2024). The oversight function involves supervision, the insight function provides an understanding of implementation, and the foresight function examines alternative future options. According to Alwi and Yuyetta (2020), internal audit ensures accountability in the public sector, promotes good governance, and ensures that organizational objectives are achieved.

In Indonesia, between 2003 and 2004, the government issued three packages of State Finance Laws—Law No. 17 of 2003 on State Finance, Law No. 1 of 2004 on State Treasury, and Law No. 15 of 2004 on the Audit of State Financial Management and Responsibility—as part of its efforts to implement good governance. These laws aim to establish transparent and accountable state financial management, which serves as the foundation of good governance. However, despite nearly two decades of these laws, the implementation of good governance remains suboptimal. Transparency International's 2022 Corruption Perception Index ranked Indonesia 110th out of 180 countries, scoring 34 out of 100—below the global average of 43 and trailing ASEAN peers such as Thailand, Vietnam, and Malaysia (International, 2023). These global challenges are reflected locally in regions such as Parepare City, where corruption and inefficiencies in financial management remain pressing issues. This connection highlights the interplay between global governance issues and their manifestations at the local level, reinforcing the need for targeted regulatory frameworks to address these challenges.

The study utilizes a structured approach to directly address these issues through regulatory frameworks, bridging the gap between policy design and practical application. By aligning the framework with Government Regulation (PP) No. 60 of 2008 concerning the Government Internal Control System and Regulation of the Head of BPKP (Perka) No. 8 of 2021 concerning APIP Capability Assessment, this paradigm ensures practicality and feasibility, making it fit for implementation in the Indonesian public sector context, while offering a novel perspective on evaluating the effectiveness of internal audit functions. This approach differs from previous studies that commonly use theoretical frameworks, as it focuses directly on implementing regulations to strengthen governance in the public sector.

Parepare City, located in South Sulawesi, which serves as the research object, highlights these challenges. A 2018 audit by BPK-RI revealed corruption, leading to a downgrade in BPK's opinion from "Unqualified" to "Qualified." Furthermore, BPK-RI's audit reports over the past decade indicate numerous significant financial findings, including unresolved recurring issues. These problems highlight the ineffectiveness of internal audits conducted by IAF. The Internal Audit Function (IAF) in the Indonesian government, conducted by the Government Internal Supervisory Apparatus (Aparat Pengawasan Internal Pemerintah, APIP), plays a key role in state financial management.

Internal audit plays a crucial role in achieving good governance. Accountability is one of the key elements of good governance that often draws attention. Accountability has a significant impact on the performance of public services and the quality of financial reports (Rahayu et al., 2020). Furthermore, the enhancement of accountability plays an important role in strengthening anti-corruption efforts. The study shows that quality audits can enhance financial transparency and accountability (Eulerich & Eulerich, 2020). The more effective the internal audit unit, the greater the improvement in local government financial accountability and governance (Christopher, 2015; Gamayuni & Nurdiono, 2018).

The concept of internal audit has undergone a paradigm shift, evolving from a focus solely on accounting issues to a broader aim of improving outcomes and helping the auditee operate more effectively and efficiently. The Internal Audit Function (IAF) plays a central role in ensuring that government organizations perform their functions and programs effectively. In addition, internal audits are considered effective when they provide actionable recommendations (Erasmus & Coetzee, 2018; Furqan et al., 2020). They also ensure financial accountability, and provide assurance that internal controls in local government are functioning properly (Pamungkas et al., 2019; Rahayu et al., 2020). Furthermore, Lino et al. (2022) highlight that internal audits must be capable of detecting fraud. The implementation of recommendations is an important measure of audit effectiveness (Alzeban & Gwilliam, 2014; Furqan et al., 2020). The continued presence of audit findings indicates that the recommendations provided by the IAF are not being properly implemented.

