

**International
Institute of
Social Studies**

Erasmus

**Internal Audit Capability in Public Sectors:
A Study into the Indonesian Directorate General of
Taxes**

A Research Paper presented by:

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(Indonesia)

in partial fulfillment of the requirements for obtaining the degree of
MASTER OF ARTS IN DEVELOPMENT STUDIES

Major:

Governance and Development Policy

(GDP)

Specialization:

Public Policy and Management

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The Hague, The Netherlands
November 2018

Disclaimer:

This document represents part of the author's study programme while at the Institute of Social Studies. The views stated therein are those of the author and not necessarily those of the Institute.

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List of Acronyms

BPKP	Finance and Development Supervisory Agency of Indonesia
DGT	Directorate General of Taxes
IA-CM	Internal Audit Capability Model
IIA	Institute of Internal Auditors
IHT	In-House Training
KITSDA	Directorate of Internal Compliance and Human Apparatus
KPA	Key Process Area
KPI	Key Performance Indicator
OECD	Organization for Economic Co-operation and Development
QIA	Qualified Internal Auditor
YPIA	Internal Audit Education Foundation of Indonesia

Dedication Page

Special thanks to:

*My Beloved Parents – Thamrin St. Mangkudun, may you are
proud in heaven.*

Darmi, for your constant praying mom.

My Beloved Wife – Rey, for your love and patience.

My Son – Thian, for your smile.

Your loves are always in my path

Acknowledgments

Firstly, I would send my gratitude to Allah, the most precious and gracious one, for the blessing and guidance in all my steps, including the perseverance for completing my Master Degree in Institute of Social Studies (ISS) Erasmus The Hague.

I would like to thank my supervisor, Dr. Sunil Tankha for his insight and advice in every step of the research process. It is truly an honor to be his supervisee. I also want to show my appreciation to my second reader, Dr. Sylvia I. Bergh, for her very supportive comments that allow me to structurize this paper.

I am indebted to Ministry of Finance for the FETA scholarship and Directorate General of Taxes for the permission to continue my master study and becoming the object of this research. My special thanks go to Mr. Harry Gumelar, Mr. Henderi, Mr. Jhon and all the internal of Directorate General of Taxes in supporting the research process.

I also want to say my thanks to all members of GDP and staff of ISS for the help during the study in ISS. My appreciations also go to Rezza, Abas, Iksan, Hendy, Niken, Riri and all Indonesian students for the companion and their kindly supports.

Abstract

The public sector faces different challenges in pursuing their objectives. One of the units that could assist these efforts from the internal organization is the internal audit unit. The internal audit unit through its activities evaluates and improves the completion process of the organization's objectives. In the Indonesian public sector, the Directorate General of Taxes (DGT) also faces challenges in fulfillment of its target from the government. The internal audit unit of the DGT could support the achievement of the organization's objectives but it has to have the capabilities.

The Institute of Internal Auditors (IIA) provides a tool to assess the internal audit capabilities in the form of Internal Audit Capability Model (IA-CM). This model could assess the internal audit of the DGT capabilities which have not been accessed yet. Therefore, applying the IA-CM in this study will show the progress of internal audit capability in the DGT.

This study uses short surveys, observations, and interviews along with a documentary review from the DGT as the basis for assessing its internal audit capability. The study finds that the DGT has established its internal audit capability on level 2 of IA-CM and partly on level 3 of IA-CM. Nonetheless, the internal audit of the DGT still has seven weaknesses in the practice of level 2 of the IA-CM.

The DGT could apply the recommendations in this study and address its weaknesses in order to strengthen the level 2 of IA-CM implementation. For the public sector of Indonesia, the President has encouraged all of the internal audit units to achieve level 3 of IA-CM by 2019. Therefore, the research is essential for the DGT to improve the current condition of its internal audit function.

For the academic world, particularly within the public sector and internal audit studies, an interesting fact has emerged. An organization can partially achieve level 3 of IA-CM without having fully completed level 2 of the IA-CM. Therefore, this could lead to further study.

Relevance to Development Studies

The role of an internal audit could enhance the effectiveness of an organization in pursuing its objectives. However, it needs a capable internal audit unit to support the organization. This study shows the progress in the internal audit capability by using the IA-CM as a framework. This study relates to development studies through the assessment of the capability. It is also related to Public Policy and Management in reforming the public sectors and analyzing the related policies.

Keywords

Public Sectors, Internal Audit, Internal Audit Capability, Directorate General of Taxes (DGT), IA-CM, Progress.

Chapter 1

Introduction

A. Research Background

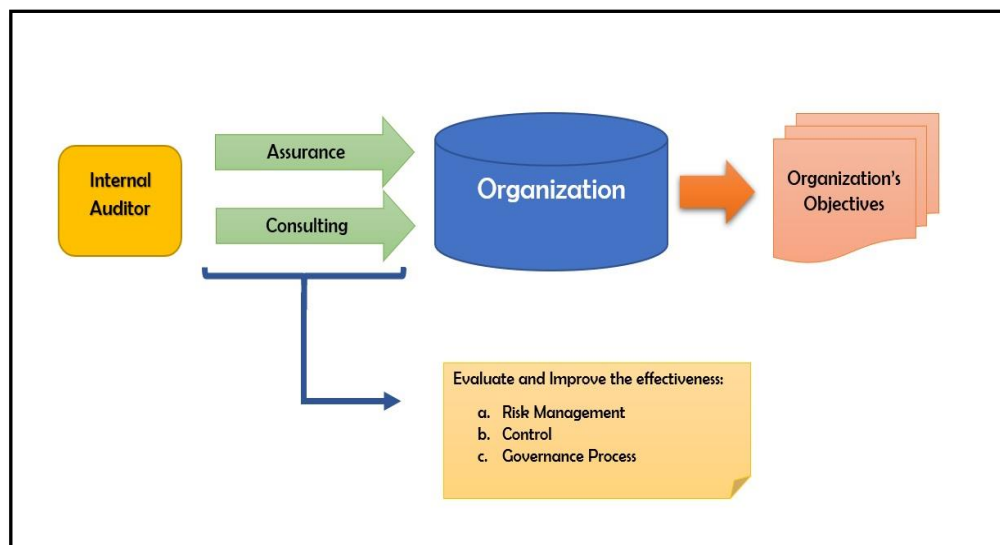
Every country has a different revenue structure in its annual budget. Some countries rely on the oil and mining sectors, commodities exports or industrial revenues. On the other hand, other countries focus on generating revenues from taxation. Indonesia is an example of a country that uses taxes as its primary revenue source. The tax revenue dominates the government budget structure for 71,52% (BeritaSatu 2017). Therefore, the DGT's role is crucial to the government of Indonesia.

However, the DGT in 2017 only achieved 89,68% of the government's tax target. The challenges in achieving its objective include complex administration and the dynamics of the tax policy changes (CBNC Indonesia). Therefore, the DGT should address these challenges.

There are several units in the DGT that could help to solve the issues. As mentioned by Rensburg and Coetzee (2015: 76), one of the units that could identify and provide the solution is the internal audit unit (Rensburg and Coetzee 2015). The global professional internal audit body, the IIA defines the internal audit as:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps the organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process” (IIA as cited by IIA Australia, 2016:12).

Figure 1.1. The internal audit function in the organization



Source: composed based on IIA (as cited by IIA Australia, 2016:12).

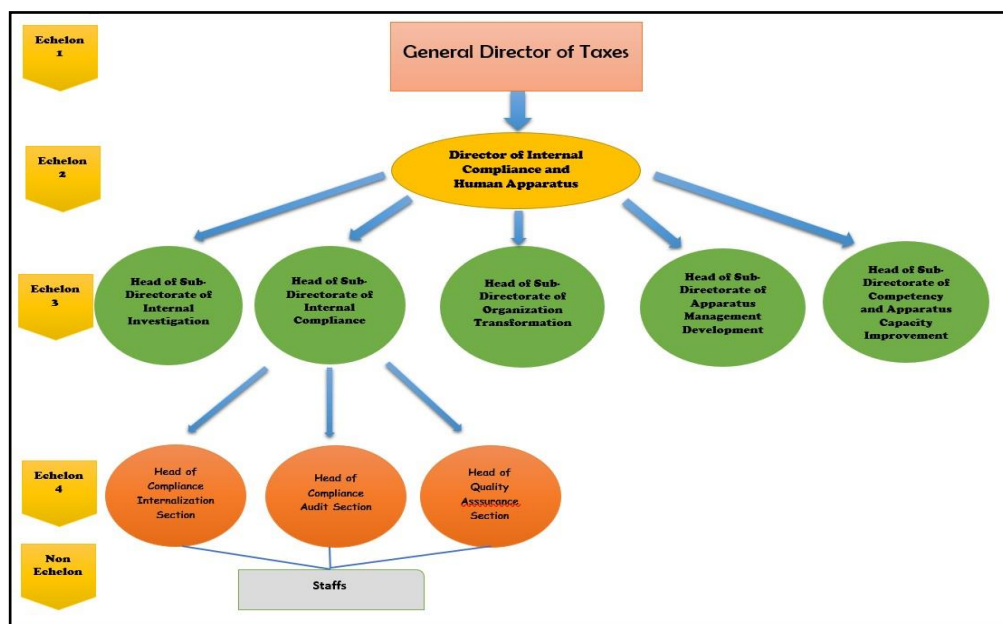
As can be seen in the above definition, the internal audit unit could aid an organization to improve its operation through assurance and consulting

activities. In the DGT's context, the purpose of the internal audit unit is to enhance the possibility of achieving its tax target through internal audit activities.

Nonetheless, in order to support an organization, an internal audit unit should have a sufficient capability of performing its function (Rensburg and Coetzee 2015). The capability can be defined as: a) the quality or state being capable; b) a feature or faculty capable of development (potentiality); c) the facility or potential for an indicated use or deployment (Merriam-Webster n.d.). In the internal audit context, the capability of an internal audit unit is defined as the necessary qualities that an internal audit unit needs to perform its mandate and assist the management in achieving its objectives (IIA as cited by Rensburg and Coetzee 2015: 76). In the DGT's context, the question is whether the internal audit unit in the organization is sufficiently capable or not.

In the DGT, the internal audit unit is located in the internal compliance section. Former Head of the Internal Compliance Section, Mr. Andi (2011-2015) as cited by Anggoro (2017) states that the internal compliance section started the internal audit function in 2011. The procedures and the output of this unit refer to the internal audit practice in the public sectors across the world and in Indonesia. The figure below describes the authority delegation of the internal audit unit in the DGT.

Figure 1.2. Authority Delegation of DGT's Internal Audit



Source: compiled from Directorate General Taxes (DGT) (n.d.), (MoF) (2010) Regulation of Minister of Finance No.184/ PMK.01/2010 (MoF: 2010), and Regulation of Minister of Finance No.234/ PMK.01/2015 (MoF:2015)

The IIA provides the IA-CM framework to help an organization to assess and improve its internal audit function (IIARF 2009). This model is developed by the professional internal auditor body to aid the improvement of an organization's internal audit function (Rensburg and Coetzee 2015). The model assesses the six elements of the internal audit: a) services and roles of the internal audit; b) people management; c) professional practices; d) performance management and accountability; e) organizational relationship and culture; and f) governance structures.

In 2014, the Finance and Development Supervisory Agency (BPKP) conducted a mapping on the capability of the 474 internal audit unit in public sector (ministries, organizations and local government) of Indonesia. The result showed that only 1% of the internal audit units in the government sectors are on level 3 of the IA-CM, and the majority is on level 1 (85%). President Joko Widodo was shocked by the result and has instructed all internal audit units in the Indonesia government to reach level 3 of the IA-CM within the next 5 years (2019) (Tribunnews 2015). In the DGT's context, as the part of the government, there is an urgency to follow the president's instruction. Since the DGT is not a part of BPKP mapping, it has to determine its current capability before pursuing level 3 of the IA-CM. Eventually, the internal audit unit of the DGT could support organization in facing its challenges and in following the president's instruction.

B. Research problem

The internal compliance section has conducted internal audit assignments since 2011. However, there is no evaluation over the capability of the internal audit of the DGT over this period. It is hard to tell whether the internal audit of the DGT (the internal compliance section) is capable of conducting its internal audit function or not. As the unit that assesses the effectiveness of the operation of the organization, the internal compliance section has to be a capable internal audit unit.

Furthermore, the president has encouraged all internal audit units in the government to achieve level 3 of the IA-CM by 2019. Consequently, it is crucial to find out if there is a gap in the current capability of the internal audit of the DGT and strengthen the areas that are affected before pursuing level 3 of the IA-CM.

This research uses a literature review of the IA-CM to assess and determine the capability of the internal audit in the DGT. Therefore, the main research question is:

What is the progress of the internal audit capability of the Directorate General of Taxes?

Furthermore, the question will be supported by six sub-questions that relate to six elements of internal audit capability. By focusing on these criteria, the research sub-questions are:

1. What are the service and role of an internal audit unit in the internal compliance section?
2. How does the internal compliance section manage its human resources?
3. How is the process of the internal audit of the internal compliance section?
4. How are the performance management and accountability that the internal compliance section have?
5. How is the organizational relationship that internal compliance section has?
6. How is the governance structures that internal compliance section has?

C. Research Objectives

The primary objective of this research is to determine the internal audit capability of the internal compliance section of the DGT. Furthermore, the Minister of Finance also encourages all the units in the DGT to increase their performance to ensure the achievement of the tax revenue target (Detik 2018). Therefore, this research also provides recommendations for the improvement of the internal audit capability of the internal compliance section (the internal audit unit of the DGT).

Another objective is related to the academic world. Rensburg and Coetzee (2015: 76) explain that the IA-CM framework is created with the assumption that it could be applied globally. The research provides insight into the real practice of the IA-CM framework and how it relates to the theory in the framework.

Overall, this research is beneficial for both stakeholders. For the DGT, it is valuable to enhance its internal audit capability. On the other hand, for the academic world, this research could be used as a study example for the implementation of the IA-CM framework in the public sector.

D. Research Methodology

This research applies the qualitative method. A literature review is a starting point in this methodology. The internal audit concept and internal audit capability model is the reference point for all the research questions. Then, several tools are applied to gather the data that support the analysis in this research.

Firstly, to get in-depth knowledge about the internal audit process in the internal compliance section, a short survey was distributed to the former internal auditors. The former internal auditors are internal auditors who were working in the internal compliance section between 2012-2017 and had a position as head of the internal audit team. Since these former internal auditors have been transferred to other units or promoted to new jobs, direct interviews were not possible. This was due to the long distance from the researcher, thus the questions and responses were sent and received via email. The researcher obtained the email address of the respondents by contacting them personally via WhatsApp. The results from these surveys will answer the first question and the fifth question above.

