

Quality Review of Internal Audit Reports of Quality Assurance Units Based on IPPF 2400

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Abstract—This research aims to determine the conformity of IPPF Standard 2400 implementation regarding Communicating Results in Bank X with professional practices in international standards of internal audit. This research used a qualitative method with descriptive design. The results of this research concluded that the implementation of IPPF 2400 partially conforms and that the quality of the internal audit assignment was not performing optimally according to the IIA standard. The implementation of IPPF 2400 still has gaps, especially in the guidelines implemented, QA review process, and the understanding of the applicability of the guidelines to the audit team. This condition caused the quality of internal audit at Bank X to perform sub-optimally and not meet the overall audit standard.

Keywords—Quality Review on Internal Audit Report, Quality Assurance and Improvement Program, IPPF 2400

I. INTRODUCTION

In implementing good governance, organizations are expected to have a clear order, starting the organizational structure to the functions, roles, and responsibilities of each party within the organization. The role to achieve these objectives is interrelated between management supported by the implementation of good governance or commonly known as “Good Corporate Governance” (GCG), without overriding Enterprise Risk Management (ERM). As a concept of Enterprise Risk Management, commonly called “Three Lines of Defense,” there are several functional divisions within each business unit that exist in the organization. In the concept, there are three lines of defense to maintain the internal controls that already exist: the business unit as a risk owner, the risk management department (risk controller), and the internal audit. Internal audits should also maintain the principles of the code of ethics of The Institute of Internal Auditors (IIA), namely, integrity, objectivity, confidentiality, and competence. The principle is also mandated with an independent attitude to internal audit although it is part of the organization’s management. Referring to International Standards for The Professional Practice of Internal Auditing (IPPF), internal audit activities add value to the organization and its stakeholders if they can provide objective and relevant assurance, and contribute to improving the effectiveness and efficiency of corporate governance, risk management, and control processes. In line with the GTAG Guideline, internal audit analysis can be done by reviewing and testing control over all business processes or related activities. The Quality Assurance and Improvement Program approach to improving the IPPF 2400 internal audit standards

is an approach used to measure the quality of internal audits more efficiently and effectively to add value to an entity.

Based on the annual report of Bank “X,” of the 706 internal audits in 2016, 291 have not been followed-up or are still running. However, with the various problems that exist within the organization, the need for an audit process that could include each line of entities so as to prevent fraud or violations of applicable regulations. Weakness is expected to be detected by the internal part of the organization, specifically in the internal audit. The reality is that there are deficiencies experienced by the supervisory parties tasked in conducting internal audits.

II. LITERATURE REVIEW

A. Internal Audit

Sawyer [1] defined the internal audit as a systematic and objective assessment conducted by internal auditors of different operations and controls within the organization to determine whether financial and operating information is accurate and reliable, identify and minimize minimized risks, ensure acceptable internal and external regulations and policies have been followed, resources are used efficiently and economically, and organizational objectives have been effectively achieved, and help management carry out its responsibilities effectively. Based on the Institute of Internal Auditors (IIA), the definition of internal audit is an independent, objective activity to provide confidence and added value for the company through assessment services and consulting activities for management. According to the Institute of Internal Audit, in Hiro Tugiman’s book [2] “Internal Audit Professional Standards,” the purpose of an internal audit or internal control is to assist all organizational units to carry out effective functions and responsibilities. Therefore, the internal audit is an analysis and assessment, and contains recommendations, including effective oversight.

B. Internal Audit Report

The communication of assignment results under the International Professional Practices Framework (IPPF) 2400 is as follows:

✓ IPPF 2400

Internal auditors must communicate the results of engagements.

✓ IPPF 2410

Communications must include the engagement's objectives, scope, and results.

- 2410.A1

Final communication of engagement results must include applicable conclusions as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinions should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

- 2410.A2

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

- 2410.A3

When releasing engagement results to parties outside the organization, the communication must include limitations on the distribution and use of the results.

- 2410.C1

Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

- ✓ IPPF 2420: Communications must be accurate, objective, clear, concise, constructive, complete, and timely.
- ✓ IPPF 2421: If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.
- ✓ IPPF 2430: Indicating that engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing" is appropriate only if supported by the results of the quality assurance and improvement program.
- ✓ IPPF 2431: When nonconformance with the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:
 - Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved.
 - Reason(s) for nonconformance.
 - Impact of nonconformance on the engagement and the communicated engagement results.

- ✓ IPPF 2440: The Chief Audit Executive must communicate results to the appropriate parties

- 2440.A1

The Chief Audit Executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

- 2440.A2

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the Chief Audit Executive must:

- Assess the potential risk to the organization.
- Consult with senior management and/or legal counsel as appropriate.
- Control dissemination by restricting the use of the results.