Several studies have shown that effective internal audits can enhance compliance and the quality of organizational governance. Improved compliance and governance can, in turn, enhance organizational performance, as evidenced by the improved quality of financial reporting (Pamungkas et al., 2019; Panggabean, 2019). Research by Alqudah et al. (2019) suggests that effective internal audits support organizations in achieving their objectives while safeguarding their assets and funds. The effectiveness of internal audits is influenced by factors such as management support, cooperation with external auditors, independence, and extrinsic rewards, all of which significantly impact the effectiveness of internal auditors. States that internal audit is a key practice for organizations to control compliance and realize good governance (Turetken et al., 2020). Rahayu et al. (2020) concurs, emphasizing that both internal and external auditors play a crucial role in ensuring good governance. Moreover, studies that show the opposite also strengthen this argument. Ineffective internal audits cannot guarantee success and may, in fact, hinder the achievement of organizational goals (Alwi & Yuyetta, 2020).

Literature on internal audit effectiveness highlights several factors influencing the effectiveness of the Internal Audit Function (IAF). Erasmus and Coetzee (2018) identify auditor competence and management support as key factors, while Alqudah et al. (2023) emphasize the importance of budget adequacy. Alwi and Yuyetta (2020) point out that independence and compliance with audit implementation standards also play a significant role. In addition, the effectiveness of an audit can be measured by the number of audit findings and recommendations that are followed up (Furqan et al., 2020). An effective internal audit has been proven to improve organizational governance.

This study proposes that meeting the elements of the IACM ensures an effective IAF and promotes good governance. The model comprises four dimensions—input, process, output, and outcome—that interact to drive governance improvements, as illustrated in Figure 1.

Figure 1.
The four dimensions of Internal Audit (IA) effectiveness

		IA-CM MODEL						
		INPUT			PROCESS		OUTPUT	OUTCOME
ELEMENT	HUMAN RESOURCES MANAGEMENT	PROFESSIONAL PRACTICES	PERFORMANCE MANAGEMENT AND ACCOUNTABILITY	ORGANIZATIONAL RELATIONSHIPS AND CULTURE	GOVERNANCE STRUCTURE	ROLE AND SERVICES	Adequate Assurance on Compliance and 3E	Effective and Efficient Activities
TOPIC	HR Development	Quality Assurance and Improvement Program	Working Plan and Budgetting	Internal Communication	Funding Mechanisms	Compliance Audit	Early Warning and Enhancing the Effectiveness of Risk Control	Reliability of Financial Reporting
	HR Planning		Budget Implementation	IAF's Relationship with Management	Full Access to Information	Performance Audit		Maintaining and Improving Governance Quality
		Supervision Planning	Performance Measurement	Coordination with External Parties	Assured Reporting	Assurance on GRC		
			Reporting to Management			Consulting		

The input and process dimensions are derived from the IA-CM (Internal Audit Capability Model), which is a tool designed to assess the capability of internal audits in the public sector. The IA-CM consists of five levels, six elements, and 18 topics, these criteria stated in Regulation of the Head of BPKP No. 8 of 2021. A higher level indicates a more effective Internal Audit Function (IAF) in carrying out its roles. The Input dimension includes five elements: 'Human resources management,' 'Professional practices,' 'Performance management and accountability,' 'Organizational relationships and culture,' and 'Governance structure.' The Process dimension encompasses the 'Role and Services' element (BPKP, 2021). Additionally, the Output and Outcome dimensions align with Government Regulation No. 60 of 2008 and Regulation of the Head of BPKP No. 8 of 2021. The output includes: providing adequate assurance on compliance, economy, efficiency, and effectiveness (3E); an early warning system and improved risk management; and enhanced governance. The outcomes include: efficient and effective operations; reliable financial reporting; asset protection; and compliance with laws and regulations.

This four-dimensional approach not only reflects regulatory requirements but is also designed to address practical challenges in managing internal audits in the Indonesian public sector. This framework enables a comprehensive evaluation of APIP effectiveness in achieving good governance.