Secondly, semi-structured interviews were the next tool used to gather data for this research. The targets of the interviews were the senior staff in the internal compliance section and the head of the internal compliance section (Echelon III). The criteria used to select senior staff for these interviews were: staff of the internal compliance section who have been working for over five years and that have conducted more than 30 internal audit assignments. As a result, the researcher chose three staff of the internal compliance section as the interviewees. The interviews aim to gather data on the latest condition of the internal audit in the DGT. Together with the result from the head of the internal compliance section, it answers the second, the third and the fourth question above. All the interviews were recorded and transcribed to help the researcher

in the evaluation of the findings. In order to achieve the best results, the researcher offered an incentive in the form of a copy of the research for the internal compliance section's archive. A copy of the research was the best incentive that the researcher could offer to the interviewees as the organization ethical code prohibits incentives in the form of souvenirs, books etc.

Thirdly, a series of online questionnaires completed by the staff of the internal compliance section was used as a secondary tool to complement the data. The questionnaires which were formed using the Google Surveys platform, aim to seek the perspective of the staff of the internal compliance section about their function. There were 17 respondents (all the staff in the internal compliance section). The results of these questionnaires complement the interview results in order to help to answer the third question above.

Furthermore, for the Director of Internal Compliance Section (Echelon II), a series of questions were emailed to his secretary. The Director's responses answer the sixth question above.

The research also used primary data to support the other research tools. This data regards the internal audit that was conducted between 2012-2017. The head of the internal compliance section facilitated the researcher by selecting two staff to be responsible for data collection. The researcher also performed an observation during the fieldwork to gather another perspective on the internal audit implementation in the DGT. The observation helps to address the question concerning the organizational relationship in the internal compliance section. Another complementary observation was derived from the participation of the researcher in the audit assignments between 2012-2017.

Finally, the researcher triangulated all the tools and data to produce the findings. As mentioned by O' Leary (2014:132) triangulation is defined as applying more than one source of data to affirm the accuracy of each source. Consequently, the result of the triangulation will be presented in Chapter 3 and Chapter 4 in this research.

E. Scope, Limitations and Practical Challenges

The scope of this research is finding the progress of the internal audit by using the IA-CM and particularly concerns the internal compliance section as the internal auditor of the DGT. It does not concern the political, social or economic implications or other issues that could be addressed in further research. The supporting data is between 2012-2017.

However, some limitations appear in the data collection. Firstly, the delay in starting the research. The researcher should have begun the fieldwork at the beginning of the July 2018. But this was postponed for around ten days as there was a need to wait for the confirmation from the DGT (formal research permits). Moreover, the researcher also had to reschedule the interview times due to clashes with the interviewees training and internal audit assignments.

Secondly, the limited interview time. The interviewees allocated around 25-30 minutes of their time to answer the researcher's questions. This was due to the time constraints of the. The interviews took place in the working station of the interviewees. Therefore, the interview process was not free from disturbance.

Lastly, the response rate of the online questionnaires. The response of the questionnaires was 41,7% (7 responses). This was due to several reasons. Out of the 17 respondents, only two of them had been working in the internal compliance section for less than six months. They claimed that they were not suitable for data collection. As mentioned above, three members of the current senior staff were already involved in the interview process. Therefore, they felt that they had no obligations to complete the online questionnaires.

Consequently, the number of respondents was modified to 12, thus raising the response rate raises to 50%. This response rate is adequate as it supports the interviews with senior staff and the head of the internal compliance section. Babbie (1973) states that 50% of responses for social studies is acceptable in social research postal surveys. Nonetheless, the researcher still encourages the rest of the sample to complete the short surveys by extending the duration of the availability of the short survey, assuring the anonymity of the respondents (Quinn 2002) and by trying to convince the respondents that their responses will be used in the research (Zuniga 2004).

In terms of practical challenges, there is a potential bias since the researcher is a former internal auditor of the DGT and has incorporated his own observations into the research. Therefore, the researcher tries to keep objectivity by creating dialogues with the interviews data, literature reviews and confirm the experience with the current condition. All in all, the researcher keep the open-minded to different opinions and perspectives of the internal audit.

Chapter 2

Internal Audit Practice and Internal Audit Capability Model

In this chapter, the researcher will explain the literature review and analytical framework used in the research. The first two sections of this chapter concern internal audit activities and how they are practiced. The next three sections will focus on the internal audit practice in the public sector of Indonesia, imitation and progress theories, and the Internal Audit Capability model as the primary framework for the research.

A. Internal Audit Activities

Based on its definition, the internal audit has two main activities; assurance and consulting. IIA Australia describes these two activities. Firstly, assurance is the activity that provides a certain confidence level for the management to achieve its objectives with an acceptable level of risks (IIA Netherlands 2015:7). This activity aims to ensure the management operations are conducted in accordance (compliance) with the rules, standards, and policies (Study n.d.). Assurance can also be defined as:

“ independent professional services that improve the quality of information or context for decision makers” (Schelluch and Gay 1997).

The assurance services are characterized by *one-way* activities (IIA Netherlands 2015:7). The internal audit which is conducted by the internal auditor provides this service by assessing the effectiveness of the current management and finding gaps or weaknesses in the organization operations. The internal auditor then ends the process with a recommendation. The ‘one-way’ characteristic denotes the lack of monitoring of the implementation of internal auditor’s recommendation. As a result, whether the management applies the recommendation or not, the responsibility of the internal auditor is limited to the recommendation content. Moreover, in the assurance, the internal auditor creates the findings based on the comparison and the confrontation between practice and the fixed framework within an organization.

Secondly, consulting is another type of service that the internal auditor offers. In contrast to the assurance service, consulting is related to future predictions. IIA Netherlands (2015:7) explains the signature characteristic of consulting as *multi-directional* activities. The internal audit in its practice sees the management as a partner of discussion. Instead of creating confrontation as in assurance, consulting establishes an agreement with the management. Therefore, the relationship continues even after the internal auditor has handed the recommendation. The following table explains the comparison of the two activities of the internal audit.

Table 2.1. Assurance and consulting activities in comparison

	Assurance	Consulting
Ambition	Providing additional assurance about the situation as it (until recently) was and now (still) is.	Providing insight into the organization condition that could be reached in the future (better situation or alternatives)
Activity	Establishing findings; creating judgments based on a confrontation of the facts with fixed and validated framework criteria.	Interpreting the facts; identifying and analyzing the key developments, and making recommendations about them based on a framework reference.
Interaction	One-way relationship; providing additional assurance to the management, irrespective of what the management do with it	Two-ways relationship; communicating advice, requires the management to listen to it, interaction is essential.
Values	Independence is safeguarded by procedures, the work process and the audit itself (factual, repeatable).	Independent emerges based on how the internal auditor positions himself in the relationship with the management.
Positioning	Position based on the rules in the organization.	The position is earned based on the quality of the work and the relationship with the top management

Source: cited from IIA Netherlands (2015:7)

The development of the internal audit has progressed from the traditional approach of internal audit. The traditional approach of internal audit is based on the detection and confrontational (Hass, S. et al. 2006). Assurance services are related to the traditional approach which involves a confrontation with the auditees. Today, an internal audit tries to find a way to improve all aspects of the organization. This means the internal audit is adding value by aiding management in growing the business (IAARL n.d.). Therefore, consulting is becoming more popular as it is more proactive in increasing the quality of the decision-making process (Bou-Raad 2000).

The influence of the internal auditor is demonstrated by their efforts to improve and evaluate the effectiveness of the risk management, control and governance process in the organization (IIA Australia 2016). Based on the definition of internal audit, these three aspects are the focus for the internal auditor's work.

a. Assesses the control

IIA Australia (2016:8) explains control as management's effort to increase the probability of the completion of the organization's objective. In practice, management usually adopts three approaches to improve the control which consists of preventive, detective and directive actions. The management applies a preventive action to avoid the occurrence of an unwanted event. Then, the detective action to identify and fix the effect of the undesired event that has taken place and finally, the directive action to encourage an event which is valuable for the completion of the organization objectives.

Control can be classified into hard and soft control (IIA Australia 2016). While hard control emphasizes regulations, procedures, policies and visible code of conducts, soft control is more informal. Soft control is related to competency, employee understanding of procedures, the organizational relationship and

employee behavior. Hard control only requires the evaluation of the activities documents (objective) whilst soft control require a more comprehensive interpretation by the internal auditor on the attitude and behavior (subjective) (IAME 2014). Therefore, for the internal auditor, it is easier to assess hard control than soft control.

b. Evaluates the risk management.

The risks have the potential to appear in an environment that is surrounded by uncertainties. Therefore, risk management address this issue by combining all the resources in the organization to (IIA Australia 2016: 7); a) solve the uncertainties, b) minimize, monitor and control the impact of the uncertainties, and c) boost the outcomes. The internal audit reviews this process and enhances the performance of the risk management through their analysis and recommendation.

c. Checks the governance process

The governance process consists of processes that are conducted by the organization to inform, direct, manage and monitor activities (IIA Australia 2016: 6). This means that the internal auditor also judges how the organization organizes its operations.

The IIA explains that apart from improvement, the internal audit also adds value to the organization. In the IIA (n.d.) glossary guidance defines add value is defined as a process that increases the organization's chance of attaining its goals and objectives, determining the operational improvement and/or minimizing risk exposure through activities; assurance and consulting. IIA (2013) outlines three values that the internal audit delivers in its practices; a) assurance, b) insight, and c) objectivity. The value of assurance is related to the governance, risk, and control which are the main areas of evaluation in the internal audit. On the other hand, the value of insight is related to the catalyst, analyses, and assessment which are related to future predictions. Therefore, the consulting activities handle in these areas. Lastly, objectivity is related to integrity, accountability, and independence. This value is embedded in the internal auditor as the characteristic of its function. Eventually, these three values actualize in the IA-CM framework (IIARF: 2009).

B. Internal Audit Practice in the World

The internal audit practiced in the organizations all over the world has evolved over time. In the middle ages, the profession of internal auditor had not been recognized yet. The auditor existed as the external auditor to assess the bookkeeping of the company. This practice continued until the Industry Revolution era. Gradually, the exposure of the external auditor also helped to nurture the existence of internal auditor. Eventually, in 1941, an official organization for the internal auditor was formed IIA (Snowahyuni 2017). The IIA then enhanced the internal audit function by establishing a statement of responsibilities, research, certification programs, standards and code of ethics for the internal audit (Chun 1997).

Internal audit method

Nowadays an organization can implement internal audit through three ways (VAGO 2017:1):

a) *In-house internal audit*

The organization handles the internal audit function within the organization by forming a specific unit. Mortell (2016) explains the benefits of having an internal audit in the organization; a) full-control on management, b) fast response to emerging problems. Nonetheless, this practice needs careful implementation.

b) *Co-sourced internal audit*

The organization which uses this method organizes its internal audit function by joining the internal audit unit within the organizations and external parties. Furthermore, the audit control and management are at the hand of the organizations.

Desai et al. (2008) claim that the co-sourced internal audit offers few benefits compared to in-house or out-sourced internal audit. The benefits are: a) providing the organization with the skills, knowledge, and expertise in internal audit, b) assisting the organization with a new perspective on the organization's operation, c) supporting organizations which have staffing issues. Nonetheless, Mortell (2016) explains the downsides of the co-sourced internal audit: the disorientation of responsibility and accountability and the lack of cultural fit to the organization environment.

c) *Out-sourced internal audit*

The organization chooses to hire external parties to perform the internal audit function. Mortell (2016) states the benefits of conducting the out-sourced internal audit: a) flexibility in cost; and b) independent perspective. However, the hired internal auditor takes a longer time to blend with the organization environment. Therefore, there is an option for the organization to choose the most suitable internal audit based on the available resources within its structure.

Internal audit position

The position of the internal audit in the organization also varies in each part of the world, especially within the public sectors. The differences in the organizational structure of the internal audit in six Organization for Economic Co-operation and Development (OECD) countries are shown.

Table 2.2. *The position of the internal audit in the government of OECD countries*

The location of the internal audit	Australia	United Kingdom	USA	Canada	Netherlands	Sweden
Department	✓	✓	✓	✓	✓	
Executive Agencies	✓	✓	✓	✓		✓
Autonomous organization: Federal entities, non departmental public bodies, administrative agencies	✓	✓	✓		✓	
Centralized in one body						✓

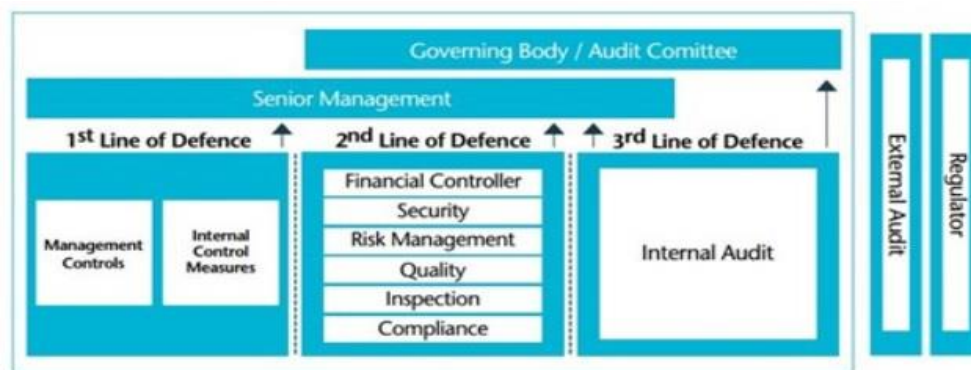
Source: composed based on Sterck and Bouckaert (2006: 50)

In OECD countries there is some variation in the internal audit position. Australia, the United Kingdom, and the United States have decided to put the internal audit function in all levels of the organization, while Canada prefers to have the internal audit function in each department and agency. The Netherlands chooses to incorporate the internal audit on the departmental level and some of the administrative agencies. Lastly, Sweden put a centralized internal audit for prime minister and ministries offices, while other large agencies have separated internal audit functions (Sterck and Bouckaert 2006: 50).

Even though all of the countries diverge in terms of their internal audit position, the internal audit function always follows the three lines of the defense model (CIIA 2015). In this model, the internal audit acts as the third line to evaluate the effectiveness of the organization operations.

In the first line, operational management is controlling the employees day to day activities. The operational management act as the first line of defense against all the uncertainties and problems that appear in organization operations. They will ensure that all activities follow the procedures. However, the first line needs a second line to be able to be effective. This second line will help the operational management to comply with the procedures and regulations and could modify the control that the first line has. It depends on the situation and is based on the assessment of the second line to the current risk that first line faces. Therefore, the second line has a specific function in risk management, compliance function, and controller (financial risk and financial reporting) (IIA 2013). However, the second line is not independent as it interacts closely with the first line.

Figure 2.1. Three lines of defense model



Source: cited from CIIA (Chartered of Institute of Internal Auditors) (2015)

As mentioned in the definition of internal audit, the internal auditor focuses on the evaluation and improvement of organization operations, the internal auditor also needs the management supports. The management's support to internal audit is in the form (CIIA 2015):

- a) Providing the internal audit unit with a direct line of reporting directly to the board and executive committee.
- b) Providing an internal audit unit with adequate resources either with training, knowledge or experienced human resources.
- c) Supports the internal audit unit to develop and implement the audit plan.
- d) Allowing the internal audit unit to access all areas of the organization.

