

## The Effect of Management Support to Effectiveness of Internal Audit for Public Universities

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**Abstract:** This study aims to examine and analyze the influence of management support on the internal audit effectiveness. Achievement of the internal audit effectiveness is a form of application principles of accountability and transparency on the use of public funds by higher education institutions in Indonesia. Management support is measured using the dimensions of the response to the findings and recommendations and commitment to strengthen SPI. The unit of analysis of this study is an internal auditor (SPI) at public universities in Malang who participated in the internal audit process. The type of data is primary data. Questionnaire are used as a tool to measure the variables tested. Total population in this study are 37 respondents. This study uses a saturation sampling (census). The results of research proves that the management are not significant affect on the internal audit effectiveness.

**Key words:** Effectiveness of internal audit, management support, respondents, effectiveness, Indonesia

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### INTRODUCTION

Public sector development in Indonesia is characterized by stronger demand for accountability and transparency towards stakeholders over the use of public funds by public sector institution/agencies (e.g., local government institutions/agencies, healthcare, state/local government-owned enterprises and universities). Following that demands, the effectiveness of internal control over public institutions should be realized. By realizing the effectiveness of internal control, the principle of accountability and transparency in financial management, state asset management, effectiveness and efficiency of operational and the compliance with applicable laws and regulation can be achieved. Thus, internal audit in a public university has a pivotal role in helping the university to realize a good management and encourage the university to become better in the future. The audit result done by the Supreme Audit Agency (BPK) in 2014, reveals that internal control in Indonesia has not been executed effectively. It is evidenced by some cases happened that might cause financial lost to the country. It is also reflected in the phenomenon revealed by the performance and accountability report of the Ministry of Education in 2014 which shows that the achievement is still far below the targets set due to the ineffectiveness of internal control in the ministry of education. The ineffectiveness of internal controls is

caused by the lack of management commitment to follow-up the findings from the internal control department. Study on the issue of the effectiveness of internal audits has been conducted by Mihret and Yismaw (2007). From that study, it is found that the effectiveness of internal audit is influenced by the management support. This finding is also supported by other studies conducted by Cohen and Sayag (2010) and Baharud *et al.* (2014) on the effect of management support on the effectiveness of internal audit. On the other hand, Ahmad *et al.* (2009) find that there is negative effect from the management support on the effectiveness of internal audit. In this sense, Ahmad *et al.* (2009) describe the lack of commitment from the Management to give response to the findings and recommendations given as well as to strengthen the internal audit department. This circumstance has made the internal audit department only function as a complementary form of the administration within the scope of public sector organizations in Malaysia. In line with that study conducted Ebaid also finds that the manajemen support negatively affect the effectiveness of internal audit in the companies which are registered in the Egyptian stock exchange. The role of internal audit must be supported by the top management (Zakaria *et al.*, 2006). Thus, in order to achieve the organizational objective, there should be common perception between the roles of management and internal audit in actualizing the objective of the universities (Mahzan *et al.*, 2012).

Based on the explanation above, the aim of this study was to analyze the influence of management support to the effectiveness of internal audit in public universities with the status of BLU (public service agency) in Malang. The large number of universities in Malang, has made this city known as the “city of education”. There are five public universities in Malang (Brawijaya University, State University of Malang, Maulana Malik Ibrahim State Islamic University, State Polytechnic of Malang and Malang Health Polytechnic of Malang). With the implementation of PPK-BLU in public universities in Malang, the internal control unit (SPI) was expected to perform their duties as so to realize the effectiveness of internal audit as a form of achieving the principles of accountability and transparency.