METHODS

This study employs a case study method, chosen for its ability to provide a detailed analysis using multiple data sources (Yin, 2011). The internal audit unit of the Parepare Local Government was selected as the case for this study. The research begins by identifying key issues, conducting a systematic literature review, collecting qualitative data, and performing data analysis. This research procedure involves two main stages. The first stage evaluates the alignment of the implementation of internal audit practices in the IAF Parepare. The implementation of internal audit practices in the IAF Parepare is compared against the standards outlined in the IA-CM framework, which includes six elements and 18 topics. These criteria are specified in Regulation of the Head of BPKP No. 8 of 2021. The elements analyzed include the input dimensions: Human Resource Management, Professional Practices, Accountability and Performance Management, Organizational Relationships and Culture, and Governance Structure, as well as the process dimension: Roles and Services. The second stage examines how internal audits contribute to achieving good governance in Parepare City. This includes analyzing the objectives of internal audits conducted by the Parepare City Inspectorate and evaluating the output and outcome dimensions during this stage, which align with Government Regulation No. 60 of 2008 and Regulation of the Head of BPKP No. 8 of 2021. The output includes providing adequate assurance on compliance, economy, efficiency, and effectiveness (3E); an early warning system and improved risk management; and enhanced governance. The outcomes include efficient and effective operations, reliable financial reporting, asset protection, and compliance with laws and regulations.

The number of informants in this study follows the principle of saturation, meaning additional informants are added until no new information emerges (Lincoln & Guba, 1985). The interview protocol was designed based on qualitative research methodologies as outlined by Kvale and Brinkmann (2009) and Creswell (2018). It includes introductory, key, and closing questions to ensure comprehensive data collection while maintaining flexibility for informants to elaborate their answers. The sample size ranges from ten to fourteen informants, which is sufficient for qualitative research interviews (Creswell, 2018). The

informants include auditors from the Internal Audit Function (IAF), evaluation teams from the Government Internal Supervisory Apparatus (BPKP), and selected auditees. These informants were chosen based on their direct involvement in internal audit activities, ensuring that the interviews are conducted with individuals who have a comprehensive understanding of and direct experience with the research issues.

To ensure data quality, triangulation is employed, using multiple data sources. Four sources of data are utilized in this study: document review, in-depth interviews, Focus Group Discussions (FGDs), and field observations. Primary data is collected through in-depth interviews and FGDs with selected informants. The interview questions were developed in alignment with the IA-CM framework, Government Regulation No. 60 of 2008, and the Regulation of the Head of BPKP No. 8 of 2021 to ensure relevance to the study objectives. Additionally, field observations are conducted to gather supplementary information and enhance the results of the interviews. The researcher directly observes the research site to support data from documents and interviews. Relevant documents reviewed include audit plans, audit work programs, working papers, and audit reports, which provide secondary data.

FGDs and field observations help strengthen emerging patterns and cross-check data collected from interviews and documents, enhancing the validity of the findings. Braun and Clarke (2006) thematic analysis was employed for data analysis, including the organization of data, coding and thematic identification, triangulation to validate findings, and drawing conclusions. The themes identified correspond to the six elements and 18 topics outlined in the IA-CM framework, ensuring the alignment of the findings with regulatory standards. After developing the internal audit effectiveness analysis model, a case study protocol was created to guide the design of data collection instruments, data gathering, data analysis, and drawing conclusions.

RESULTS AND DISCUSSION

The analysis followed the thematic analysis approach proposed by Braun and Clarke (2006), beginning with data familiarization, coding, and thematic identification. Triangulation was applied to cross-verify findings from document analysis, in-depth interviews, FGDs, and field observations to ensure validity. Document data was used as a guideline to understand the current condition of the IAF. In-depth interviews were then analyzed to develop preliminary themes, which were further explored and validated during FGDs. Field observations were conducted to validate findings from other sources and provide additional contextual insights.