With the management's support, the internal audit can operate as the third line of defense to work effectively. The management also supports in the form

of human resources. In the OECD countries, there is variation in the human resource support from the management. Sterck and Bouckaert (2006) find out that the adequate ratio of the internal auditor in an organization will allow the internal audit to perform its task and cover all areas of the organization.

Table 2.3. The ratio of the civil servants for each of the internal auditor in the OECD countries

	Canada	Netherlands	United Kingdom	United States
Coverage Ratio	979	752	563	247
Number of internal auditor	464	837	900	11.229

Source: cited from Sterck and Bouckaert (2006).

Another way in which management supports internal audit is through information access. CIIA (2017) sets four quality standards for the information that the internal auditor gather in the internal audit assignment: a) sufficient, b) reliable, c) relevant, and d) usefulness. Information is sufficient if the internal auditor can decide and gather enough information. On the other hand, the accuracy and credibility of information determine whether the information is reliable or not. Therefore, the formal documents and the data based on inspection, confirmation, and observation by the internal auditor are more reliable than the verbal information. Furthermore, relevant information is related to how far the information can support the internal audit process and result. Lastly, the usefulness of information will determine if the information is essential or not to the objective completion of the organization.

Internal audit services

In practice, the internal audit unit provides various services to the organization. Sterck and Bouckaert (2006: 50) find that in the OECD countries, the internal audit unit serves the organization with four types of services;

- a. Reviews of the internal control system
Bakertilly (n.d) explains the review of the internal control system as an exercise in the organization that maximizes the effectiveness and efficiency of the operation and minimizes the risk.
- b. Financial audit
INTOSAI (2010a:56) defines the financial audit as the independence assessment which provides reasonable assurance over the entity's financial based on the financial reporting framework.
- c. Compliance audit
INTOSAI (2010a:55) defines the compliance audit as the audit to measure the degree level of the entity comply or follow the rules, laws, regulations, policies, standards.
- d. Performance audit.
INTOSAI (2010a:55) defines the performance audit as an audit of 3E (Economy, Efficiency and Effectiveness) in using its resources to perform its responsibilities. This audit also called Value for Money Audit.

In Australia and Netherlands, most of the internal audit services are the operational and the financial audit, and the rest of the types of services are the compliance audit and IT (information and technology) audit. Another fact from OECD internal audit practices are the activities of the internal audit. In Australia

National Audit Office (2000-2001), 76 % of its activities are focused on assurance activities, and less than 6% are related to consulting activities.

In the DGT's context, the services of internal audit are in the form of a compliance audit. It is based on the Regulation of Minister of Finance No. 184/2010 (Peraturan Menteri Keuangan Nomor 184/PMK.01/2010) and Regulation of Minister of Finance No. 234/2015 (Peraturan Menteri Keuangan Nomor 234/PMK.01/2015). The regulations state that the internal compliance section has a specific function for the completion and implementation of the compliance audit function in the Directorate General of Taxes (MoF 2010). Therefore, the type of services and roles of internal audit in DGT is a compliance audit. The DGT uses this particular type of internal audit for several objectives (DGT 2011):

- a) Compliance with laws, working plan, system or procedures related to the operation of the DGT.
- b) Effectivity and efficiency of the activity implementation based on the set standards.
- c) Asset security of DGT.
- d) Information and data security of the DGT.
- e) Effectivity and efficiency of the resources in the DGT.

Internal audit process

The starting point of the internal audit is formulating audit universe. ICAS (2018) defines the audit universe as a list made up of a range of auditable entities that describes the scale and the complexity of the organization. Furthermore, the choice of auditable entities is based on the risk-based approach. Nonetheless, CIIA (2018) explains that the existence of the audit universe in the organization is not compulsory. However, the organizations who have audit universe are in better condition because of several benefits:

- a) Provides the organization with the detail of the audit activities.
- b) As a means to communicate the internal audit function to the management.
- c) The audit universe is also valuable to other units in the organization as the assurance function.
- d) The audit universe also becomes crucial in coordination. It reduces the duplication with the function of the external auditor or with other organization's function.

Furthermore, ICAS (2018) explains the additional benefits of the audit universe: a) gives transparency of the internal audit coverage; b) provides a full image of the organization condition; and c) as a guide for the future internal audit function whether it needs new recruitment, training or hiring the internal audit services.

The next step in the internal audit process is planning the assignments. IPPF (2012: 9) Article 2010.A1. states that the internal audit plan must be based on a documented risk assessment process. This process has to take place at least annually. The government of Canada states that the plan should be an integrated process with clarities in goals and the human skills and knowledge needed to achieve them (Canadian Heritage 2015: 1). Moreover, IPPF (2012:9) explains that suggestions from the management and the board must be considered in the formulation of the audit plan.

After finishing the internal audit universe and the internal audit plan, the next phase is the implementation of the internal audit. Protiviti (2009: 17) describes the process in the internal audit work as related to the evaluation of the process and control in the audit units. Furthermore, it involves various methods in its implementation; a) inquiry, b) observation, c) examination and d) reperformance. The internal audit also holds a discussion with the management and process owners in the audit unit to clarify potential findings.

The last phase of the internal audit process is formulating the report. ICPAK (n.d.) explains the internal audit report as a formal document which summarizes the internal audit process and reports the findings and recommendation based on the internal audit process. Protiviti (2009: 17) explains that the internal audit report should cover; a) executive summary of issues and findings, b) background, objectives, and scope, c) detail of findings and management's action plan and d) other related analysis and information. ICPAK (n.d.) states the necessary features of the internal audit report:

- a. Comprehensive findings whether it is favorable or unfavorable to the auditee's position.
- b. Description of the findings.
- c. Recommendation to address the gap, weakness or violations of procedure.
- d. Auditee's comment on how to follow up the recommendation.

Internal audit performance evaluation

As a unit, the internal audit needs the evaluation of its performance from the management. Frigo (2002) as cited by Bota-Avram et al. (2011) proposes the *Balanced Scorecard Instrument* to evaluate the performance of the internal audit in the organization. The balanced scorecard provides the insights from the internal audit customers (audit committee, management, and the auditees), the process of the internal audit, and capabilities and innovations of the internal audit itself. Frigo (2002) also explains that the balanced scorecard is beneficial to measure the performance of the internal audit from the customer's perspective, quantifying the performance of the internal audit, assessing the connection between internal audit function and customer's expectation and helping to create general strategies, innovations, and capabilities for the internal audit.

Mark (2013) provides another tool to evaluate internal audit performance. He creates a matrix for an effective internal audit. This matrix assesses seven areas of internal audit practice: a) percentage of audit plan completed, b) number of audit findings, c) accepted and implemented the recommendation, d) auditee survey result, e) cost savings, f) internal audit budget and g) IIA quality assurance review.

C. Internal Audit Practice in Indonesia's Government

Finance and Development Supervisory Agency (BPKP)

Apart from the internal audit practice in the world, Indonesia also implements the internal audit in the organization. A prominent example of the organization that performs the internal audit is Finance and Development Supervisory Agency (BPKP). The function of BPKP is supervising development and finance that are managed by government institutions by law (compliance)

(BPKP n.d). Moreover, BPKP has a direct responsibility to the president for supervising over state financial accountability and the implementation of the internal control system (Indonesia Government 2008). Therefore, BPKP acts as the third line of defense for the government of Indonesia.

BPKP also has another function to supervise the implementation of the Government Internal Control Systems (SPIP). In this area, BPKP acts as consultant and catalyst (Kompasiana). BPKP as consultant and catalyst provide:

a) *Capacity building*

BPKP focuses on human resources development through training, seminar, reward and recognition program.

b) *Clearinghouse*

BPKP serve the government with the technical and regulation/law advise for the current case that government faces or to reduce any hesitation from the government during the decision-making process.

c) *Current issue*

BPKP has to be aware of current government issues to be able to contribute valuable advice.

d) *Check and Balance*

BPKP presents a second opinion for the government over a problem which has been audited by the external auditor.

In the organization structure, BPKP holds its headquarter in the capital city of Indonesia, Jakarta and has a branch office in the capital city of every Indonesian province.

Inspectorate General of Ministry of Finance

Another example of the internal audit practice in Indonesia is Inspectorate General of Ministry of Finance. The Inspectorate General acts as the third line of defense for the Minister of Finance. Therefore, Inspectorate General is involved in formulating the technical policy for internal surveillance in the Minister of Finance. Moreover, it also conducts internal surveillance through audit, reviews, evaluation, monitoring for the Minister of Finance (Itjen 2016). Therefore, the Inspectorate General is the third line of defense for the Ministry of Finance.

The organization structure of Inspectorate General is located on the headquarters of the Ministry of Finance in Jakarta. Therefore, Inspectorate General does not have any vertical units in other areas of Indonesia. Inspectorate General in its function has nine units of Echelon II which supervise and audit all of the Echelon II under the Ministry of Finance, including the DGT. Inspectorate I is the part of the Inspectorate General who handles the surveillance over the DGT operation.

Inspectorate General reports its works and has direct responsibility to the Ministry of Finance (Itjen 2016). The staff in the Inspectorate General have functional status. This means that the internal auditor in Inspectorate General performs its tasks based on knowledge and skills in the auditing and have its own independence (Itjen 2016). Consequently, the take-home pay of the staff is higher than the other staff.

In the DGT's context, both the BPKP and the Inspectorate General are role models for the internal compliance section in initializing and developing its internal audit function.

D. Imitation and Progress

One of the ways for the organization to assess or develop its capability is through the imitation process. Vega-Redondo (1999: 6-7) explains how an imitation can produce the best result. Firstly, "imitate if better" which only imitate if the probable result (payoff) from X action is more beneficial than the current condition. Secondly, "never switch" which stays aligned with the former activities or action. Lastly, choose the action with the higher probability to the organization. In the internal audit context, an internal audit unit could learn from the global professional body, like IIA to develop the capability of the internal audit. Therefore, the organization could choose the level of capability which is suitable with the expected result.

The imitation could appear in the form of isomorphic mimicry. Krause (2013) described it as a process of one organism to mimic another to get an evolutionary advantage. DiMaggio and Powell (1983) state that the changes in an organization do not occur based on the original impulse but rather based on mimicry of other organizations. In the internal audit capability of the DGT context, the isomorphic mimicry could be done by taking the example of the BPKP, and the Inspectorate General of the Ministry of Finance.

The goal of the imitation is to progress to the next level or to the better organization's condition. Amabile and Kramer (2011) explain the progress theory. To achieve meaningful progress, the organizations need to prepare: a) clear goals and objectives, b) autonomy, c) resources, d) ample time, e) support and expertise and f) learn from honest failure. In the internal audit context, the progress of the internal audit could be achieved through the assessment and implementation of the Internal Audit Capability Model (IA-CM). As for the DGT, the implementation of IA-CM in the Inspectorate General could be the model to progress in the internal audit.

E. Internal Audit Capability Model (IA-CM)

Internal Audit Capability Model (IA-CM) is a framework that identifies the fundamental needs for the effectiveness of internal audit in the public sectors (IIARF 2009:5). Moreover, IA-CM shows the progress of the internal audit from a less intense level to the most mature one. Consequently, for the organization to build up the internal audit implementation in its structure, IA-CM is the appropriate tool to follow.

IIARF (2009:5) also explain IA-CM as:

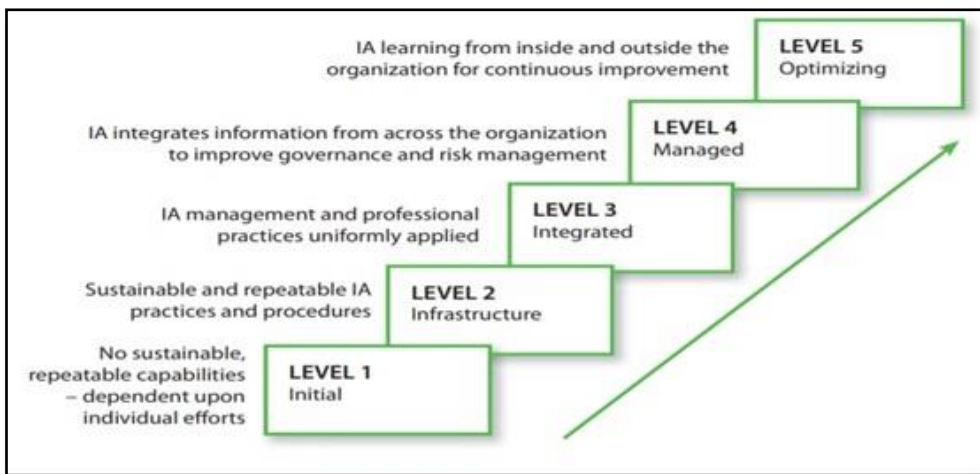
- a) *Communication vehicle* – as a basis for communicating the function of the internal audit to the stakeholders and to justify the importance of the internal audit to the decision maker.
- b) *Framework for assessment* – as a tool to assess the capability and the condition of the internal audit in the organization.

- c) *Roadmap* – as a guideline for the organization to strengthen the internal audit function.

Furthermore, IA-CM could also identify the gap between the existing internal audit condition and the potential internal audit capability. It will also aid an organization in increasing the performance of its internal audit.

In the IA-CM model, there are five levels of the internal audit capability that an organization has and could achieve as the goals. The five levels of IA-CM can be seen in the following figure (IIARF 2009:7).

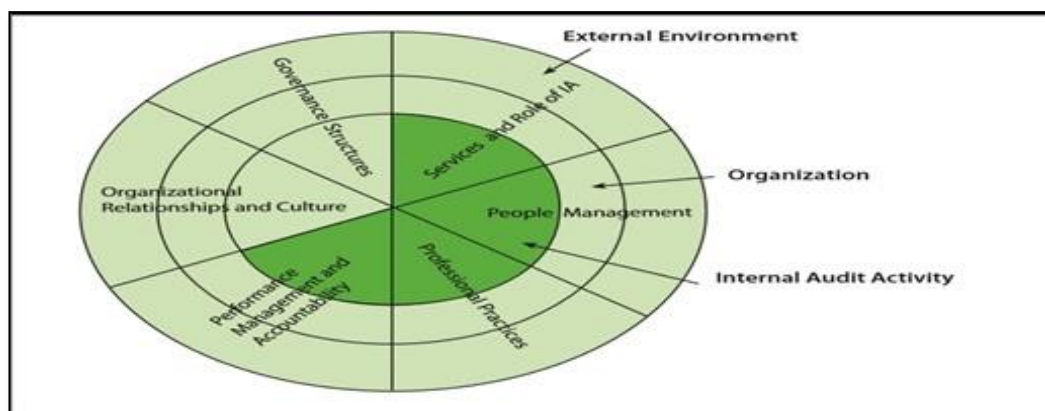
Figure 2.2. Internal Audit Capability Model



Source: cited from IIARF (2009: 7)

In every level of the IA-CM, three variables influence the internal audit capability. The internal audit activity itself, the organization and the environment and where the organization is located, will determine the overall capability of the internal audit. These three variables are detailed to the six elements of internal auditing, and six elements are detailed into Key Process Areas (KPA). KPA are the main building blocks that determine the internal audit capability of the internal audit in IA-CM Matrix (IIARF 2009: 15).

