

The Use of Risk Based Audit Techniques in Government Entities: Indonesia Case

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Abstract: This study aims to explore the risk-based audit (RBA) approach that have been applied by government external auditor in Indonesia. The research was conducted at the State Audit Board of the Republic of Indonesia Representative of East Java which examined the Local Government Financial Report. Data were collected through interviews with several informants and analyzed supporting documents. Implementation of this audit technique on the audit of local government financial statements has been effective in detecting high-risk areas that affect the fairness of the presentation of accounts in local government financial report. The results also indicate that the inhibiting factors of auditor does not prevent the use of this RBA technique being implemented.

Key words: audit planning, risk based audit, external government auditor

1. Introduction

A high audit quality requires auditors who can calculate the exact occurrence of risk during the audit process. Challenges of the information age and corporate clients' needs for assurance (Robson et al. 2007). Risk assessment also important because of the time constraints, human resources, and costs faced by the auditors. Therefore Business Risk Audit (BRA) methodologies have been promoted by a number of the large audit firms (Robson et al. 2007). Studies about the implementation of the new technique have been conducted many researchers especially in private corporate (Ramos 2009; Aikins 2014; van Buuren et al. 2014; Eilifsen, Knechel, and Wallage 2001; Robson et al. 2007). Public sector especially government entities also need this approach.

The changes environment, pressure of people to implement the good government governance. The new era of information, especially in this digital era make the risk based audit become important to be implemented in government entities. Previous research regarding risk based audit approach in government entities have been conducted by countries in all of the continents. In Kenya, Africa there is significant evidence between the use of risk based audit approach and internal control that conduct in a county (Nyarombe et al. 2015). Kenya chosen by World Bank as pilot project in RBA implementation because of the active active support of senior officials for audit reform (world

bank 2005). Indonesia also have the financial government reform in 2000, Indonesia government support by giving the regulation, especially for audit reform since 2005, as the State Audit Act has been implemented.

This research explore the implementation of risk based audit in government entities in Indonesia. The external auditor of Indonesia government called Audit State Board (BPK). In Indonesia, Risk assessment by auditors complies with the standards set forth in the Indonesia State Audit Standard (SPKN) in the Standard Audit Statement (PSP) Number 4 that in planning the examination, the auditor should consider the risk of fraud which can significantly affect the purpose of the examination.

Currently the government has grown rapidly, affecting the complexity of business processes and transactions that occur, it is increasingly increasing the audit risk arising in the implementation of the examination. The auditor should plan their job properly so that the possibility of taking a large risk can be avoided and the considerations taken in expressing the appropriate opinion can be accounted for.

The aim of the risk assessment auditing standards was to improve the quality and effectiveness of audits by substantially changing audit practice (Ramos 2009). According to Dunlin (2005) risk based audit is a focused and prioritized audit on business risks and processes, as well as control against the risks that may occur.

The concept of risk-based audit states that the higher the risk of an area, the higher the attention in the audit area. The auditor should understand the control aspects of the business before identifying a business risk, an understanding of business processes including understanding the risks and control of the system in achieving the goals and objectives of the organization. A Risk-Based Approach helps auditors plan the audit process so that it makes a dynamic contribution to better governance, robust risk management, and more reliable controls (Pickett 2015).

2. Research Methods

This is a qualitative research. Data used is almost in a whole from observation and interviews. Interviews conducted with informants who involve in audit government process, the auditor's members of State Audit Board (East Java Representative). In this case, deep interview was conducted on the auditor's team of Regency "M" for year 2013. This research also uses quantitative data i.e. numbers on the form of financial statements and matrix of risk control assessment. In detail data used in this study are as follows, auditor's working paper which shows the application of RBAA in the audit; the audit report of Regency "M" financial statement which contains auditor's opinion, report on examination result of internal control system and compliance audit report. Analysis is done by working with data, organize data, sort them into manageable units, synthesize them, find and discover patterns, find what is important to learn and decide what can be told and poured into the research discussion (Bogdan and Biklen 1998)

3. Result And Discussion

3.1 Audit Plan Preparation

The flow diagram of the RBAA steps is used to explore how the risk based audit approach used in Indonesia state audit board.



source: <http://ddca.net.in/services/>

The audit plan shall cover all relevant information for the audit, including information required of the auditor's and audite. For the auditor's side it is needed information about team member, audit time schedule and all of resources needed. Selecting audit team members is an important part of the preparation stage. Numbers of auditors needed in yearly local government financial statement audit process in range of 7 – 9 auditors. The amount depends on the scale and the risk of audite.