The informants in this study consisted of 7 auditors from the IAF of Parepare Local Government, 3 auditors from BPKP, and 2 auditees of the IAF. The auditors held various positions, ranging from supervisors to team members. The FGD was attended by an internal team, involving individuals who were part of the IACM team. Through coding and thematic analysis, the main themes emerged, focusing on the elements of the IA-CM framework and the role of internal audits in governance improvement. The purpose was to obtain views from both external and internal perspectives to strengthen the research analysis.

IACM Implementation - Input and Process

The effectiveness level of internal audit in the public sector can be assessed based on the IACM capability levels. These capability levels are divided into five stages, further elaborated into six elements and eighteen topics. The higher the level, the more effective the internal

audit unit (IAF) or APIP is in conducting audit and oversight activities. The determination of APIP's capability level is governed by BPKP Regulation No. 8 of 2021 on the Capability Assessment of Government Internal Supervisory Apparatus in Government Institution, which is an adaptation of the Internal Audit Capability Model (IACM)—an internationally recognized model for measuring the capability levels of public sector audit units.

Based on the latest assessment conducted by BPKP, the IAF in Parepare City was rated Level 3 IACM (Delivered). This indicates that the IAF has been carrying out oversight activities (assurance and consulting) in accordance with standards, maintaining quality, and providing adequate assurance related to compliance, the 3Es (economy, efficiency, and effectiveness), early warnings, enhanced risk management effectiveness, and governance improvements for the organization.

The Input dimension includes five elements: 'Human Resources Management,' 'Professional Practices,' 'Performance Management and Accountability,' 'Organizational Relationships and Culture,' and 'Governance Structure.' Meanwhile, the Process dimension encompasses the 'Role and Services.'

Human Resources Management

Based on document reviews, interviews, and FGD results, it was found that all IAF auditors have obtained auditor certification. However, informants agreed that several challenges remain, such as an insufficient number of auditors, leading to non-ideal and often shortened audit durations due to adjustments based on the available personnel. Furthermore, limited training budgets prioritize fulfilling promotion requirements over technical training that enhances competency. The existing training programs are primarily allocated for auditors, while management officials—who play a critical role in reviewing audit results—rarely have the opportunity to participate.

Additionally, this issue is exacerbated by the high turnover rate in IAF management positions, which occurs approximately every two years—a short period for developing a comprehensive understanding of how oversight should be conducted. This leads to knowledge gaps in auditing, both between auditors and management as well as among team members.

Auditor certification is essential for competence and audit quality (Alsughayer, 2021). Improving IAF competence is vital for successful oversight. In this study, efforts to enhance auditor competence have been inadequate due to budget constraints and limited training programs. This results in auditors being less updated on the latest practices, impacting IAF performance. Competent auditors with the necessary knowledge and skills are critical for effective internal audit activities (Alsughayer, 2021; Turetken et al., 2020).

Professional Practices

The IAF has implemented a Quality Assurance and Improvement Program (QAIP) to enhance the quality of internal audit processes. QAIP involves tiered reviews that engage all levels of the audit team, from team members to the Chief Audit Executive, to ensure compliance with audit standards and regulations. This procedure involves re-examining audit evidence to verify adherence to established guidelines. However, in-depth interviews and FGDs revealed that, due to the absence of a reward and punishment system, not all teams fully adhere to these procedures. Additionally, limited training opportunities contribute to discrepancies in the quality of reviews between teams. Some management-level personnel

also face challenges in reviewing audit reports due to limited understanding of audit substance, often caused by insufficient training opportunities.

QAIP has long been recognized as essential for ensuring compliance with professional standards and delivering significant organizational value (Sambharakreshna et al., 2024). This approach has been adopted by the Parepare City IAF as a mechanism to consistently meet audit standard requirements. Maintaining auditor competence requires management support for pursuing certification programs and training during their service in the public sector. Training for internal auditors is a vital tool for enhancing Internal Audit Effectiveness (IAE) (Mpakaniye, 2022). The high staff turnover often results in knowledge loss, limiting the capacity of internal audit units to provide effective services to management (Wati et al., 2022). Nonetheless, the adverse effects of high personnel turnover on auditor competence can be mitigated through regular training initiatives.