Figure 2.3. The six elements of Internal Auditing in IA-CM



Source: cited from IIARF (2009: 10)

The first four elements; Services and Role of Internal Auditor, People Management, Professional Practices, and Performance Management and Accountability are related to the management and practices of the internal audit.

And the last two elements; Governance Structures and Organizational Relationship and Culture relates to the external environment (IIARF 2009: 10). The following narratives describe the elements of the IA-CM model (IIARF 2009: 11-12):

1) *Services and Role of Internal Auditing*

The role of the internal audit in the organization is to improve the effectiveness of the organization. On the other hand, the service of the internal audit could be in the form of audits of transactions, compliance, systems, processes, operations, performance/ value-for-money, information and technology, and financial statements. These services could be implemented in the form of *in-house, co-sourced or out-sourced internal audit*.

2) *People Management*

In this element, the internal audit develops a work environment to support its function to the best performance based on their abilities. The people management includes:

- a. Identifying specific attributes and developing clear job descriptions.
- b. Recruiting appropriate people through the proper recruitment process.
- c. Identifying job requirements and work objectives based on performance standards, outcomes, and measures.
- d. Providing effective orientation, continuing education, professional development, and training.
- e. Providing ongoing coaching and continuous feedback.
- f. Designing effective compensation and recognition systems
- g. Providing appropriate promotional and career development opportunities.

3) *Professional Practices*

In this element, there is support from management in the form of policies, procedures, and standards that enable internal audit to perform its activities. With this support, the internal audit can perform its tasks with proficiency and due professional care. Moreover, the professional practices also mean that the internal audit aligns itself with the goals of the organization to enhance the organization performance and the internal audit activities. The internal audit develops and maintains the quality assurance and improvement program for the organization.

4) *Performance Management and Accountability*

This refers to the information needed to organize the internal audit activity which leads to controlling internal audit activity and accountability of its function. Furthermore, it also addresses the information systems, financial and nonfinancial (operational and program) to enhance the performance of the internal audit. It also identifies the relevant information that enables the internal auditors to perform their assignments. In terms of accountability, it refers to how the procedures protect the integrity of the data and maximize it for the internal audit function. Lastly, the performance management and accountability refer to the effectiveness of the internal audit report to the relevant stakeholders.

5) *Organizational Relationships and Culture*

In this element, it refers to the relationship of the internal audit including the Chief Audit Executive (CAE) with other parts of organizations and senior management. It includes how the organization supports the internal audit with policies, processes, practices and human resources. Furthermore, the relationship is also with the external auditor outside of the organization. The coordination with the internal and external of the organization will determine how the implementation and performance of the internal audit.

6) *Governance structures*

In this element, the internal audit position in the organization structure will be the focus. Moreover, how the organization provides rules, policies, and procedures that support the internal audit existence to maintain its effectiveness and independence is the key in this element. It also focuses on the reporting relationship (administrative and functional) of the Chief Audit Executive (CAE) and the position of the internal audit.

The elements of the IA-CM that explain the level of internal audit capability is shown in the following matrix.

Table 2.4. Internal Audit Capability Model (IA-CM) Matrix

	Services and Role of Internal Auditing	People Management	Professional Practices	Performance Management and Accountability	Organizational Relationships and Culture	Governance Structures
Level 5 – Optimizing	Internal audit recognized as key agent of change	Leadership involvement with professional bodies Workforce projection	Continuous improvement in professional practices Strategic internal audit planning	Public reporting of internal audit effectiveness	Effective and ongoing relationships	Independence, power, and authority of the internal audit activity
Level 4 – Managed	Overall assurance on governance, risk management, and control	Internal audit contributes to management development Internal audit activity supports professional bodies Workforce planning	Audit strategy leverages organization's management of risk	Integration of qualitative and quantitative performance measures	CAE advises and influences top-level management	Independent oversight of the internal audit activity CAE reports to top-level authority
Level 3 – Integrated	Advisory services Performance/ value-for-money audits	Team building and competency Professionally qualified staff Workforce coordination	Quality management framework Risk-based audit plans	Performance measures Cost information Internal audit management reports	Coordination with other review groups Integral component of management team	Management oversight of the internal audit activity Funding mechanisms
Level 2 – Infrastructure	Compliance auditing	Individual professional development Skilled people identified and recruited	Professional practices and processes framework Audit plan based on management/ stakeholder priorities	Internal audit operating budget Internal audit business plan	Managing within the internal audit activity	Full access to the organization's information, assets, and people Reporting relationships established
Level 1 – Initial	Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely to be part of a larger organizational unit; no established capabilities; therefore, no specific key process areas					

Sourced: cited from Macrae, E. and Van Gils, D. (2014: 22)

In the context of the Indonesia public sector, in 2010, Finance and Development Supervisory Agency (BPKP) of Indonesia conducted a mapping process for the internal audit of Government Internal Supervisory Apparatus (APIP) in Indonesia. The results showed that 93% of internal audit in Indonesia government is still on level 1 (initial) of the IA-CM while 7% is on level 2 (infrastructure) (Klikharso 2016). Moreover, Inspectorate General of Ministry of Finance in 2011, based on the valuation from BPKP, has already achieved level 3 (integrated) and is now pursuing the level 4 (managed) (Itjen 2016).

In the DGT context, the Inspectorate General of the Ministry of Finance is a role model for the internal audit implementation. Therefore, in this research,

the assessment for the internal audit capability of the DGT is up to level 3 in IA-CM as is the Inspectorate General's level which was achieved in 2011. Level 1 of IA-CM will not be the focus part of the research since the internal compliance section is official, structured and legitimated internal audit of the DGT. Consequently, the following tables explain the KPA for this research.

Table 2.5. KPA by Elements of IA-CM

Services and Role of Internal Auditing	
3 – Integrated	<p>Advisory Services</p> <p>Purpose To analyze a situation and/or provide guidance and advice to management. Advisory services add value without the internal auditor assuming management responsibility. Advisory services are those that are directed toward facilitation rather than assurance and include training, systems development reviews, performance and control self-assessment, counseling, and advice.</p> <p>Performance/Value-for-Money Audits</p> <p>Purpose To assess and report on the efficiency, effectiveness, and economy of operations, activities, or programs; or conduct engagements on governance, risk management, and control. Performance/value-for-money auditing covers the full spectrum of operating and business processes, the associated management controls, and the results achieved. Program effectiveness auditing is sometimes called "program evaluation."</p>
	<p>2 – Infrastructure</p> <p>Compliance Auditing</p> <p>Purpose To carry out an audit of conformity and adherence of a particular area, process, or system to policies, plans, procedures, laws, regulations, contracts, or other requirements that govern the conduct of the area, process, or system subject to audit.</p>
1 – Initial	<p>No KPAs Isolated single audits or reviews of documents and transactions for accuracy and compliance.</p>
People Management	
3 – Integrated	<p>Team Building and Competency</p> <p>Purpose To develop staff members' capacity to function effectively in a team environment, beginning with focus on the individual project team. Because many public sector audits cover scopes that require the concerted effort of a team of auditors to conduct, and because the skills needed to conduct an audit are not necessarily the same skills to work effectively in a group environment, additional team competencies are required.</p> <p>Professionally Qualified Staff</p> <p>Purpose To staff the IA activity with professionally qualified staff and retain the individuals who have demonstrated a minimum level of competence.</p> <p>Workforce Coordination</p> <p>Purpose To coordinate the development of the periodic audit and services plan to the human resource levels authorized to the IA activity. Because resources are often constrained, the IA activity needs to use appropriate methods to set priorities on planned projects and services to limit its commitments to a "doable" quantity and type of projects and services.</p>
	<p>2 – Infrastructure</p> <p>Individual Professional Development</p> <p>Purpose To ensure that internal auditors continuously maintain and enhance their professional capabilities.</p> <p>Skilled People Identified and Recruited</p> <p>Purpose To identify and attract people with the necessary competencies and relevant skills to carry out the work of the IA activity. Appropriately qualified and recruited internal auditors are more likely to provide credibility to the internal audit results.</p>
	<p>1 – Initial</p> <p>No KPAs Outputs are dependent upon the skills of specific individuals holding the position.</p>

Professional Practices	
3 – Integrated	<p>Quality Management Framework</p> <p>Purpose To establish and maintain processes to continuously monitor, assess, and improve the effectiveness of the IA activity. Processes include ongoing internal monitoring of the performance of the IA activity as well as periodic internal and external quality assessments.</p> <p>Risk-based Audit Plans</p> <p>Purpose To systematically assess risks and focus the priorities of the IA activity's periodic audit and services plan on risk exposures throughout the organization.</p>
2 – Infrastructure	<p>Professional Practices and Processes Framework</p> <p>Purpose To help facilitate the performance of audit engagements with the independence and objectivity, and proficiency and due professional care envisaged in the internal audit charter and The IIA's Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i>. The professional practices and processes framework includes the policies, processes, and procedures that will guide the IA activity in managing its operations; developing its internal audit work program; and planning, performing, and reporting on the results of internal audits.</p> <p>Audit Plan Based on Management/Stakeholder Priorities</p> <p>Purpose To develop periodic (annual or multiyear) plans for which audits and/or other services will be provided, based on consultations with management and/or other stakeholders.</p>
1 – Initial	<p>No KPAs No specific professional practices established other than those provided by professional associations.</p>
Performance Management and Accountability	
3 – Integrated	<p>Performance Measures</p> <p>Purpose In addition to cost data, to develop meaningful indicators and measures that enable the IA activity to measure and report on its performance and routinely monitor its progress against targets to ensure that results are achieved as economically and efficiently as possible. These will be primarily process and input measures, and some output or qualitative outcome measures.</p> <p>Cost Information</p> <p>Purpose To provide sufficient information from the financial tracking system so that the IA activity understands the cost information sufficiently to use it to manage its services as economically and efficiently as possible. This practice goes slightly beyond budget variances and integrates the relationship of outputs to inputs.</p> <p>Internal Audit Management Reports</p> <p>Purpose To receive and use information to manage the IA activity's day-to-day operations, support decision-making, and demonstrate accountability.</p>
2 – Infrastructure	<p>Internal Audit Operating Budget</p> <p>Purpose To be allocated and use its own operating budget to plan the services of the IA activity.</p> <p>Internal Audit Business Plan</p> <p>Purpose To establish a periodic plan for delivering the services of the IA activity, including administrative and support services, and the expected results.</p>
1 – Initial	<p>No KPAs Ad hoc and unstructured; funding approved by management, as needed.</p>

Organizational Relationships and Culture	
3 – Integrated	<p>Coordination with Other Review Groups</p> <p>Purpose To share information and coordinate activities with other internal and external providers of assurance and advisory services to ensure appropriate organizational coverage and minimize duplication of effort.</p> <p>Integral Component of Management Team</p> <p>Purpose To participate in the organization’s management activities in some form as a valued member of the management team. Although the CAE does not carry out management’s responsibilities, he or she is included in communications and forums of the management team, and as an observer, is able to maintain a channel of communication with senior management.</p>
2 – Infrastructure	<p>Managing within the IA Activity</p> <p>Purpose To focus the management effort of the IA activity on its own operations and relationships within the activity itself, such as organizational structure, people management, budget preparation and monitoring, annual planning, providing the necessary audit tools and technology, and performing audits. Interactions with organizational managers are focused on carrying out the business of the IA activity.</p>
1 – Initial	<p>No KPAs Absence of IA activity infrastructure.</p>
Governance Structures	
3 – Integrated	<p>Management Oversight of the IA Activity</p> <p>Purpose To establish a mechanism/process within the organization to provide oversight and advice, and review the results of the IA activity to strengthen its independence and ensure appropriate action is taken. Involvement of a variety of managers in the decisions related to the IA activity helps to extend the activity’s support and scope beyond a single individual.</p> <p>Funding Mechanisms</p> <p>Purpose To establish a robust and transparent funding process that ensures adequate resources to allow the IA activity to discharge its obligations.</p>
2 – Infrastructure	<p>Full Access to the Organization’s Information, Assets, and People</p> <p>Purpose To provide the authority for the IA activity to obtain access to all the information, assets, and people that it requires to carry out its duties.</p> <p>Reporting Relationships Established</p> <p>Purpose To establish formal reporting relationships (administrative and functional) for the IA activity.</p>
1 – Initial	<p>No KPAs Auditors are likely part of a larger organizational unit.</p>

Source: cited from IIARF (2009: 19-25).

Chapter 3

Services, Roles and People Management

This chapter provides the assessment of the internal compliance section using two elements of the IA-CM framework. Furthermore, it will answer the first and the second research sub-questions about the type of internal audit and the human resources management in the internal compliance section. The data and analysis will explain the key process area (KPA) on each of the elements of the IA-CM framework.

A. Services and Roles of Internal Auditing in the Internal Compliance Section

Table 3.1. Services and Roles

Level of IA-CM	KPA	Findings	Gap/ Weakness
2	Compliance Audit	<ul style="list-style-type: none"> The primary task of the internal compliance section. The decrease in the audit units and themes (2013-2017). The benefits; a) improving procedures, b) warning for management of the fraud existence, c) supporting internal control. Repeated findings in the internal audit report. 	<ul style="list-style-type: none"> Low and unequal coverage of audit units areas (37%). Internal audit skills and knowledge gap.
3	Advisory services	<ul style="list-style-type: none"> Not a routine function. Creating an overload in the workload. Limited time to provide a quality advisory 	

Source: based on the researcher analysis and fieldwork.

Compliance Audit (Level 2)

The compliance audit of the internal compliance section meets the criteria of a *one-way* relationship (assurance services criteria) as mentioned by IIA Netherlands (2015:7).

Table 3.2. Assurance in the compliance audit of the DGT

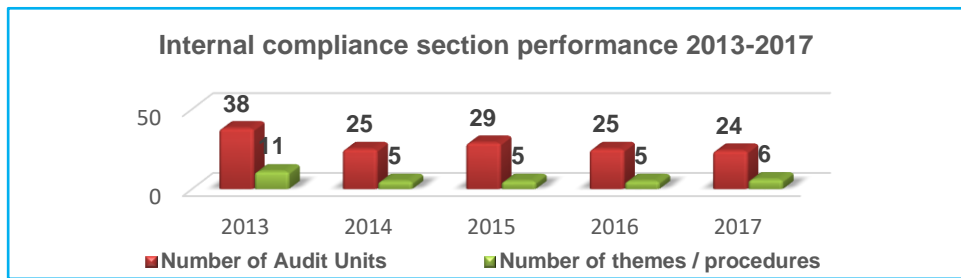
	Ambition	Activity	Interaction	Values	Positioning
The compliance audit of the Directorate General of Taxes	Provide the management the assurance over the SOP implementation.	Compare the practice in the small and large tax offices with SOP and regulation.	The effort of the internal audit team ends in the recommendation.	The compliance audit is a routine task (repeatable).	Based on Ministry of Finance Regulation

Source: based on the researcher analysis.