The audit schedule is tight regarding the regulation that the audit report of local government financial statement must be submitted to the district and legislative members (DPRD) no later than two months after the state auditor receives local government financial statement (unaudited). The two-month period consists of 30 days for on-site audit and 30 days for audit preparation at the office. The state auditor anticipates the limited time of audit by conducting an interim examination and / or preliminary examination. Interim / preliminary examination conducted before local government submitted local government financial statement.

Auditors should consider audit procedures that should be designed to assess material misstatements that may arise due to such fraud. The Audit Standard also requires that auditors consider audit procedures that should be designed to assess material misstatements that may arise due to non-compliance with statutory provisions. If certain information is of concern to the auditor, the auditor should apply additional procedures to ensure that non-compliance has been or will occur. Implementation of the Risk Based Audit Approach in the Examination Planning of the Examining Team on the District Government's Financial Report "M" Fiscal year 2013 explains that the first stage in conducting an audit of financial statements is audit planning. Audit planning is the total length of time required by the auditor to conduct audit planning from the beginning to the development of audit plans and comprehensive audit programs. The success of an examination is determined by the quality of audit planning made by the auditor.

The Head of the Examination Team of the District Government's Financial Report (M) "FY" of Fiscal Year 2013 also explains that in planning the audit of Local Government Financial Report consists of several stages, namely:

- a. Understanding the purpose of audit and expectation of assignment. The purpose of examination of Local government financial statements is to give an opinion on the fairness of presentation of Local Government Financial Report by considering:
 - 1) Compliance of Local Government Financial Report with Government Accounting Standards;
 - 2) Adequacy of disclosure
 - 3) Compliance with laws and regulations
 - 4) Effectiveness of internal control system the accomplishment of the objective, the assignment of a financial examination has the expectation of the assignor. The auditor must obtain written assignment expectations from the assignor through an intensive communication.
- b. Fulfillment of Professional Auditor. The auditor's needs include two things:
 - 1) Requirements for skills / expertise of the State Audit Standards (SPKN), on the Statement of Audit Standard No. 01 on the General Standard,

paragraph 03 stating that "The auditor collectively must have sufficient professional skills to implement audit duties ". Informant A noticed that : “the audit standard (SPKN) stipulates that auditors collectively must have sufficient professional skills to carry out the examination tasks, meet the requirements of continuing education and meet the auditor's skill / skill requirements”

In addition, auditors conducting financial audits must meet additional qualifications of having accounting and auditing expertise, understanding generally accepted accounting principles relating to the examined entity and should have a certification of expertise. Especially for the auditor who acts as the person in charge of the financial examination must have a professionally recognized certification of expertise.

- 2) Independent State Audit Standards (SPKN) Standard, on Number 01 Standard Statement of Declaration on General Standard, paragraph 14 stating that "In all matters pertaining to audit work, examining organizations and auditors, must be free in the mental attitude and appearance of personal, external and organizational disorders that may affect its independence. "The Head of the Examination Team of the Local Government Financial Statement Regency" M "FY 2013 also explains that if the auditor involving in the examination of the Local Government Financial Statement is doubtful of its degree of independence, the auditor must make a statement of impairment of independence to obtain consideration of the assignment and the responsible person should consider the impact of the condition on the examination to be performed.