Performance management and accountability

There are four indicators used to measure the performance of the IAF: the percentage of follow-up completion on audit recommendations, the percentage of public complaint case handling, the maturity level of internal control, and the capability level of the IACM. Among these indicators, one has not met its target: the percentage of follow-up completion by internal auditors. The low follow-up completion rate indicates that both the IAF and the auditees have not demonstrated effective collaboration in addressing each audit recommendation. Additionally, the absence of a follow-up monitoring mechanism is another factor contributing to the low achievement of follow-up completion.

The quality of internal audit is determined by the auditor's ability to provide findings and recommendations, and can be considered effective if the recommendations are implemented (Furqan et al., 2020). If follow-up is not carried out, the benefits of the recommendations will be lost and the credibility of the internal audit will decline (Pamungkas et al., 2019). Moreover, if no follow-up is conducted, it means there are still unresolved issues.

Organizational relationships and culture

The IAF, as part of the Local Government's management, actively participates in various forums and is regarded as an essential element of organizational governance. The IAF has also established coordination with external auditors, such as the Provincial Inspectorate, the Supreme Audit Board (BPK RI), and the Financial and Development Supervisory Agency (BPKP). Collaboration with other auditors is typically undertaken to prevent duplication of oversight efforts. This cooperation and coordination provide significant benefits in enhancing the effectiveness of internal audits. Academic studies indicate that coordination between external and internal auditors enhances the competence of internal auditors, thereby enabling management to deliver higher-quality public services through their collective efforts (Alqudah et al., 2023).

Governance structures

The IAF is positioned under the Regional Secretary within the local government structure, who also serves as an auditee. Additionally, the IAF holds the same hierarchical level as GLUs, which are also auditees. This arrangement has the potential to affect the objectivity and independence of the IAF. Informants stated that the IAF's position should be placed higher than the GLUs to enhance its independence and objectivity when performing internal audit functions, particularly in presenting field findings in the oversight reports. Furthermore,

some informants suggested that the IAF could achieve greater independence if it were structurally placed outside the local government organization, thereby reducing the risk of undue interventions. Internal audits must maintain an independent stance to effectively perform their duties without interference (Aikins et al., 2022). Studies further highlight that organizational independence is a crucial factor influencing the effectiveness of internal audits (Alqudah et al., 2019). A lack of independence can lead to perceptions of bias and susceptibility to various external influences (Alwi & Yuyetta, 2020).

Services and role of internal auditing

The IACM level assessment emphasizes the type, quality, and quantity of services provided by the IAF to stakeholders. A higher IACM level indicates a broader range of services and greater scope. Achieving Level 3 in the IACM means that the IAF has effectively carried out assurance activities and provided consulting services. This aligns with research by (Rahayu et al., 2020), which highlights the critical role of modern internal audits in organizational governance through quality assurance and consulting services.

In performing assurance activities, tiered reviews have generally been conducted, starting from the planning phase, implementation, to the preparation of the audit report. Additionally, coordination between the IAF and auditees has been running well. However, informants acknowledge that there are still auditees who are difficult to cooperate with and slightly hinder the audit process. This commonly occurs due to delays in submitting the documents required for the audit.

Communication between the auditee and the auditor is crucial. The auditee is responsible for providing guidance to their staff, while the auditor delivers details about audit activities and findings. There should be an open flow of data in both directions (Lee D. et al., 2021). As the auditee and service recipient, the auditee plays a significant role in ensuring the success of internal audits in Parepare City.