### **Literature review**

**Internal audit:** Internal audit is an independent appraisal function within an organization to examine and evaluate the organization’s activities (Suleiman and Dandago, 2014). Meanwhile, according to Sawyer *et al.* (2003) internal audit is a systematic and objective assessment conducted by the internal auditor on different operation and control within the organization to determine whether: the financial and operating information is accurate and reliable; the risk faced by the company have been identified and minimized; the external regulations and internal policies and procedures have been followed; the satisfactory operating criteria have been met; the resources have been used efficiently and economically; the objective of organization has been achieved. According to Tampubolon (2005), internal audit serves as the eyes and ears of the management, since management needs the assurance that all the policies will be implemented as it is. So internal audit needs to make the most of the opportunity to excel in terms of its role as an important contributor to what is very much in the forefront of all organisations (Davies, 2009). This view has been supported by academic and practitioner research. Ramamoorthi (2003) in his research on the history and evolution on the internal audit function, indicated that over time there has been a massive shift in focus to one that promotes and supports effective organisational governance. This has been supported by Ruud (2003) who noted that, in today’s business environment, the internal audit function has become a major support function for management, the audit committee, the board of directors and other stakeholders.

**The effectiveness of internal audit:** The objective of internal auditor is not only for internal purpose but it has been modified in such a way so that the modern internal

auditor now give more emphasis on the value added in all things related to risk (Sarens and Beelde, 2006a, b) governance and control (Cohen and Sayag, 2010). Effectiveness of achieving the objectives defined (Dittenhofer, 2001). So that the effectiveness of internal audit is focused on the internal audit’s ability to make a plan, to implement and provide an objective information on the findings that may be useful for the organization (Spraaakman, 1997). To adequately measure the effectiveness of auditing then evaluation should not only be conducted solely on the audit results to the predetermined objectives but also on the audit process (planning, implementation and follow-up) (Beckmerhagen *et al.*, 2004). The effectiveness of internal audit is determined by subjective evaluation function assigned by management (Albrecht *et al.*, 1998; Chapman, 2001) argues that the primary goal of the internal auditor is objectivity which involves an unbiased attitude and the avoidance of conflicts of interest.

**Management support:** To realize the effectiveness of internal audit in performing its functions can not be separated from aspects of management support both in the public sector organizations and private sector Albrecht *et al.* (1988). Management support is an important factor that cannot be underestimated in determining the success of a project (Schwartz *et al.*, 2005; Alzeban and Gwilliam, 2014). Internal supervisors try to obtain greater support from management but at the same time try to distance themselves from the influence of management. The situation illustrate that the effect of management support can be both positive and negative (Tugiman, 2005). The role and function of internal audit is as an internal supervisor that try to provide added value for the organization and as a means of performance evaluation. Thus, the management should give respond and take further action on the findings and recommendations given by the internal auditor. Fernandez and Rainey (2006) argue that based on a comprehensive literature review, the support from top management support plays an important role in organizational renewal. Sarens and Beelde (2006a, b) also studied the internal audit function’s relationship with management and concluded that management requires the internal audit function to take on an extended role to compensate for loss of control resulting from increased organisational complexity. A number of empirical studies have found that the support of top management is the key factor to improve the quality of internal audit (Ebrahimpour and Lee, 1988). Support in the form of response and follow-up the findings of the internal auditor (Staden, 2009; Claybrook, 2004) argued that upper

management has the broadest influence on stakeholders and that management influences operations as well as the board of directors and even the internal audit function. This dilemma is expressed by the argument that the internal audit function must add value to management while at the same time not become its servant and faithfully report on the status to the board or some other equivalent governing body (Gansberghe, 2005). Further, it is also reported in studies conducted in the public sector that management support has a strong impact upon the effectiveness of the internal audit function and management support is important as a construct in its own right but also via its links to issues of resourcing, competence and qualification and independence (Alzeban and Sawan, 2013). In addition, their study results infer that internal auditors are expected to safeguard corporate culture through personal contacts with people in the field (Christopher *et al.*, 2009).

## **MATERIALS AND METHODS**

The analytical method used in this study was simple linear regression which used to answer the hypothesis. In addition, simple linear regression in this study used to measure the intensity of two variables, namely independent and dependent variable as well as giving the predicted value of dependent variable (Y) based on the value of the independent variable (X).