- 2440.C1

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

- 2440.C2

During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

- ✓ IPPF 2450: When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.

Standard 1320 - Reporting of the Insurance and Quality Improvement Program: The Chief Audit Executive reports on insurance programs and quality improvement to senior management and the board of directors. The form, content, and frequency of communication of the results are determined based on discussions with senior management and the board of directors, and considering the responsibilities of internal auditors and the Chief Audit Executive as stated in the internal audit charter. The conclusion of the QAIP results shows the internal audit's activities conformity rating scale to IPPF. In general, the scale used is Generally Conforms, Partially Conforms, and Not Conforms.

III. RESEARCH METHODOLOGY

This research uses a qualitative descriptive method with a case study approach. Descriptive qualitative methods are used to describe and compare data obtained with generally accepted standards. This research analyzes data generated from the process of collecting data directly through observation, documents review and literature study. The results of observations and reviews of internal documents of Bank X were used to analyze the application of IPPF 2400. The results of the analysis were then compared with IPPF 2400 based on the components contained in the applicable standards. Based on these analyses and comparisons, we can determine the causes of the conformity or nonconformity with IPPF 2400 implementation. This study will also analyze the impact of nonconformity on the activities of the internal audit as well as the QA unit. The object of this study is one of the Banks with the category "BukuEmpat," based on the Bank of Indonesia, with the group's internal audit.

IV. RESEARCH FINDINGS AND DISCUSSIONS

A. *Criteria for Communicating (IPPF 2410)*

IPPF 2410 states that the criteria for communicating include the purpose, scope, and the results of the assignment. According to the IIA translated by Hiro Tugiman [2], the purpose of internal audit is to help the organization carry out its responsibilities effectively. After determining the objectives, then the next thing to note is the audit scope based on the audit program, so that the audit scope is more focused and can reveal limitations in the internal audit activities. The specified scope conforms to the audit object specified in the internal audit planning. In preparing the audit report, it shall contain an auditor's opinion based on evidence and facts obtained after the audit process.

Based on observations, seven out of eight audit reports conform with IPPF criteria for communicating. From the observation result, there is one audit report (LHA R.1) that does not fulfill IPPF criteria, i.e., there is no purpose, scope, and result of audit assignment. The contents in the audit report are mostly only the audit findings and lists of follow-up and monitoring. It is also a note from QA in conducting the audit report review because it is not in accordance with the standard.

1) Conclusion of communicating result (IPPF 2410.A1): The final communication of the assignment result should include the conclusion of the audit process that has been done. The conclusions obtained are supported by evidence and facts revealed after being collected during the audit activities, so the conclusions can be reliable, relevant, and accountable when the audit information is used by various users. Auditor opinion should also be given, taking into consideration the expectations of senior management and the board, as well as stakeholders. Having obtained the conclusion, the internal auditor should then also provide recommendations for improvement that can be applied, so that the internal audit can provide added value for the organization.

Based on the observations, only four out of eight audit reports include conclusions and recommendations for improvement. The recommendation for improvement is both realistic and measurable to be made by the client. While four audit reports do not include a conclusion, they did include the results of the audit and recommendations. Four out of eight audit reports that do not include conclusions have attached the results of the examination conducted offsite or onsite with findings and recommendations.

2) Performance recognition (IPPF 2410.A2): In the audit report, internal auditors are encouraged to provide recognition for satisfactory performance from the client. Performance recognition is done objectively and independently, with relevant information and a clear scope, and according to the results of the audit conducted. Based on eight audit reports, there are four audit reports in the conclusion section, there is satisfactory recognition of the client performance of the object being audited in accordance with the findings of audit results. The next four audit reports do not contain conclusions, nor is there any recognition of

the performance of the client being examined. This should be of concern in the preparation of reports to ensure that the presentation of information is accurate and presented in a manner that is useful for users of the report.

3) Limitations on distribution: Internal audit has responsibility to the President/Director in every activity conducted. In the final stages of the audit report, the Chief Audit Executive shall distribute the report to the client and the relevant authorities in the use of such information as a result of the assessment or any other matter of a consultancy for the client. If the report is distributed outside the organization/management, then it is necessary to specify limitations and criteria for the parties entitled to receive the distribution of internal audit report. This needs to be done so that the information contained in the report can be used wisely and there is no misuse from irresponsible parties. Based on the eight reports observed, all have been subject to IPPF about limitations on distribution that are also adjusted to guidance of Bank X. According to guidance of Bank X, report distribution should also be determined according to a Service Level Agreement (SLA) and, if submitted to external auditors, then CAE approval is required; others require approval from the President/Director. Thus, there is a tiered supervision of the audit team so that the audit report can be submitted to parties who will be responsible for its use.