The IAF has also started offering consulting services, but challenges remain, such as the lack of a dedicated consultation room. A consultation room is essential for creating a conducive atmosphere, particularly when dealing with confidential matters. Additionally, unequal auditor competence leads to some auditors lacking confidence in providing consulting services (Sanni et al., 2023). A challenge also experienced by some senior management members of the IAF.

The Role of Internal Audit in Achieving Good Governance - Output

Adequate Assurance of Compliance and the 3Es

The first indicator states that APIP, as the government's internal auditor, is considered effective if it is capable of conducting audits on compliance, economy, efficiency, and effectiveness (3E). In the public sector, the effectiveness of internal auditors depends on the IAF's ability to provide adequate assurance regarding compliance, economy, efficiency, and effectiveness (3E). Providing adequate assurance on compliance means that the IAF has successfully ensured that the auditees have implemented programs and activities in accordance with applicable regulations and laws. The IAF is also capable of ensuring that no violations occur during the implementation of these programs and activities. Furthermore, the IAF must also provide consulting services, offering improvement recommendations to local governments as policymakers.

In-depth interviews and FGDs revealed several challenges, including inconsistent audit quality, which has the potential to weaken the effectiveness of internal audits. This issue is caused by limited training opportunities and a high turnover rate among managerial personnel, which leaves many managers insufficiently prepared to understand their roles and responsibilities. The competence of leadership within the APIP unit is critical and can significantly impact the quality of internal audits, as IAF management is directly involved in the tiered review process.

Management positions in the IAF are subject to rotation policies established by the Head of the Region, with most managers serving less than two years—a period considered insufficient to fully understand the oversight functions. Informants agreed that personnel appointed to management positions in the IAF should undergo basic training on auditing to ensure they can adapt to the workflow and effectively carry out oversight duties. The competence of IAF auditors is crucial for audit effectiveness.

The competency of IAF auditors is crucial for audit effectiveness. According to IIA Standard 1210, internal auditors must possess the necessary knowledge, skills, and competencies to perform their duties effectively (IIA, 2017). To carry out their roles and services effectively, internal auditors require continuous improvement in knowledge, expertise, and competencies (Alsughayer, 2021; Turetken et al., 2020). Frequent position changes or the appointment of incompetent individuals to managerial positions can undermine the IAF's capabilities and reduce the effectiveness of internal audits.

The oversight activities conducted by APIP result in a report. Issues and notes identified during the audit process are documented as audit findings. These findings lead to recommendations that must be followed up by the auditees as part of the improvement process. However, over the past seven years, the average follow-up completion rate by internal auditors has only reached 70,04%. This indicates that many auditees have not implemented the audit recommendations. Follow-up on audit recommendations is a key indicator of internal audit effectiveness (Furqan et al., 2020). Without follow-up, even the most comprehensive audit results become meaningless. Findings are important for auditees as they serve as a basis for improvements in achieving organizational goals.

The low follow-up completion rate is influenced by several factors, including the IAF's lack of systematic monitoring of follow-ups. Beyond relying on auditee initiatives, the IAF also needs to take proactive measures to maximize the follow-up of audit recommendations. Furthermore, there is no reward or punishment mechanism in place for follow-up implementation. Additionally, the limited distribution of audit reports—where reports are only submitted to the Head of the Region while auditees receive only summaries of the findings—poses another challenge. This lack of complete information makes it difficult for auditees to act on recommendations, as they often do not fully understand the detailed suggestions. As a result, IAF findings are often perceived as less important by auditees, in contrast to the greater attention given to findings from external auditors. The incomplete follow-up by Local Government Units (LGUs) can hinder the achievement of internal audit performance.