Based on the questionnaire result, all of the respondents (100%) believe that the primary task of the internal compliance section is a compliance audit. Furthermore, one of the members of the senior staff of the internal compliance section states that the goal of the compliance audit function is to evaluate the operation of the Directorate General of Taxes based on the Standard Operating Procedures (SOP) and regulation (Interview No.7).

The assurance services in the compliance audit of the internal compliance section started in 2011. Based on the data of the internal compliance section, the internal audit team has conducted 141 audit assignments since 2013.

Figure 3.1. The compliance audit of the internal compliance section



Source: composed from data of the internal compliance section 2013-2017 (DGT n.d.)

The above result indicates the average number of the compliance audit of the internal compliance section is 28 assignments in a year. However, there is a decrease in the number of audit units and the number of audit themes over 2013-2017. There are two reasons for this decrease. Firstly, the changes from the *co-sourced* internal audit to the *in-house* internal audit. In 2013, the internal compliance section performed the compliance audit with the help of the Inspectorate General staff from the Ministry of Finance (*co-sourced*). After 2013, the internal compliance section decided to apply the *in-house* compliance audit which is done independently by its staff without the interference of Inspectorate General. These changes made the internal compliance section adjust the number of audit units and themes to the quality (skills and knowledge) and quantity (number of internal auditors).

Both *co-sourced* and *in-house* have benefits and weaknesses in the implementation of the internal audit of the compliance section. The following table describes this condition.

Table 3.3. *Co-sourced and in-house internal audit of the DGT*

	Benefit	Weakness	Outcome
<i>co-sourced internal audit</i>	<ul style="list-style-type: none"> A higher level of skills, knowledge, and expertise in the internal audit team. Inspectorate General provides a different perspective to the operational activities of Directorate General of Taxes of the new perspective of its operational activities. Higher coverage of internal audit areas (50% higher). 	<ul style="list-style-type: none"> Inspectorate General has different work-ethic since it comes from external of Directorate General of Taxes. 	<ul style="list-style-type: none"> The recommendation is more valuable to the auditees (auditee follow with action). The more extensive coverage area of the internal audit (themes and audit unit).
<i>in-house internal audit</i>	<ul style="list-style-type: none"> Fully controlled by the internal compliance section Independence is safeguarded within the organization. 	<ul style="list-style-type: none"> Low to medium level of internal audit skills and knowledge. Compliance audit only focuses on the formality of the procedures implementation. Medium coverage level of internal audit areas (lack of human resources quantity). 	<ul style="list-style-type: none"> Less friction in the internal audit team since it comes from one unit.

Source: based on the researcher analysis.

Moreover, one of the members of senior staff in the internal compliance section explains the weakness of the *in-house* internal audit:

The challenge in our job is human resources. There is a limitation in our number of internal auditors. The restriction is in the quantity and quality. In term of quality, the problem emerges in the understanding of the audit object (procedures that being audited) (Interview No. 4).

Secondly, the decrease in the number of audit unit and themes is a result of the implementation of the risk-based approach in the audit plan and audit universe (*Chapter 4- Professional Practices*). Therefore, the internal compliance section uses the risk-based approach as guidance in selecting audit units and themes.

The compliance audit of the internal compliance section has added value to the DGT. Based on the online questionnaires, the benefits of the compliance audit task is a) improvement in the quality of policies (42,9%); b) early fraud detection for the management (42,9%), and c) supporting factor for the good internal control (14,3%). The experience of the current staff of the internal compliance section explains this benefit:

Some of the auditees felt our job is beneficial to them. Since we assess a lot of documents and data, indirectly we also organise the mixed up data into the proper arrangement. For the auditees, it eases their works in the future. For example, the tax report from the taxpayers. The audit units often disregard the system record about the incomplete process of the tax reports. With our presence, it helps them to reorganize and finish these arrears (Interview No. 4).

Nonetheless, the compliance audit has not covered all unit in the DGT. Based on the data of the internal compliance section, from 2013-2017, the coverage of the compliance audit has reached 37,7% with the majority of the audit units located on Java island (217 offices). Therefore, there is an unequal distribution of compliance audit units.

Furthermore, the Director of Internal Compliance and Human Apparatus, Mr. Harry Gumelar, states that there is a weakness in the compliance audit report. He mentions two examples in tax auditing activities and tax collection activities. The deviation in the practice and the repeated type of findings are the most noticeable weakness in the report.

Advisory services (Level 3)

The advisory services of the internal compliance section meet the criteria of the *two-way* relationship (consulting services criteria) as mentioned by IIA Netherlands (2015:7).

Table 3.4. Consulting in the advisory services of the internal compliance section

	Ambition	Activity	Interaction	Values	Positioning
Advisory services (consulting activities)	Improve the current policy.	Actively involved in policymaking.	Activity starts with analysis and recommendation and continues through to discussion with management.	The management feels the need for consultation.	The success of the previous recommendation creates more demand from management.

Source: based on the researcher analysis

The advisory service is related to consulting activities. It is the opposite of the assurance activities as in compliance audit. IIARF (2009) explains the advisory service could be combined with assurance activities like compliance audit. The internal compliance section has already started the advisory service in the DGT. The following narrative explains this condition:

The consulting occurs when other directorates request suggestion from internal compliance section about specific policy. For example, tax debt handling policy. This procedure is upgraded based on the analysis and the recommendation from the internal audit team from the internal compliance section (Interview No.3).

Based on this narration, the advisory service is not routine for the internal compliance section. It only happens when other parts of the DGT requires the internal audit advisory services. Mr. Henderi, the head of the internal compliance section, supports this fact. In 2018, the organization requires the internal compliance section to oversee the formulating process of the new information system in the DGT (Interview No. 1).

During the fieldwork, the researcher observed that there were some issues in the performance of the advisory services for the staff of the internal compliance section. Firstly, the overload task in the internal compliance section for another function like advisory services. In the interview process, one of the interviewees is in charge to be a discussant in one of the policy meetings with other Echelon II in the DGT. This means that the internal auditor has been asked to perform an advisory service for other units. At the same time, he has to prepare the required document for the next internal audit assignments such as the letter for the data request for auditees. Consequently, the staff could not provide the maximum outcome either in advisory services or compliance audit preparation.

Another limitation is the tight timeline between the internal audit assignments. The staff of the internal auditor as the questionnaire results demonstrate, perform three to four internal audit assignments every year. The internal audit starts in May and ends around October or November each year. Based on the observation of the researcher who joined the internal audit team in 2013-2017, the internal compliance section could not start the assignments earlier. The organization prohibits the internal audit in March and April (the deadline time for annual tax reports) since it will disrupt the efforts of the vertical units to maximize the tax revenue.

Consequently, the internal compliance section has to finish all the audit assignments in five or 6 months. If we refer to 2014 with 25 internal audit assignments, the average of the assignments is five per months. As a result, the staff of the internal compliance section spends only one to two weeks at the office before moving on to the next internal audit assignments. Therefore, the time for analysis and delivering the advisory services are limited.

Overall, the internal compliance section has established the KPA for level 2 of IA-CM and partially for level 3 of IA-CM. Nonetheless, the weakness in the KPA level 2 needs to be addressed as it is essential in developing the capability of the internal compliance section.

B. People Management in the Internal Compliance Section

Table 3.5. People Management

Level of IA-CM	KPA	Findings	Gap/ Weakness
2	Individual Professional Development	<ul style="list-style-type: none"> Established training plan. Echelon III and IV do not have experience in internal audit. Too many training in one period for the head of the internal compliance section. Only one staff already acquire certification in the internal audit (QIA). KPI and the judgment of the head of the internal compliance section are the evaluation tools of the training. 	<ul style="list-style-type: none"> Current evaluation tools is not sufficient. Potentially decreased in the training outcome.
2	Skilled People Identified and Recruited	<ul style="list-style-type: none"> The recruitment process is not based on the competencies Past: the internal compliance section recruits the fresh graduates. Current: recruits the human resources who have experience in tax procedures. The new employees who have the experience are just finishing the master education (not performing work task for a period). 	<ul style="list-style-type: none"> There is no identification of the potential candidates for the future internal auditor.

Source: based on the researcher analysis and fieldwork.

Individual Professional Development (Level 2)

The purpose of individual development is to maintain and increase the professional abilities of the internal auditor (IIARF 2009: 21). The internal compliance section is also aware of its human resources (the internal auditor). As mentioned by Mr. Henderi, the head of the internal compliance section:

For the current employee (audit member), internal compliance section provides in-house training (IHT), a seminar with reliable speakers from other directorates (Interview No.1).

Through this seminar, the staff of the internal compliance section acquires relevant knowledge about the procedures that will be tested in internal audit assignments. This knowledge is essential to formulate the internal audit plan and internal audit program. Based on the researcher's observation in 2014-2015, the changes in the internal audit program for tax auditing activities are derived from the discussion with the Directorate of Tax Audit and Tax Collection.

The internal compliance section also provides its employees with the basic skill of an internal auditor. Therefore, the staff in the internal compliance section are directed to get their internal audit certification through Internal Audit Education Foundation (YPIA). Nonetheless, in 2018, only one staff in the internal compliance section has a certification as a Qualified Internal Auditor (QIA), and most of the other members also have not got certifications in risk management (Interview No.6). This change occurred due to employee transfer and promotion in the organization. Another factor that holds up the internal compliance section is the limitation in the training budget. To get the certification, the participant of the training has to pass five levels of the internal audit and the total cost for each participant is Rp 34.000.000.

Table 3.6. The price of the Internal Audit Certification

Internal Audit Basic I	Internal Audit Basic II	Internal Audit Advance I	Internal Audit Advance II	Internal Audit Managerial
Rp 8.000.000	Rp 8.000.000	Rp 9.000.000	Rp 9.000.000	Rp 10.000.000

Source: cited from the internal compliance section data 2013-2017 (DGT n.d.)

For 2018, the internal compliance section allocates around 173 million Rupiahs for the general training of the internal auditors. The budget will support the training list in the table below.

Table 3.7. The internal audit training plan for 2018

Position	Acquired Training	Training plan	Quantity
Head of Sub-directorate Internal Compliance (Echelon III)	Basic I and Basic II	Advanced I	One person
Head of Internal Compliance Section (Echelon IV)	-	Basic II, Advanced I, Advance II and Managerial	One person
The staff of Internal Compliance section	Basic II	Advanced I	9 persons
	Basic I	Basic II	6 persons

Source: composed of the internal compliance section data 2013-2017 (DGT n.d.).

The training plan describes a gap in management knowledge and skills (Echelon III and Echelon IV) of the internal audit knowledge. The Echelon IV has limited knowledge on the internal audit as he has only been in the position for eight months and does not have experience in the internal audit. This condition also applies to the Echelon III who also joined less than one year ago. Consequently, increasing their knowledge is essential. As mentioned by CIPFA (2010: 6), the head of the internal audit, in this case, the Echelon IV, must be a senior manager with regular and open engagement across the organization and professionally qualified and suitably experienced.

The DGT has chosen senior employees to be promoted as the head of the internal audit. These senior employees are not professionally trained nor have experiences in the internal audit process. Therefore, to fulfill the gap in knowledge and experience, a series of training is an excellent option. Nonetheless, overbearing the individual with a large amount of training in a short period of time may have the potential to decrease the outcome of the training.

The internal compliance section also does not have the proper tools to evaluate the outcome of the training. One of the senior staff in the internal compliance section supports this argument. The staff mentions that:

It is hard to tell the performance of the employees who have passed training will be better than the ones who have not joined any workshops or training. Furthermore, we have not established a method to choose the suitable type of training for the internal audit and matched it with the available budgets. The only tools to evaluate the capacity are Key Performance Indicators (KPI) and the judgment from the head of the internal compliance section (subjectivity). Nevertheless, both of these indicators do not affect the composition of the audit team in the following year. (Interview No. 2).

Based on this narrative, the objectivity and the authority of the head of the internal compliance is the primary key in the individual's professional development within the internal audit unit. The head of the internal compliance section could maximize his judgment to determine the type of professional development for the internal auditor. Furthermore, based on the judgment of the progress in internal auditor skills and knowledge from training, the structure of the internal audit team could be improved.

Skilled People Identified and Recruited (Level 2)

In the IA-CM framework, the process of recruitment's purpose is to identify and attract the candidates with relevant competencies and skills to join the internal audit activity (IIARF 2009: 21).

The recruitment based on the competencies was not practiced in the internal compliance section during 2013-2017. The following narrative describes this condition:

The recruitment process for the internal auditor in the internal compliance section has not considered the competencies and the skills of the new employees. The new employees are placed based on the authority of the Secretariat General of the DGT (Interview No.5).

Another fact also emerges from the interviews. The internal compliance section recruits fresh graduates with a diploma and bachelor background (Interview No.6). Recruiting fresh graduates requires more efforts as there is a need to build their competencies. Consequently, hiring fresh graduates only could succeed if the organization has adequate resources to train and develop their competencies (Clune and Gramling 2012: A13).

In the past, this process could be done due to the assistance from the Inspectorate General which became an integral part of the internal audit team. The training process is developed through the involvement of the new staff with the Inspectorate General staff in audit assignments. Nonetheless, this process is stopped in 2014 when the internal audit was handled independently by the internal compliance section. Therefore, the knowledge transfer process relies on the senior staff of the internal compliance section to nurture the new internal auditor.

Mr. Henderi, the current head of the internal compliance section tried to change the recruitment process of the internal auditor. Even though the authority to allocate staff is the responsibility of Secretariat General of the DGT, the internal compliance section places particular terms and conditions for new staff. The new staff should have the experiences as Account Representative, Tax Auditor, Tax Bailiff or Tax Investigator which will be valuable in conducting the internal audit with those particular themes (Interview No.1). As a result, in 2018, three employees in the internal compliance section were in those positions.

Even though, it seems the internal compliance has recruited proper human resources, there is a weakness in this process. The new employees have recently finished their master education and have not worked in one to two years. Furthermore, these new employees do not have basic internal auditor knowledge. Consequently, the organization has to place extra responsibility on senior staff to guide them through the internal audit process.

Based on the researcher's observation during 2012-2017, there is no identification process about the potential candidates in the DGT to become the

next internal auditor. The head of the internal compliance section explains that even with the proper identification, the internal compliance section does not have an attractive incentive to attract the best human resources in the DGT (Interview No.1).

The status of staff in the internal compliance section is structural. It is different than the status of the internal auditor of the Ministry of Finance, Inspectorate General, which has a functional status. The functional status has more independence, faster promotion, employee valuation based on performance and better take-home pay. For example, the take-home pay for staff with a structural degree in the DGT is around Rp 8 million, while tax auditor with the functional degree is around Rp 13 million (Kompas 2015).