**Population and sample:** The population in this study was all the internal auditors at Public University in Malang who participated in the inspection as many as 37 people. The number of questionnaires distributed to the respondents was 37 questionnaires and was distributed using the purposive sampling technique. Since, the number of respondents was <100 respondents, census method was used to select the sample. The questionnaires were distributed to all populations that had the classification as internal auditor.

## **RESULT AND DISCUSSION**

The results of data analysis showed that management support ( $X_1$ ) had positive and no significant effect on the effectiveness of internal audit (Y). This was shown by the results of t-test at the confidence level of 0.95 or significance level  $\alpha = 0.05$  where,  $t_{calc} = 1,731 < t_{table}$  was 2.034 with probability value =  $0.093 > 0.05$ . Thus, the hypothesis was rejected. It meant that the management support (X) did not significantly affect the effectiveness of internal audit (Y). Thus, it could be said that the first hypothesis which stated that management support had

positive and significant effect on the effectiveness of the internal audit was rejected. In other word, the results of this study differed from the previous empirical studies. The role of top management in public universities could not promote the role of internal auditors to conduct audits effectively. Lack of commitment from the university leaders to strengthen the internal control unit/ SPI as well as its response toward the findings and recommendations became the reason that made the SPI could not perform its role effectively.

Lack of regulation on strengthening the SPI had made the performance of internal audit became ineffective. It meant that there was restriction on the auditor authority in the operational activities. It characterized by the dominant intervention from rector in the decision making related to the SPI budgeting and planning. In addition, there was no follow-up taken by the rector toward the findings and recommendations given by SPI. Various findings on the field suggest that it was due to the consideration of the degree of risk of the finding to the organization. In addition, no follow-up taken by the rector was due to regulatory anomalies in reporting process between the rights and obligations of the universities to the Audit Board, so that the rector would prefer to not take any follow up on the recommendations given by the internal audit department. These conditions result in the decreased of auditor's motivation to perform its role effectively. Management support that was not optimally given, tended to disrupt the governance of financial institutions. The results support the research of Ahmad *et al.* (2009) which revealed a lack of support from management to make the auditor is unable to function effectively. It is also caused by the high pressure exerted by the management to the department to reduce the independence of the internal audit department (Gramling, 1999). From the perspective of regulation should be considered related to the position of internal audit within the organization (Zoort *et al.*, 2003). Because the position of the internal audit department within the organization is always faced with organizational objectives and risk control that clashed with the problem of the independence of the internal audit department (Mahzan *et al.*, 2012). The role of the internal audit must be supported by top management. Thus, in achieving organizational goals necessary to the common perception between the roles of management and the role of internal audit, will thus get the same perception in achieving agency objectives colleges (Zakaria *et al.*, 2006).

## **CONCLUSION**

The findings of this study proved that management support did not affect the effectiveness of internal audit.

It meant that the role of top management in public universities could not promote the role of internal auditors to perform the audits effectively. Lack of commitment from the university leaders to strengthen the internal control unit/ SPI as well as lack of response toward the findings and recommendations became the reason that made the SPI could not perform its role effectively. The limitation of this study was in the number of samples that was relatively small, 37 respondents out of (5) public universities in Malang. Thus, the result of this study could not be used to generalize the conditions of universities in other cities. This study was only focused on public universities with the status of BLU (public service agency) in Malang, thus the result of this study could not be used to make a generalization. Future research could be conducted in other universities, both public and private university. This study used survey data or perception that presented a relationship analysis in one period (cross section), so that for analysis at different periods of time it would be greatly influenced by the changes in conditions, competence of auditors and the independence of the auditors on the effectiveness of internal audit. Therefore, to identify the changes as well as to test the consistency of the relationship between variables examined in this study further study should be conducted.

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