Early Warning and Enhancing the Effectiveness of Risk Control

The second indicator states that the IAF is considered effective if it is capable of providing early warnings and enhancing the effectiveness of risk management. In 2018, a fraud case resulted in the financial statement opinion being downgraded from an Unqualified Opinion (WTP) to a Qualified Opinion (WDP). The Internal Audit Function (IAF) played a crucial

role by implementing an early warning system. During a routine audit, the IAF was the first to detect indications of fraud. To ensure the validity of these findings, the IAF conducted an investigative audit. After gathering sufficient evidence, the IAF promptly requested the responsible parties to return the funds to the regional treasury. However, the individuals involved in the fraud refused to cooperate, leaving the case unresolved. As the matter remained unsettled, it was eventually referred to the Supreme Audit Board (BPK), the external auditor, for further handling.

The early warning system implemented by the IAF serves as a preventive measure to address strategic issues and other challenges. Its implementation includes issuing alerts or recommendations to management to support the realization of good governance in the public sector (BPKP, 2021). These alerts and recommendations aim to facilitate improvements and enhance quality. Internal auditing is tasked with providing reasonable assurance that objectives will be achieved and can prevent, detect, and correct unwanted incidents, whether arising from internal or external environments (Erasmus & Coetzee, 2018). As a process or series of actions or early warning systems, internal control is a tool to achieve objectives, not the objective itself (Solin, 2020).

Maintaining and Improving Governance Quality

The third indicator states that APIP is considered effective if it is capable of maintaining and improving the quality of organizational governance. In Indonesia, the quality of governance is measured using the maturity level of the internal control system, which consists of five levels. The higher the level, the better the internal control system. At the national level, the implementation of the Government Internal Control System (SPIP) is the responsibility of BPKP as the supervisory agency. Meanwhile, at the regional level, the responsibility for SPIP implementation lies with each regional IAF. This is a cross-sectoral activity involving the participation of GLUs. Thus, in addition to their roles as auditees and service recipients, GLUs are directly involved in several key internal oversight activities.

The Parepare City Government has achieved a Level 3 (Defined) rating for its internal control system. This indicates that the internal control system is effective, supports compliance, enhances the efficiency and effectiveness of governance, and is committed to the principles of good governance. This achievement cannot be separated from the influence and role of the IAF, which serves as the leading sector responsible for driving this success. The IAF has been actively involved in collaboration, socialization, and providing technical guidance to GLUs, while also acting as a liaison with BPKP, which serves as the external assessor.

Internal control quality is vital for organizational success, as it safeguards assets, ensures operational efficiency, and promotes accurate financial reporting and legal compliance (Hoai et al., 2020). A well-functioning internal control system indicates that the IAF has effectively maintained and improved the quality of governance (Eulerich & Eulerich, 2020).

The Role of Internal Audit in Achieving Good Governance - Outcome

Effective and Efficient Activities

The effectiveness and efficiency of public sector activities in Indonesia are measured through the Government Agency Performance Accountability System (SAKIP). The Internal Audit Function (IAF) is responsible for the implementation of SAKIP to ensure performance accountability across all units within government agencies. Government activities are considered effective when they are executed according to plan and their outcomes align with

the established objectives and targets. The IAF plays a central role in ensuring that Local Government Units (LGUs) perform their functions and programs effectively. It evaluates whether government units are fulfilling their duties in accordance with predetermined objectives and complying with relevant regulations.

The IAF does not merely focus on detecting issues or discrepancies but also takes a proactive role in encouraging LGUs to enhance their performance. By providing recommendations, the IAF helps LGUs identify areas requiring improvement and supports them in achieving better performance outcomes. All oversight activities conducted by the IAF are directed toward improving the performance accountability of LGUs as their auditees.

However, in the context of this research, informants stated that the SAKIP target had only reached 85% of the initial target of 90%, indicating that the target for 2022 was not fully achieved. This shortfall can be attributed to several factors, one of which is the low commitment of LGUs, as auditees, to cooperate in implementing the IAF's audit recommendations. The implementation of these recommendations plays a critical role in improving the performance of LGUs, particularly in achieving their established objectives.