3.2. Understanding of Entities.

Understanding of entities can be obtained from preliminary surveys or information in previous audit reports, interim audit reports, notes on audited financial statements, Examination Working Paper (KKP) of the previous year, results of communications with previous auditors and database is on the examination work unit. Understanding of the entity includes an understanding of the organization, the principal activities of the entity, the environment that affects, the relevant officials up to the work units and extraordinary events that affect the management of state finances. Chairman of the Examination Team of Local Government Financial Statement Regency "M" FY 2013 added that the results of the understanding of the entity are useful for the understanding step of the Internal Control System (SPI) and the Inherent Risk assessment. Monitoring of Follow-Up Report of Previous Audit Result. The Head of Examination Team of Local Government Financial Statement Regency "M" FY 2013 explains that the auditor should monitor the follow up of District Government "M"

on Report of Examination Result (LHP) of Local Government Financial Statement Regency "M" in previous year (Fiscal Year 2012) related to the implementation of the recommendations provided. Such monitoring includes follow-up recommendations given in relation to the effectiveness of the internal control system and compliance with legislation. Chairman of the examination team in Regency "M" FY 2013 added that the auditor should examine the effect of follow-up on Local Government Financial Statement Regency "M" FY 2013. This is related to the possibility of recurring examination findings and auditor's beliefs on the beginning balance of the account or estimates on the balance sheet who checked. Understanding of Internal Control System (SPI) The auditor should understand the internal control system designed and organized by the entity. Understanding of the design of internal control is done by looking at legislation and written / formal policy of minister / head of institution concerned with internal control system. Chairman of Local Government Financial Statement District Audit Team "M" FY 2013 added that the understanding of internal control system (SPI) includes an understanding of the components of the internal control system. The results of the SPI understanding become the basis of risk control assessment. Understanding and Risk Assessment The understanding and assessment of risk is based on the understanding of the entity and the internal control system.

Improving fiscal transparency and accountability is one of the keys to the successful overhaul of social systems undertaken during the reform era. Nasution (2007) stated that there are some weaknesses in Indonesia's financial system in the new order era: (1) weakness in the design and implementation of internal control system, (2) non-compliance with laws, (3) lack of information on state assets and debts, (5) inconsistent and inadequate disclosure of government financial statements. Improving the transparency and accountability of state financial management, the reforms era government has made a thorough correction.

One of the efforts made in the reform of State Financial Management Improvement in Indonesia in order to realize good governance is to take steps of change through legal reform and organizational reform which is marked by the birth of the Law Package of State Finance namely: (Law) No. 17 of 2003 on State Finances, Act No. 1 of 2004 on State Treasury, and Law No. 15 of 2004 on Audit of State Financial Management and Accountability.

The reform era has had an impact on the demands of public accountability and transparency in the management development process in Indonesia, the demand for transparency in regional financial management processes in the era of economic policy requires a pattern of public accountability through the development of government accounting systems.

The auditor in conducting the examination is faced with the existence of auditing risk i.e. unconscious risk of the auditor not to modify the opinion accordingly to the financial statements containing material misstatements (Boynton, 2006: 201). The uncertainties (risks) faced by the auditor during the conduct of the examination are: uncertainty of the accuracy of the evidence, the effectiveness of the audile's internal control, and the uncertainty of whether the financial statements have been presented fairly after the examination has been completed. The auditor is also exposed to business risks which are the risk that the auditor will suffer harm or harm in performing his or her professional practice due to litigation or public rejection in connection with the examination (Guy, Dan et al 2002)

Qualified / quality audit accompanied by auditor result checking on the Local Government Financial Statement Regency "M" FY 2013 explains that in the understanding and assessment of risk, the auditor considers several risks consisting of: 1) Inherent risk, 2) Risk control, 3) Detection risk); and 4) Accepted Audit Risk's. Determination of Initial Materiality Levels and Accidental Mistakes.

The Head of Examination Team of Local Government Financial Statement Regency "M" FY 2013 explains that the auditor considers the degree of materiality in audit planning. Consideration of the level of materiality includes activities: 1) Determination of the level of materiality (PM) for the level of financial statements 2) Tolerable Error (TE) for the account level in the financial statements. The initial materiality of the level of financial statements and the materiality of the level accounts are poured in percentages. The determination of the percentage of materiality in the Examination of the Local Government Financial Statement Regency "M" FY 2013 is calculated based on the realization of expenditure on the Budget Realization Report of the Government of the District "M" FY 2013.