The internal compliance section has tried to change the staff of the internal compliance section to have a functional status in order to increase the allurements of this unit. The following narrative explains these efforts:

The proposal for upgrading status of the internal audit staff in internal Directorate General of Taxes has been approved by all directorates and Director General of Taxes. Even though it already got the approval, it could not continue. The challenge comes from the Ministry of Finance as the top management of the Director General of Taxes. One of the particular units in the Ministry of Finance, Inspectorate General, declines this reform. Inspectorate General recognizes the function of internal audit in Director General of Taxes is overlapping to their role (Interview No.3).

Overall, the internal compliance section has attempted to increase the attractiveness of the unit to human resources in the DGT. The internal compliance section falls behind the requirement of the level 2 IA-CM in the identification of the potential internal auditor candidates in the DGT.

Chapter 4

Professional Practices, Performance Management, and Accountability

This chapter provides an assessment of the internal compliance section using two elements of the IA-CM framework. Furthermore, it will answer the third and fourth research sub-questions about the professional practices and performance management in the internal compliance section. The data and analysis will explain the key process area (KPA) in each of the elements of the IA-CM framework.

A. Professional Practices of the Internal Compliance Section

Table 4.1. Professional Practices

Level of IA-CM	KPA	Findings	Gap/ Weakness
2	Audit Plan Based on Management/ Stakeholder Priorities	<ul style="list-style-type: none"> Established an audit universe for the choice of audit themes and audit units The choice based on the risk-based approach based on the <i>Risk Profiling Report of the Directorate General of Taxes on 2017</i>. The Director of Internal Compliance and Human Apparatus (Echelon II) has the authority to suggest the audit themes. The Inspectorate General audit schedule also part of the consideration for the audit themes selection 	-
2	Professional Practices and Processes Framework	<ul style="list-style-type: none"> Established internal audit practice 	<ul style="list-style-type: none"> Delayed time in the compliance audit report completion due to long review in Echelon III and IV.
3	Risk-based Audit Plan	<ul style="list-style-type: none"> The established risk-based approach in the audit plan. 	-

Source: based on the researcher analysis and fieldwork.

In implementing the internal audit, the internal compliance section follows the best practice of the process of the internal audit. In the process of preparing the internal audit, the internal compliance section creates the audit universe, the audit plan and the audit program for the guidance of the internal audit team in its assignments. Furthermore, it is also essential to develop the audit plan periodically based on the management priorities.

Audit Plan Based on Management/ Stakeholder Priorities (Level 2) and Risk-Based Audit Plan (Level 3)

The audit universe of the internal compliance section determines the selection of the audit units based on three factors; the impact of the unit on the accomplishment of the tax target, the size of the units and the role of the unit. All these elements ensure that the internal audit will provide a more significant benefit than the cost (cost to benefit). Furthermore, the audit universe also formulates the selection of the audit themes. One of the senior staff explained that the choice of audit themes in the audit universe is based on the risk-based

approach (Interview No.2). Therefore, the internal compliance section has implemented a particular part of the IA-CM level 3.

The risk based-approach determines the audit themes by referring to the Risk Profiling Report of the DGT in 2017 (KITSDA 2017). Then, the internal compliance section chooses the internal audit themes based on the procedures that affect the strategic goals of the DGT and have a risk profile rank between 3 to 5 (mid to high). Other factors that affect the choice of the internal audit themes are the direction from the Director of Internal Compliance and Human Apparatus (KITSDA) and the internal audit plan of the Inspectorate General Ministry of Finance. The internal audit compliance section considers the internal audit plan of Inspectorate General to prevent a schedule clash where one unit is audited by the internal compliance section and Inspectorate General in the same year. On the other hand, the Director of KITSDA has the authority to suggest the audit themes. For 2018, he suggested the following internal audit themes: information and technologies, extensification and taxpayer registration, the surveillance of tax billing, the active tax collection activities, the tax auditing on overpayment by taxpayer and employee transfer pattern. By triangulating these three factors, the audit themes are set up every year.

As a result of triangulation, the internal compliance section selected five procedures to become the internal audit themes for 2018 (KITSDA 2017):

- a) Tax auditing activities with a focus on compliance on formality procedures, fraud potent on tax auditing implementation and the completion of the extra effort targets from the tax auditing activities.
- b) Tax surveillance with a focus on tax surveillance by risk which is conducted by the Account Representative, the usage of the information system to support tax surveillance, and the completion of the extra efforts target from tax surveillance activities.
- c) Information and technology system with a focus on the administration of annual tax report, join-domain system implementation, administration of information, report and complain, and surveillance on the access right and database on related directorates,
- d) Extensification activities with a focus on the preparing phase, planning and implementation phase, taxpayer registration, validation of the business classification, the surveillance on the tax records of the new taxpayer, and the completion of the extra effort targets from the extensification activities.
- e) Tax collection activities with a focus on active tax collection, surveillance on the data from Inspectorate General reports 2017, validation on tax arrears in the system, human resources management on tax collection and the completion of the extra effort targets from the tax collection activities.

The internal compliance section has reached the KPA of level 2 of the IA-CM framework. The internal compliance section considers the suggestion from management (Director KITSDA) in the choice of audit themes. Moreover, the internal compliance section also considers the internal audit task from Inspectorate General of the Ministry of Finance as its stakeholder.

Professional Practices and Processes Framework

IIARF (2009: 22) explains that the professional practices in level 2 of the IA-CM framework have the purpose of managing the internal audit operations through audit planning, program, and reporting. As mentioned in the previous sub-chapter, the internal compliance section uses the audit universe to plan the internal audit. The audit universe produces audit themes and the audit units in the DGT.

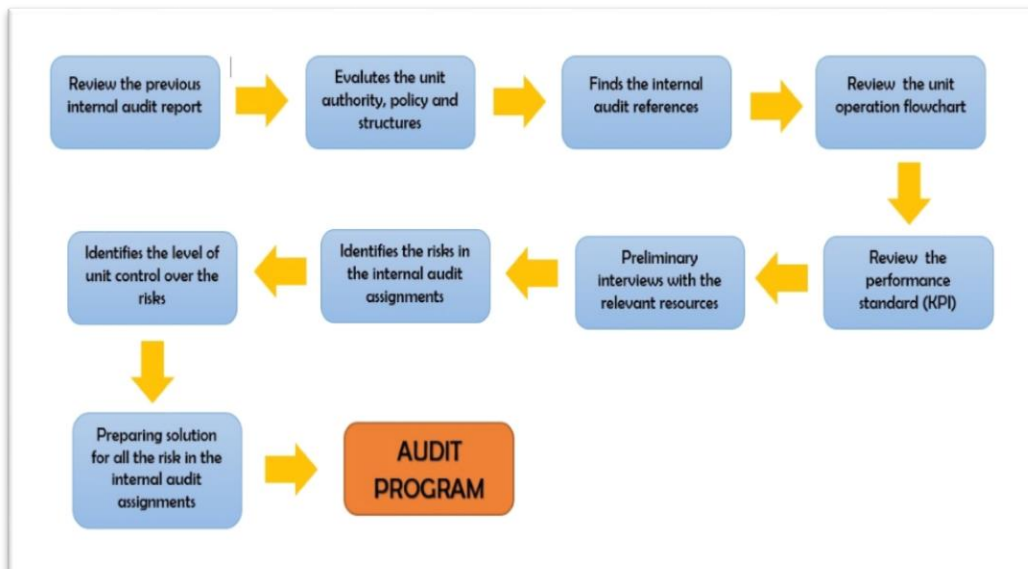
The internal compliance section conducts several steps in internal audit practices (KITSDA 2017):

a) Internal Audit Plan

Based on the output of the audit universe, the internal compliance section starts the preparation of internal audit assignments. Then the internal audit team determines the scope of the internal audit for the audit units based on the analysis in the audit universe. The scope of the internal audit is based on the extent which the internal audit will test and assess the implementation of the tax procedures in the audit units. Furthermore, it will also establish the allocation of the internal audit staff and the type of information that will be used in the internal audit assignments. Eventually, in this phase, the internal audit team organizes the audit program for each of the internal audit assignment where each of the audit programs is specific to each audit unit and each audit theme.

b) Internal Audit Program

Figure 4.1. The internal compliance section audit program



Source: composed from the module of KITSDA (2017)

After finishing the internal audit plan, the internal compliance section assembles the internal audit program. The process of constructing the internal audit program starts with a review of the previous report of the internal audit with similar audit themes. The purpose of this process is to form an understanding of the audit themes (tax procedures) and the existing internal control in the organization. Furthermore, the internal audit team evaluates the policy, organization structure, and authority of the audit units. This process seeks to identify the risk that might appear in the internal audit assignment later.

Next, the internal audit team looks at the reference of the current internal audit techniques that could support this internal audit assignment. Also, the internal audit team reviews the flowchart of the tax procedures that will be assessed. Then, to complete all the previous steps, the internal compliance section conducts interviews with staff from the other directorates to obtain knowledge on tax procedures. The interviews confirm whether the contents of the audit program are suitable for the tax procedures (audit themes). Lastly, the internal compliance section also prepares the risks in the internal audit assignment. The risk could be in the form of the resistance of the audit units. Therefore, the audit program should cover the anticipation steps for the potential risks in the audit assignments.

c) Internal Audit Implementation

The internal compliance section conducts the internal audit in several steps. Firstly, the internal compliance staff (internal auditor) inform the internal audit assignments to the audit units via a formal letter. Since the distance of the majority of the audit units is far from the headquarter, the internal auditor sends the letter through facsimile. The process of the internal audit implementation starts with the document and procedures assessment before the internal auditor goes to the audit units.

Then the process continues with a side internal audit in the audit units office. The internal auditor checks the documents, interviews the staff in the audit units and confirm the findings with the related staff and echelon. Moreover, the internal auditor also observes the practice of tax procedures in the audit units. In the internal audit assignments, the staff of the internal compliance section uses a few internal audit techniques (KITSDA 2017).

Table 4.2. Internal audit techniques of the internal compliance section

Internal Audit Technique	Purpose	Methods
Flowchart	Describe the workflow of the procedures in the audit units	Detailing the process, supporting the audit reports and identify the key areas in the internal audit
Interview	Supporting the evidence from accessing documents	There are six steps in this interview; a) preparing the essential questions, b) motivating the interviewees through a clear explanation of the interview process, c) conducting the practical questions, d) keeping the objectivity in recording the response, e) concluding the results, and f) analyzing the interview result.
Sampling	Select the correct and accurate samples to represent the real condition of audit units.	Random sampling or purposive sampling based on the judgment of the head of the internal audit team.
Analysis	Producing results based on the work and evidence of the audit units.	Triangulating all the previous steps including the document reviews before the internal audit.
Confirmation to other directorates or related stakeholders.	Verifying the findings with other directorates in the DGT.	Sending the letter of confirmation which guarantees the confidentiality of its contents.

Source: composed based on KITSDA (2017).

d) Audit reports

Based on the criteria of ICPAK (n.d), the internal audit report of the internal compliance section has covered all the internal audit report criteria.

Table 4.3. Internal audit reports of the internal compliance section

ICPAK criteria	Comprehensive findings	Description of findings	Recommendation	Auditee's comment or action plan
Internal compliance section practice	V	V	V	V

Source: composed based on KITSDA (2017).

The internal compliance section also communicates the result of the internal audit process to the auditees and provides a recommendation to resolve the weakness in Standard Operating Procedures (SOP) practice (Interview No. 4). Eventually, the internal compliance section discloses the auditee's perspective over the findings and the auditee's plan to implement the auditor recommendation.

Apart from ICPAK criteria, internal compliance section also set up a few standards for its internal audit report (KITSDA 2017). The standards are; a) internal audit report should be in written format, b) brief explanation, systematic and understandable, c) internal audit report should be objective and based on fact.

Even though the internal auditor of the DGT has followed the best practice of the internal audit report, there is still a weakness in the completion time of the internal audit report. From the questionnaire to the internal compliance section staff, 42,9% of respondents finish the reports in 2-3 weeks, while the other 42,9% finish the reports in 4-7 weeks. Moreover, 14,3% of respondents complete the report in more than seven weeks. The causes of this problem are the long review time in the Echelon III and IV and delayed response from the auditees.

The internal compliance section as the internal audit of the DGT has fulfilled the KPA of the level 2 of IA-CM and level 3. Nonetheless, there is a need to improve the completion time of the internal audit.

B. Performance Management and Accountability of the Internal Compliance Section

Table 4.4. Performance Management and Accountability

Level of IA-CM	KPA	Findings	Gap/ Weakness
2	Internal Audit Business Plan	<ul style="list-style-type: none"> Established internal audit plan. KPI and judgment of the head of internal compliance section are the evaluation tools for the internal audit performance. 	<ul style="list-style-type: none"> Current performance evaluation tools are not sufficient.
2	Internal Audit Operating Budget	<ul style="list-style-type: none"> Established internal audit budget plan. 	-

Source: based on the researcher analysis and fieldwork.

Internal Audit Business Plan (Level 2)

The purpose of the internal audit in this level is establishing a periodic plan for delivering the internal audit activity including administrative and support services and the expected result (IIARF 2009: 23). Therefore, the internal audit has a contingency in its practices.

The internal compliance section activities also prepare the business plan. One of the contingency plans is for human resources. The head of the internal compliances section explains the human resources plan in the following narrative.

We set up specific criteria if in the future there is an employee transfer happen in the internal compliance section. The employee who will join the internal compliance section should have the experience to be a tax officer in the small tax office (Interview No.1).

The internal compliance section set up the proposal of employee needs to Secretariat of the DGT. Based on the data of KITSDA (2017), the internal compliance section proposes a specific number for the staff.

Table 4.5. Employee needs of the internal compliance section (2019-2013)

	2019	2020	2021	2022	2023
Employee number	22	22	25	25	25

Source: cited based on the data from KITSDA (2017)

The clarity of goals or expected results also appear in the business plan of the internal compliance section. By the end of 2020, the internal compliance section through its internal audit function wants to achieve the improvement of the internal control in the organization, the decline in the fraud and violation of the tax procedures, and the rise in the completion of the tax revenue target (KITSDA 2017).

The management (KITSDA) set several indicators to measure the performance of the internal compliance section, for the internal audit of the DGT. Firstly, from the 2019-2023, the internal compliance section wants to create a credible standard for the internal audit of the DGT. Secondly, the proposal of the internal audit must be effective and objective. Thirdly, the improvement of the awareness of other units in the DGT for consulting services from the internal compliance section. The units could ask for consulting services for particular business processes or tax policies in the DGT. Fourthly, the recommendation from the internal audit team becomes a focal point for the auditees. The auditees prioritize the recommendation to be implemented, and the internal compliance section monitors the actions. Lastly, the internal compliance section through its recommendation enhances the robustness of rules, systems, data, standard operating procedures (SOP) in the DGT.