Management commitment is crucial to implementing follow-up actions based on audit recommendations, as these actions are critical for ensuring accountability and minimizing the potential for violations, such as corruption (Furqan et al., 2020). Additionally, follow-up actions are essential for achieving the efficiency, effectiveness, and accountability of local government tasks and functions (Pamungkas et al., 2019).

Reliability of Financial Statements

The achievement of Reliability of Financial Statements is evidenced by the attainment of an Unqualified Opinion (WTP) seven times over the past eight years. This success is inseparable from the roles of two key parties: the IAF and the GLUs as its auditees. The GLUs are responsible for planning, managing finances, and preparing accountability reports, while the IAF consistently conducts oversight through various activities. These include monitoring and evaluating financial management, performing routine audits, tracking budget absorption, reviewing the Regional Government Financial Statements (LKPD), and providing consultancy services to its partners.

According to the informants, the IAF's most significant contribution to obtaining the WTP opinion lies in its review of the LKPD before submission to external auditors. Acting as the final line of defense, the IAF plays a crucial role in maintaining accountability in financial management, with its primary objective being to ensure the reliability of financial statements. Internal audit is considered effective when it provides assurance regarding compliance and financial accountability (Kaawaase et al., 2021). This aligns with the findings of Rahayu et al. (2020), who stated that internal auditors are responsible for conducting internal supervision through audits, reviews, monitoring, and evaluations aimed at enhancing efficiency, protecting assets, detecting irregularities early, and maintaining the accountability of financial reports.

Safeguarding State Assets and Compliance with Law and Regulations

The IAF is expected to play a role in achieving good governance, particularly in safeguarding regional finances and assets from misappropriation by irresponsible parties. Based on document reviews, the Financial Audit Reports issued by the BPK over the past eight years reveal several significant financial findings, including recurring issues each year, that remain unresolved. If the IAF had fully optimized its core functions, these findings should have

been minimized. The persistence of recurring findings indicates that, although the formal indicators of good governance have been adequately met, the audits conducted by the IAF have not been fully effective.

Informants revealed that regarding these recurring findings, the Internal Audit Function (IAF) has repeatedly issued audit recommendations and requested auditees to take corrective actions immediately. However, some auditees remain reluctant to follow up and tend to underestimate the importance of IAF findings. These findings could have been avoided if the IAF's recommendations were consistently followed up.

Additionally, one of the reasons why significant financial findings remain unresolved is the passive attitude of local governments in addressing BPK recommendations. Local governments tend to wait for follow-up actions from GLUs rather than actively pursuing or demanding accountability. Instead of proactively encouraging or monitoring GLUs for expedited resolution, local governments often rely on the initiative of the GLUs themselves.

Management commitment is required to follow up on audit recommendations (Pamungkas et al., 2019). The process of following up on internal audit findings plays a key role in achieving organizational objectives. Furqan et al. (2020) emphasize that one of the key measures is safeguarding state assets and ensuring compliance with regulations, as also noted by Aikins et al. (2022).

CONCLUSION

The Internal Audit Function (IAF) in Parepare City, South Sulawesi, plays a vital role in promoting good governance, but challenges remain auditors in management positions often lack technical expertise and encounter high turnover, limiting their effectiveness. Training is essential for auditors in management roles to enhance their competencies and provide quality oversight. Audit recommendations are frequently overlooked, with reports restricted to the Head of the Local Government, while auditees only receive summaries. This limit understanding and hinders follow-ups. Additionally, there is no clear mechanism to monitor the implementation of recommendations. Management support is critical for effective internal audits, but lack of attention results in budget constraints and impacts auditor quality. Low utilization of audit reports by management may demotivate auditors. To address this, the Head of the Local Government should enforce a reward-and-punishment system for GLUs based on their follow-up actions on IAF recommendations.

This research faced several limitations. First, time constraints reduced the number of interviews and FGDs, limiting data diversity. Second, restricted access to some documents due to confidentiality also impacted the depth of analysis. Future research should involve more informants, expanding data collection methods, and including perspectives from auditees and management for a broader understanding.

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