B. *Quality of Communications*

Communication in the audit report must be qualified with the following criteria:

- Accuracy

Accurate communication means it is free from errors in the provision of information or writing, does not distort, and is based on facts and actual conditions in the delivery of information, including the findings and recommendations. Based on observations, three out of eight reports are accurate so as to provide appropriate information in accordance with actual facts and conditions. For the five existing reports, there is still a misstatement of information provided that leads to a mistake in the delivery of facts and actual conditions, such as the name of the unit that is no longer valid, findings attached to the report but not supported by working papers, and client responses that are still being completed; however, the status of the report is marked as "Done."

- Objective

Objective communication means that the results of the audit are fair, impartial, and are balanced outcomes of all relevant facts and circumstances of the audit process. The report should also be free from other interference with findings, conclusions, and recommendations made without prejudice. This is also part of the code of conduct set forth in internal audit policy of Bank X that the internal auditor and investigator must be objective, impartial, and avoid the possibility of conflict of interest. Each of the eight audit reports performs based on the plans developed in the Annual Audit Program (AAP). On the findings in the report, there are also facts and problems according to audit object so that it can be adjusted when the auditor gives the right recommendations. Thus, the reports meet the guidelines and

codes of ethics established so that the results of the audit reports provide objective information and avoid subjective prejudices.

- Clear

Clear communication means the report is easy to understand, logical, and avoids unnecessary technical language, providing all relevant and significant information. Report writing should also avoid passive and circular phrases that reduce clarity. The report should also be disclosed only in accordance with actual facts and conditions, and without any subjective opinion from the audit team. Such opinions are avoided to provide the right results and recommendations without gray areas and according to the relevant target and can be performed by the client. According to the observation, seven of the eight reports have been clearly written and do not use unnecessarily technical language. The reports have also been spared from passive sentences in the writing of each section. In the examination results, there are also facts and actual conditions without any subjective opinions so that the information presented is relevant to the audit object. For one report, a record of QA review because one of the findings does not clearly indicate the internal control weaknesses of the audit object that the auditors found. Therefore, the finding information that leads to weak internal controls being examined becomes relevant to the actual facts.

- Concise

Concise communication means stating matters clearly and to the point, avoiding unnecessary elaboration, superfluous detail, redundancy, and wordiness. Report writing should also choose effective words without eliminating the relevance and material problems that exist. In general, six out of the eight reports are brief and avoid over-description or repetitive and unnecessarily technical language. Two reports contain repetitions of the audit results.

- Constructive

Constructive communications are helpful for client engagement and lead to improvements where needed. This information is included in the confirmation of audit findings, which contain facts, actual conditions with the findings obtained along with relevant recommendations so that improvement efforts can be carried out according to the completion target. Confirmation of the audit findings prior to dissemination must be discussed and responded before being attached to the final report. Eight reports presented constructive information that could help clients make necessary improvements. The audit team confirms with the client the response or follow-up that will be done to meet agreement on the weaknesses of existing controls, accompanied by recommendations on what needs to be done. Currently, the audit team is also attempting to conduct consulting in an effort to increase the effectiveness of the activities of every business unit in Bank X.

- Complete

Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. The completeness of the report generally in each organization contains approval from the competent authorities, the audit objectives, the activities to be audited,

the findings, recommendations based on the findings of the audit, and the suggested follow-up to the client with the aim of improving the activities that have been audited. Only three of eight reports presented included all relevant information. Such information has also been significantly presented in accordance with the audit planning along with the attachments to the data disclosed in the report so that sufficient information can be met. Completeness of the information presented can be useful for report users who will make improvements. While five existing reports are not fully presented, the integrity of the process is called into doubt as no conclusions, summary of exit meeting, or statement from the client are attached.

- Timely

Timely communications are opportune and expedient, depending on the significance of the issue, which allows management to take appropriate corrective action. Overall, eight audit reports have been issued on time in accordance with the Annual Audit Plan. The report issuance process has also done the process of review and supervision using a tiered audit team; thus, the report can be distributed to eligible parties, including clients who obtain reports in a timely manner they can make improvements according to the recommendations given. Timeliness must also be maintained so that the audit team can provide added value to the organization's targets and objectives.

C. Errors and omissions (IPPF 2421)

If a final report has errors and omissions in the presentation or writing of information, then the CAE shall communicate the corrected information to all who have previously received the results of previous communications. Such errors and omissions should also be subject to tiered review or supervision in the audit team up to CAE to avoid repetition of other errors in reporting of assignments. Based on observations, eight reports are eligible for publication without any corrections. Guidelines for errors and omissions are also listed in Bank X's internal audit guidelines.

D. Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing" (IPPF 2430)

Indicating that engagements are "Conducted in conformance with the International Standards for the Professional Practice of Internal Auditing" is appropriate only if supported by the results of the quality assurance and improvement program. In Bank X, the use of this phrase refers to the Internal Audit Function Standard from Bank of Indonesia (SPFAIB) aligned with Bank X's policies, such as the internal audit policy of Bank X, the internal audit guidelines standard, the internal audit technical directive, as well as other provisions which are not contradictory to SPFAIB. In eight observed reports, the overall has included a standard conformity phrase contained in the auditor's statement accordance to Bank of Indonesia regulation and auditing standards as contained in internal policy in Bank X that are not inconsistent with Internal Audit Function Standards from Bank of Indonesia (SPFAIB).

E. Engagement Disclosure of Nonconformance (IPPF 2431)

When nonconformance with the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the following:

- Principles or rules of conduct of the Code of Ethics or the Standards with which full conformance was not achieved.
- Reasons for nonconformance.
- Impact of nonconformance on the engagement and the communicated engagement results.

Based on observations from eight reports, the audit reports do not contain assignments that are noncompliant with the standards. Any guidelines, rules, and regulations have been adapted to audit activities of Bank X, such as SPFAIB, SPIA, KIA Bank X, PTIA, as reference for carrying out an audit assignment.

F. Disseminating Results (IPPF 2440)

The Chief Audit Executive shall communicate the results of the assignment in the form of an audit report to the authorities and interested parties who receive and use the information. The CAE is also responsible for reviewing and approving the final report to issue, and determines how and to whom the report will be disseminated. If the CAE delegates this task, he remains fully responsible for it. Based on the eight reports, there has been a tier review by audit manager up to CAE. From the draft to the final report, the preparation of it has passed the tiered supervision process so that it can eventually be composed of a correct and complete audit report.

G. Determination of Submission of Audit Report (IPPF 2440.A1)

The CAE is responsible for communicating the final results to parties who can ensure that the results are given due consideration. The parties eligible to earn audit reports are stipulated in the Service Level Agreement. In the guidelines of Bank X, audit reports submission to external auditors may only be granted with CAE approval, whereas for the other third parties must be approved by the President/Director. From the observation, five out of eight reports have been determined for reports recipients so that report can be used according to their authority and responsibility, supported with client statements. While one report is not in accordance with the provisions, it is also not supported by the statement of the auditor as a form of review and approval in the issuance of this report. Further, two reports do not have a client statement to indicate that the client has received the end result of communication; thus, the report is not in accordance with the provisions in Bank X.

H. Dissemination of Audit Report Outside the Organization (IPPF 2440.A2)

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization, the Chief Audit Executive must:

- assess the potential risk to the organization.
- consult with senior management and/or legal counsel as appropriate.

- control dissemination by restricting the use of the results.

Based on the eight audit reports, the delivery to outside parties has followed the prevailing guidelines to avoid the misuse of information on the report. The CAE also grants that approval if the report is to be delivered to an outside party, so that the recipients can be reasonably aware of the results of the published assignment.

I. Overall Opinions (IPPF 2450)

When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization, as well as the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Based on the eight reports observed, four reports have concluded the results of the audit. In the audit conclusion, there is an overall audit opinion of the unit and the object of examination conducted. The giving of opinion refers to the rules and regulations applicable to the audit object being examined, most of which refers to the Bank of Indonesia Regulation as well as the applicable provisions in Bank X. Four reports do not include the conclusion of the audit result; hence, the final opinion is not known in accordance with the applicable standards and regulations. The requirements for such conclusions are contained in the internal policy of Bank X, which should be included in the communication of audit results as a criterion of communicating.

V. CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis and discussion in the previous section, it can be concluded that based on the analysis of the audit report quality of Bank X according to IPPF 2400, it is still partially conforming with IIA standards. From the report assessment, only two reports received a satisfactory score (eHCMS and ATM.eCash), both with scores of 100%. To score is quite satisfactory on the SK.NBI Gen-2 with a score of 90%. Unsatisfactory scores are found for R.IV, R.1, MU, RT.GS Gen-2, and Ch.Mgt, with scores of 50%, 42%, 60%, 75%, and 60%, respectively. To improve upon these results, make such improvements, any recommendations that may be given in this research to Bank X are internal audit related guidelines applicable in Bank X should lead to best practices that fully implement the IIA standard in compiling audit report used as final communicating result of the assignment by internal audit, the quality assurance unit must socialize the guidelines applied to Bank X regarding the internal audit assignment in an updated and continuous so that the audit team can understand the obligations and audit standards applicable to maintain the quality of audit report, then quality assurance review program on the internal audit report should in full refer to the applicable guidelines in accordance with the best practice standard or updated internal policy so that any applicable standards can be met by the auditors and can assess the overall quality of the internal audit's assignment.

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