The internal compliance section has established the contingency business plan until 2023. The business plan has considered the human resources area and the expected result in the future. However, there is a mere improvement in the

management of the internal audit, especially in the audit report. As mentioned in the previous chapter, there is a delay in the final review of the Echelon III and Echelon IV which interrupt the completion of the internal audit report. Therefore, it should be the focus for the Echelon to prioritize the reviewing process of the audit report.

Another downside of the business plan of the internal compliance section is the absence of the evaluation of the performance of the internal audit team. As mentioned by one of the senior staff (Interview No.2), Key Performance Indicator (KPI) and judgment of the head of the internal compliance section are the only tools used to evaluate the work of the internal audit team. Based on the researcher's observation in 2012-2017, KPI only measures the completion number of the compliance audit in a year for each the internal compliance staff. If staff 'A' has five audit assignments in a year and has already accomplished them, his performance will be 100%. Moreover, the head of the internal compliance section assesses his performance also based on the KPI and the staff behavior during daily work. Therefore, there are no tools for evaluating the quality of internal audit and the quality of the staff in the internal audit team.

The internal compliance section has already fulfilled the requirement for KPA of level 2 of the IA-CM framework especially in creating a business plan. Nonetheless, the internal compliance section needs to improve this plan to cover the management part in the reviewing process of the internal audit report.

Internal audit operating budget (Level 2)

In this level of the IA-CM Framework, the internal audit has its own operating budget plan to conduct its internal audit activities (IIARF 2009: 23). Therefore, with this budget, the internal audit performs its function to support the organization objective.

Based on the data from the internal compliance section, the internal compliance section has its budget plan with a specific portion for the internal audit function (KITSDA 2017). The internal compliance section creates the budget plan at the end of the current year. The plan provides the funds needed to support the tasks of the internal compliance section in the following year (Appendix 3).

The internal compliance section based on the budget amount determines the number of units, the number of personnel in an audit team and the cost of the internal audit assignments. The audit units that are further away require a more significant portion of the internal audit budget. Consequently, the amount of funds for each audit units is different to others.

In level 2 of IA-CM, the accountability focus on how the internal audit unit created a budget plan for its activities. Therefore, the internal compliance section has fulfilled the requirement of level 2 of IA-CM.

Chapter 5

Organizational Relationship, Culture, and Governance Structures

This chapter provides an assessment of the internal compliance section using two elements of the IA-CM framework. Furthermore, it will answer the fourth and fifth research sub-questions on organizational relationship and culture, and governance structures in the internal compliance section. The data and analysis will explain the key process area (KPA) in each of the elements of the IA-CM framework. Finally, in the last part of this chapter, it will address the gap and weaknesses of all the elements in the IA-CM framework.

A. Organizational Relationship and Culture of The Internal Compliance Section

Table 5.1. Organizational Relationship and Culture

Level of IA-CM	KPA	Findings	Gap/ Weakness
2	Managing with Internal Audit Activity	<ul style="list-style-type: none"> The perspective of the internal compliance section has a positive trend. Past: internal audit is meaningless. Current: internal audit is crucial, and other units appreciate the existence of the internal audit. Communication is the key to development. 	-
3	Integral Component of Management Team	<ul style="list-style-type: none"> Established as a part of the management team. Actively involves in formulating new information system of Directorate General of Taxes. 	-
3	Coordination with Other Review Groups	<ul style="list-style-type: none"> A positive relationship with the Inspectorate General in the selection of the audit units. 	<ul style="list-style-type: none"> Friction happens with Inspectorate General due to the proposal for changes internal audit staff status.

Source: based on the researcher analysis and fieldwork.

Managing with Internal Audit Activity (Level 2)

The purpose of the IA-CM framework at this level is for the internal audit in the organization to be appropriately managed. Furthermore, the managing process of the internal audit also builds a good relationship with other units in the organization (IIARF 2009: 24).

The internal audit compliance of the DGT has developed a relationship with other units in the organization. One of the former senior staff in the internal compliance section in 2014 explains the condition of the internal compliance section's task:

The low response from the management of the audit units toward the recommendation of the internal audit team create the perception that the internal audit process is meaningless (Interview No. 5).

The current condition of the interaction between the internal compliance section with other units in the DGT has progressed into a better one. The managing process of the internal audit in the internal compliance section impacts

other directorates in the DGT. As mentioned by one of the current internal compliance staff:

The internal compliance section is often involved in the cosign assignments from other directorates to provide feedback about specific procedures. Nowadays, the recommendation of the internal audit team in this section is becoming one of the considerations for other directorates before creating or changing a procedure. Moreover, all of our efforts are very crucial to the board of leader meetings in the DGT. All in all, our recommendation is more valuable now (Interview No.3).

Based on these narratives, the managing of internal audit activity has made other units and directorates in the DGT aware of the importance of the internal compliance section.

According to the head of the internal compliance section, the essential step taken to interact with other auditees and directorates is communication (Interview No. 1). The internal compliance section builds the communication before the internal audit begins. The Director of KITSDA (Echelon II) makes contact with other Echelon II in the areas where the internal audit will be conducted. Moreover, the head of sub-directorate of internal compliance (Echelon III) also directly contacts the head of the audit units through a phone call. Lastly, the head of the internal compliance section (Echelon IV) communicates with the same level of management (Echelon IV) in the audit units. Therefore, communication is built in each level of the Echelon to create awareness of the internal audit function.

Communication also occurs after the internal audit is finished. The internal compliance section holds meetings with other directorates to explain the recommendation that will change the regulations, procedures or the policies.

The internal compliance section has established the management of the internal audit activity. Therefore, the internal compliance section has reached level 2 of the IA-CM framework.

Integral Component of Management Team (Level 3)

The purpose of the internal audit in this level is participating in the management activities to add values to the activities in the organization (IIARF 2009: 24). In the previous chapter, the internal compliance section has provided consulting (advisory services) to the organization. It is not a routine task, but the existence of the internal compliance section is regarded to be valuable to the organization.

The IA-CM framework explains that on level 3, the internal audit team is involved in the management activities without carrying management responsibilities (IIARF 2009: 24). The internal compliance section now actively provides a recommendation for the new information system in the DGT (Interview No.1). Therefore the internal compliance section has already fulfilled the requirement of level 3 of the IA-CM framework.

Coordination with Other Review Groups (Level 3)

The purpose of the internal audit in this level is creating a relationship with other review units (IIARF 2009: 24). Through this relationship, the internal audit

unit ensures proper internal audit practice and avoids any duplications of the internal audit.

The internal audit of the DGT has a long relationship with the Inspectorate General of the Ministry of Finance. In 2013, the internal compliance section learned the internal audit process through the involvement of the Inspectorate General staff in the internal audit assignments. This relationship continues even though the Inspectorate General is not directly involved in internal audit assignments anymore.

After leaving the internal compliance section, the Inspectorate General's role in the internal audit of the DGT changes. The internal compliance section considers the internal audit schedule of Inspectorate General in the units inside the DGT as part of the audit universe (KITSDA 2017). Therefore, the internal compliance does not choose the same units to be audited in the same year as Inspectorate General visits the units.

In the choosing the audit units, the internal compliance section forms a good relationship with the Inspectorate General. Nonetheless, there is also friction with the relationship with Inspectorate General. The following narratives explain this friction:

The proposal for upgrading status of the internal audit staff in internal Directorate General of Taxes has been approved by all directorates and Director General of Taxes. Even though it already got the approval, it could not continue. The challenge comes from the Ministry of Finance as the top management of the Director General of Taxes. One of the particular units in the Ministry of Finance, Inspectorate General, decline this reform. Inspectorate General recognize the function of internal audit in Director General of Taxes is overlapping to its role (Interview No. 3).

The internal audit of Directorate General of Taxes has achieved level 3 of the IA-CM framework in coordination with the Inspectorate General. But, it needs some improvement to get support from the external reviewer (Inspectorate General) for the reforming status of the staff of the internal compliance section.

B. Governance Structures of the Internal Compliance Section

Table 5.2. Governance Structures

Level of IA-CM	KPA	Findings	Gap/ Weakness
2	Reporting Relationship Established	<ul style="list-style-type: none"> Established reporting lines for the internal audit. The internal audit does not report directly to the Director General of Taxes (not following the best practice). The proposal of change the internal audit position is rejected by the directorates in of Directorate General of Taxes. 	<ul style="list-style-type: none"> Bias in function since the internal compliance section also deals with internal control.
2	Full Access to the Organization's Information, Assets, and People	<ul style="list-style-type: none"> The internal staff of the internal compliance section could access the information in the organization. 	<ul style="list-style-type: none"> Delayed in information gathering from auditees.

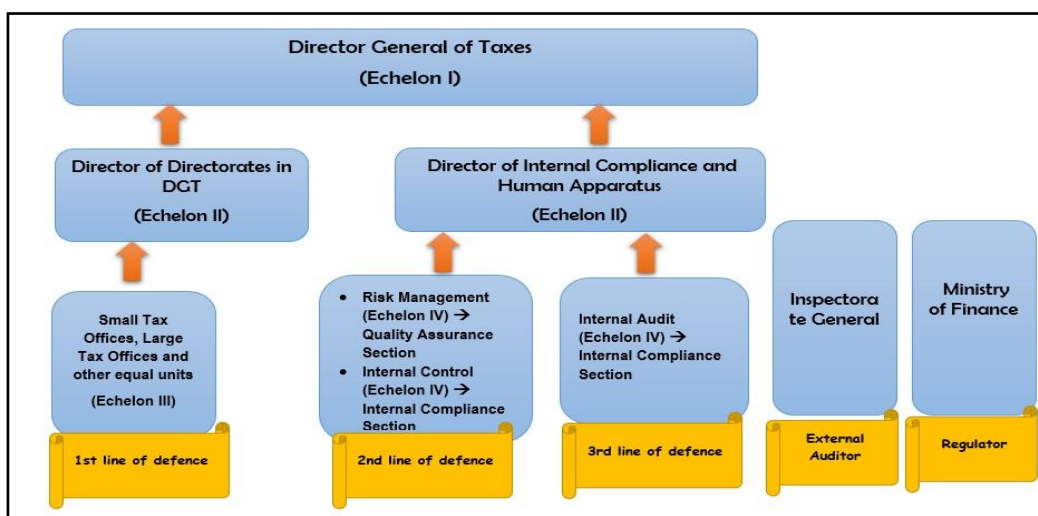
		<ul style="list-style-type: none"> • The internal staff value the access to information at eight from scale 10. • The information is sufficient, reliable, relevant and usefulness. 	
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Source: based on the researcher analysis and fieldwork.

Reporting Relationship Established (Level 2)

The purpose of the internal audit is to provide a formal reporting structure for the internal audit of the internal audit of the organization (IIARF 2009: 25). The following figure explains the reporting structure of the internal audit in the DGT.

Figure 5.1 Reporting Structure of DGT's Internal Audit



Source: composed based on data from KITSDA (2017).

CIIA (2015) explains that the internal audit report directly to the governing body. The internal audit practice in the DGT is not ideal since the internal audit has to report its works to Director of Internal Compliance Section first before the report is passed on to the DGT (governing body). The audit report document is supervised by the head of the internal compliance section (Echelon IV) and head of sub-directorate of internal compliance (Echelon III). Then the director of the internal compliance and human apparatus conducts the final check on the internal audit report.

The internal compliance section has proposed the changes in the position of the internal audit of the DGT. The following narrative explains the progress of the proposal:

Another friction also occurs in the Director General of Taxes is the position of the internal audit unit. Although the majority of directors (Echelon II) are in favor of upgrading the status of internal audit staff, there is a dispute concerning creating a new directorate for internal audit. Some directors reject the idea of increasing the position of the current internal audit (Echelon IV) to a higher level (Echelon II) (Interview No. 3).

Another problem also emerges in the function of the internal compliance section. Besides its internal audit function, internal compliance is also dealing

with the internal control of the DGT. The internal compliance section designs the monitoring tools to oversee the implementation of procedures of the DGT. The monitoring tools aim to improve the control in the first line of defense (small tax offices, large tax offices, and other equal units). As mentioned in the definition of internal audit (IIA as cited by IIA Australia, 2016:12) the internal audit evaluates the control of the organization. In the DGT, the internal compliance section designs the control tools and at the same time assesses its implementation through the internal audit. Therefore, there is no segregation between the designer and the evaluator of the control in the DGT.

Consequently, there will be a bias in the internal audit especially with the procedures which are designed by the internal compliance section for its control. Even though the position of the internal audit of the DGT is not ideal with duplication duties and indirect reporting channel to the governing body, it is the most suitable pattern for the DGT. It has provided a good structure for internal audit reporting. Furthermore, it needs improvement to separate the internal control duties and the internal audit function. The segregation could be done within the internal compliance section itself. The feasible option is through a separation task between the staff who design the internal control and the ones who conduct the internal audit. Overall, the internal compliance section has already achieved level 2 of IA-CM in the reporting relationship with a formal reporting line based on the organization structures (IIARF 2009: 25).

Full Access to the Organization's Information, Assets, and People (Level 2)

The purpose of the internal audit in this level is granting the internal audit unit access to information, people or the assets of the organization (IIARF 2009: 25). The internal compliance section gains access to the information in the DGT. Based on the internal compliance section staff questionnaire result, all of the respondents (100%) believe that they could access the information for the internal audit from the directorates and obtain the information thoroughly. The majority of respondents (42,9%) rate the access of the information at eight from a scale 1 to 10 (1 is being very poor, and ten is excellent). Furthermore, the respondents classify the information source into four types; standard operating procedures documents, meeting with the directorates that are in charge of the procedures, piloting audit program in small tax offices to get feedback and direct access to the information system of the DGT.

Based on the CIIA criteria of information 2017, the information that the internal audit team gathers already fulfill all criteria.

Table 5.3. The completion of information criteria in the DGT's internal audit

Sufficient	Reliable	Relevant	Usefulness
Based on the researcher's observation from 2012-2017, the internal compliance section uses stratified sampling and decides the number of data for the internal audit.	Based on the questionnaires, 85,7% respondents (internal auditor of the DGT) consider the information from the sources as reliable.	The internal auditor from the internal compliance section formulates all these steps to the audit program and audit plan to ensure the relevance of the information (KITSDA 2017).	Based on the researcher's observation on 2012-2017, all of the information becomes the basis for the recommendation in the internal audit report.

Source: analyzed based on observation, short surveys and data (KITSDA 2017)

Even though the respondents believe that the internal compliance section has full access to the information, assets, and people for the internal audit assignment, another fact emerges from the interview. A senior staff of the internal compliance section explains the delay in the gathering of information from the auditees. The following narrative describes the condition:

Many times in our assignments, the auditees are using the system problem as an excuse for being late to deliver the data or documents that internal audit team needed. For example, we asked for tax report data to confirm the accuracy of the report. The auditees will use the unaligned of the reporting system with the central information system in the DGT as the reason (Interview No. 4).

The internal compliance section has achieved the level 2 of the IA-CM framework, although there is a weakness that causes the prolongation in the data gathering. Nonetheless, to move forward to the next level of the IA-CM framework, the internal compliance section needs to address this weakness first. The prolongation could be solved by communicating with the directorates in the headquarters of the DGT who have access to the information system and asking for preliminary data and supporting data. Therefore, the data request from the internal auditor to the auditees can act as confirmation to the data which is the internal auditor responsibility.

C. Closing Remark

The Director of the Internal Compliance and Human Apparatus believes that the internal compliance section of the DGT has the capability to progress to a higher level of the internal audit capability (Source No.8). This claim is supported by the head of the internal compliance section. The following narrative explains this:

The consultative function has emerged if we compare then the previous period. As I mentioned before, our contribution to the new information system (Core Tax) in the form of the suggestion about risk management and internal control. As a function, we already started the consultative efforts. It is a continuity from our previous duty with our compliance audit where we also provide a recommendation to the auditee (Interview No.1).

The research has assessed the capability of the internal compliance section as the internal audit of the DGT. The assessment is based on the questionnaires, interviews, observations and the analysis over the condition of the internal compliance section. The result partially aligns with the confidence of the management (KITSDA) to improve the internal audit function.

Overall, the result of the internal audit capability assessment is displayed in the following tables.

Table 5.4. Assessment of the capability of the DGT's internal audit

Key Process Area (KPA)	Services and Roles of Internal Auditing	People Management	Professional Practices	Performance Management and Accountability	Organizational Relationship and Culture	Governance Structure
Level 3 -Integrated	Partially achieved (advisory)	Not started	Partially achieved (risk-based audit plan)	Not started	Achieved with the weaknesses	Not started
Level 2 -Infrastructure	Achieved with the weaknesses	Achieved with the weaknesses	Achieved with the weaknesses	Achieved with the weaknesses	Fully achieved	Achieved with the weaknesses

Source: based on the researcher analysis.

The above result shows that the internal compliance section needs to strengthen the yellow areas (the weaknesses) before progressing level 3 of IA-CM. The weaknesses of the internal audit capability in five KPA of level 2 of IA-CM. The internal compliance section has been successful in the KPA for organizational relationship and culture and is now progressing to level 3 for this KPA.

The weaknesses of the elements in level 2 of IA-CM could be solved. The following table explains these possibilities.

Table 5.5. Recommendation for the IA-CM of the DGT's internal audit

Elements of Level 2 IA-CM	Gap/ Weakness	Feasible Recommendation
Services and Roles of Internal Auditing	Low and unequal coverage of audit unit areas and the gap in internal audit skills and knowledge.	Consider the co-sourced internal audit as an alternative to the current in-house internal audit. In the co-sourced (VAGO 2017), the internal compliance section could borrow the staff from other directorates as an expert staff in the internal audit team.
People Management	Current evaluation tools are not sufficient and potentially decrease the training outcome.	The internal compliance section could use Balance Scorecard Instrument (Frigo 2002) or matrix (Mark 2013).
	There is no identification of the potential candidates for the future internal auditor.	Profiling new employees could be done by the internal compliance section and continue with the proposal to Secretariate Directorate General of Taxes.
Professional Practices	Delayed time in the compliance audit report completion due to long review in Echelon III and IV.	Routine reminder from the internal audit team about the timeline of the internal audit report to the Echelon III and IV.
Performance Management and Accountability	Current performance evaluation tools are not sufficient.	The internal compliance section could use Balance Scorecard Instrument (Frigo 2002) or matrix (Mark 2013).

Governance Structure	Bias in function since the internal compliance section also deals with internal control.	The head of the internal compliance section could differentiate the staff who handle internal control with the staff who involved in the internal audit process.
	Delayed in information gathering from auditees.	Preliminary coordination between Echelon III of KITSDA and Echelon III in the audit units to ensure the reduction in delay.

Source: based on the researcher analysis.

The above table indicates that the internal compliance section could choose which area to be strengthened to develop its internal audit capability. Nonetheless, an insight from senior staff of internal compliance section could be a reference for the management:

The challenge in our job is human resources. There is a limitation in our number of internal auditors. The restriction is in the quantity and quality. In term of quality, the problem emerges in the understanding of the audit object (procedures that being audited) (Interview No. 4).

Therefore, focusing on services and roles of the internal auditing, and people management in the current condition is the better option for the internal compliance section to develop its internal audit capability.

Chapter 6

Conclusion and Recommendation

The primary objective of this research is to determine the internal audit capability of the internal audit in the DGT. This objective was accomplished by applying the IA-CM framework through a study on internal compliance section of the DGT. In the process, the researcher analyzes the data of the internal compliance section, short surveys, interviews, and online questionnaires.

With regard to this objective, the study has shown that DGT's internal audit (the internal compliance section) has not fully achieved level 2 of the IA-CM framework. Only in organizational relationship and culture, the DGT's internal audit has completed the KPA of IA-CM. The other elements have been identified with the weaknesses in their practice. These weaknesses could be addressed and the study provides several recommendation options for the DGT.

Firstly, applying co-sourced internal audit with the help of staff from other directorates can improve the elements of service and roles. It will allow DGT to expand its coverage area and internal audit capability simultaneously. Secondly, by practicing the matrix or balance scorecard instrument as an evaluation tool, there will be an improvement in the valuation of the internal audit performance and training result. In the IA-CM context, it enhances the capability in people management and performance management.

Thirdly, the study finds out that the coordination with the stakeholders of the DGT's internal audit is also an issue to be solved. Therefore, enhance internal coordination by providing a routine reminder to the internal of DGT's internal audit (Echelon III and IV) will ensure the punctuality of the report completion. It is also essential to establish a coordination in employee profiling with the Secretariat of DGT to secure the recruitment process of the future internal auditor. On the other hand, establishing a preliminary coordination with auditees will ensure the fluid in the information gathering process. By applying these coordination efforts, it will strengthen three elements in level 2 of IA-CM: People Management; Professional Practices; and Governance Structure. Eventually, the choice to select and implement these recommendation options is the responsibility of the DGT's internal audit.

Another objective of the research is to provide insight into the real practice of the IA-CM in the public sectors. Since public sectors vary from country to country, the result of IA-CM will also be different. In the DGT, although the internal audit does not truly complete level 2 of IA-CM, the study shows that in three elements: a) service and roles of internal auditing; b) professional practices; and c) organizational relationship and culture, the internal audit has progressed to level 3 of IA-CM either partially or with weaknesses. Therefore, this finding could be an interesting starting point for another study.

All in all, the study has shown that the DGT's internal audit has the capability to conduct the internal audit function even though with the weaknesses in its practices. Due to the limitation of time and resources not all of the aspects such as politics and social issues could be explored in this study. Therefore, it will be interesting to examine similar issues, from different angles, in other public sector organizations.

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Appendix

Appendix 1. Compilation of Audit Units of the Internal Compliance Section and Audit coverage of the Internal Compliance Section 2013-2017

No.	2013	2014	2015	2016	2017
1	KPP Pratama Jakarta Menteng Satu	KPP Pratama Pandeglang	KPP Pratama Atambua	KPP Pratama Padang Sidempuan	KPP Kebayoran Baru I
2	Bagian Keuangan KPDJP	KPP Pratama Ponorogo	KPP Pratama Surabaya Sawahan	KPP Pratama Palangkaraya	KPP Pratama Metro
3	KPP Pratama Semarang Tengah Dua	KPP Pratama Jambi	KPP Pratama Prabumulih	KPP Pratama Bontang	KPP Pratama Banda Aceh
4	Kanwil DJP Kalimantan Selatan & Tengah	KPP Pratama Banjarmasin	KPP Pratama Kepanjen	KPP Pratama Tobelo	KPDDP Jambi
5	Direktorat Teknologi Informasi Perpajakan	KPP Pratama Merauke	KPP Pratama Medan Belawan	KPP Pratama Sekayu	KPP Pratama Ambon
6	KPP Pratama Medan Polonia	KPP Pratama Ternate	KPP Pratama Kudus	KPP Pratama Banjarbaru	KPP Pratama Sampit
7	KPP Pratama Jakarta Grogol Petamburan	KPP Pratama Kebayoran Lama	KPP Pratama Sanggau	KPP Pratama Dumai	KPP Pratama Luwuk
8	KPP Pratama Semarang Tengah Satu	KPP Pratama Tebet	KPP Pratama Sukoharjo	KPP Pratama Ende	KPP Pratama Penajam
9	Kanwil DJP Kalimantan Barat	KPP Pratama Tambora	KPP Pratama Bengkulu	KPP Madya Surabaya	KPP Pratama Madya Bekasi
10	Kanwil DJP Jakarta Timur	KPP Pratama Watampone	KPP Pratama Pangkalan Kerinci	KPP Pratama Cilacap	KPP Pratama Kayu Agung
11	Kanwil DJP Jakarta Utara	KPP Pratama Jakarta Setiabudi Sa	KPP Pratama Cilegon	KPP Pratama Palu	KPP Pratama Cibinong
12	KPP Pratama Bandung Karees	KPP Pratama Tenggarong	KPP Pratama Bantul	KPP Penanaman Modal Asing Dua	KPP Pratama Batulicin
13	KPP Pratama Tarakan	KPP Pratama Jakarta Kelapa Gadi	KPP Pratama Bukittinggi	KPP Wajib Pajak Besar Dua	KPP Pratama Madya Tangerang
14	KPP Pratama Tuban	KPP Pratama Jakarta Gambir Dua	KPP Pratama Pematang Siantar	KPP Madya Jakarta Pusat	KPP Pratama Jakarta Pasar Minggu
15	Kanwil DJP Sumatera Selatan & Kep. Bangka Belitung	KPP Pratama Cikarang Selatan	KPP Pratama Pasuruan	KPP Pratama Bogor	KPP Pratama Medan Kota
16	Kanwil DJP Aceh	KPP Pratama Kuningan	KPP Pratama Jakarta Tamansari D	KPP Pratama Ketapang	KPP Pratama Jakarta Senen
17	Direktorat Intelijen dan Penyidikan	KPP Madya Jakarta Utara	KPP Pratama Jakarta Kemayoran	KPP Pratama Jakarta Penjarangan	KPP Wajib Pajak Besar Tiga
18	KPP Pratama Sibolga	KPP Pratama Pulogadung	KPP Pratama Balikpapan	KPP Pratama Purwakarta	KPP Pratama Karawang Utara
19	Kanwil DJP Nusa Tenggara	KPP Pratama Padang Sidempuan	KPP Pratama Sorong	KPP Madya Medan	Kantor Pusat DJP
20	KPP Pratama Surabaya Rungkut	KPP Pratama Kepanjen	KPP Madya Sidoarjo	KPP Pratama Jakarta Kebon Jeruk Sa	Kota I
21	KPP Pratama Tanjung Pinang	KPP Pratama Setiabudi Tiga	KPP Pratama Pamekasan	KPP Pratama Baliige	Kota II
22	KPP Madya Balikpapan	KPP Madya Pekanbaru	KPP Pratama Tabanan	KPP Pratama Natar	Kota III
23	KPP Pratama Indramayu	KPP Pratama Tige Raksa	KPP Pratama Surabaya Wonocolo	KPP Madya Malang	Kantor Pusat DJP
24	Pusat Pengolahan Data dan Dokumen Perpajakan	KPP Pratama Sunter	KPP Pratama Bekasi Utara	KPP Pratama Mataram Barat	Direktorat Perpajakan Internasional
25	KPP Pratama Jakarta Cilindak	KPP Pratama Kembangan	KPP Pratama Lhokseumawe	KPP Pratama Kendari	
26	KPP Pratama Kosambi		KPP Pratama Tenggarong		
27	KPP Pratama Depok		KPP Pratama Jakarta Kramat Jati		
28	KPP Pratama Ciamis		KPP Pratama Jakarta Duren Sawit		
29	KPP Madya Jakarta Timur		KPP Pratama Makassar Selatan		
30	KPP Pratama Jakarta Pasar Minggu				
31	KPP Pratama Padang				
32	KPP Pratama Jakarta Tanah Abang Satu				
33	KPP Pratama Jakarta Cengkareng				
34	Kantor Pengolahan Data Eksternal				
35	KPP Pratama Samarinda				
36	KPP Pratama Jakarta Pancoran				
37	KPP Pratama Banda Aceh				
38	KPP Pratama Tanjung Redeb				

Source: analysed and composed from the internal compliance section data 2013-2017



Source: analysed and composed from the internal compliance section data 2013-2017 (DGT n.d.)

Appendix 2. List of Sources

No	Name	Position	Method	Sent Date	Response Date
1	Henderi	Head of the internal compliance section	Interview	-	9th of August 2018
2	Jhon Ferry Sinaga	Staff of the internal compliance section	Interview	-	4th of August 2018
3	Yuni Puspo Hapsari	Staff of the internal compliance section	Interview	-	2th of August 2018
4	Yanda Pratama Putra	Staff of the internal compliance section	Interview	-	2th of August 2018
5	Agus Setiawan	Former staff of the internal compliance section/ Account Representative	Short Survey	8th of August 2018	21st of August 2018
6	Qomaruddin Al Fatah	Former staff of the internal compliance section	Short Survey	8th of August 2018	22nd of August 2018
7	Gusti Ngurah Chandra	Former staff of the internal compliance section/ Account Representative	Short Survey	8th of August 2018	3rd of September 2018
8	Ali Iman	Former staff of the internal compliance section/ Tax investigator	Short Survey	8th of August 2018	4th of September 2018
9	Harry Gumelar	Director of Internal Compliance and Human Apparatus (KITSDA)	Formal Letter	7th of August 2018	19th of September 2018

Appendix 3. Internal Compliance Budget Plan (2013-2017)

Year	Program	Budget	% to the total budget of the internal compliance section
2013	Formulating the tools for the compliance audit (audit program, audit plan)	Rp 10.720.000	0,87 %
	The compliance audit	Rp 920.458.000	74,69%
	Formulating the standard and guidance for the internal audit	Rp 116.505.000	9,45%
The total budget for 2013		Rp 1.047.683.000	85,01%
2014	The compliance audit	Rp 752.199.000	N/A
	Formulating the tools for the compliance audit (audit program, audit plan, and annual plan)	Rp 97.800.000	N/A
The total budget for 2014		Rp 849.999.000	
2015	Formulating the tools for the compliance audit (audit program, audit plan)	Rp 17.250.000	0,6%
	The compliance audit	Rp1.383.160.631	48,2%
The total budget for 2015		Rp 1.400.410.631	48,8%
2016	Data unavailable during research (N/A)		
2017	The compliance audit	Rp 932.783.220	79,8%
	Formulating the tools for the compliance audit (audit program, audit plan, and annual plan)	Rp 16.440.000	1,4%
The total budget for 2017		Rp 949.223.220	81,2%

Source: cited and composed based on the data from KITSDA (2017)