The reason for using the realization of expenditure as a basis for calculating the level of financial reporting levels because the current expenditure realizable reliable for the realization of this expenditure, the local government still uses the cash basis for budget realization. The Head of Examination Team of Local Government Financial Statement Regency "M" FY 2013 also adds that the selection of materiality stipulation at the level of the financial statements is influenced by the auditor's belief in audit risk and risk control risk and detection risk. The risk of audit (audit risk) and risk control (high risk), resulting in low materiality. A small degree of materiality has an impact on large sampling. Determination of Examination Method The sampling team of Local Government Financial Statement Regency "M" FY 2013 explains that the sampling test in a financial audit is an examination procedure for less than one hundred percent of the elements in an account balance or group of transactions in order to assess some characteristics account balance or group of transactions. The sampling test can also be used as

a tool to obtain information about a population without conducting an assessment of the population as a whole.

The Head of Examination Team of Local Government Financial Statement Regency "M" FY 2013 added that the characteristics of local government accounting are still using distributed system, where Local Government Financial Statement District "M" Fiscal Year 2013 is the result of consolidation of the financial statements of all the Regional Device Work Units (SKPD), which are the accounting entities of the "M" Regional Government. Before determining the number of samples and sample units to be selected, first with professional consideration to determine the coverage (audit coverage) and SKPD to be examined.

The application of Risk Based Audit Approach is more emphasized on the process or stage of audit planning. Chairman of the Examination Team of Local Government Financial Statement Regency "M" FY 2013 explains that the stages in the examination plan related directly to Risk Based Audit are as follows: a. The entity stage of the entity examined where the results of this stage will be useful for the steps / stages of understanding the Internal Control System (SPI) and the assessment of inherent risk (b); Understanding and Assessment of Internal Control System (SPI) whereby at this stage will be the basis in the assessment of risk control (c); Riders and Risk Assessment d. Determination of Initial Materiality Level E. Determining the audit coverage and determining the sampling. Audit Behavior in the Implementation of Risk Based Audit Approach (RBAA).

Many challenges impeded the auditor in the implementation of Risk Based Audit Approach (RBAA) on the examination of Local Government Financial Statement in BPK RI Representative of East Java Province. One such challenge is the behavior of the auditor (auditor behavior). Auditor behavior is influenced by several factors, such as the auditor's experience, knowledge, audit steps, examination guidelines and audit fees.

Based on interviews with informants, it is found that the Team Leader and the Members of the Local Government Financial Statement Regency MK Audit Team "FY 2013 has been an auditor in BPK RI for more than five years where for Team Leader has been working in BPK RI since 2003 and Team Member has been working in BPK RI since 2007. Many experience audit especially examination on Local Government Financial Statement which have been undertaken by the informant. In addition, the informants also conducted an examination of Local Government Financial Statement in the first semester each year. State Audit Standards (SPKN), on Number 01 Standard Audit Statement (PSP) on General Standards, paragraph 3 explains auditors collectively must have sufficient professional skills to carry out audit tasks. BPK RI as an examining organization has recruitment procedures, appointments,

continuous development, and evaluation of auditors to assist BPK in maintaining adequate competence auditors.

The nature, extent and formality of the process will depend on various factors such as the type of examination, structure and size of the money entity examined. In addition, auditors conducting the examination must maintain their competence through continuous professional education such as education and training, technical guidance related to the state financial audits of at least 80 hours of study every two years. In the execution of the examination, the BPK Team has an audit program (P2). The Audit Program contains the legal basis of the examination conducted by BPK RI, the audit standards used by BPK, an explanation of the purpose of the examination, the name of the examined entity, what the scope of the examination will be conducted, the objectives of the examination, the criteria of the examination used, the reason for the examination up to the examination methodology. In the methodology of the examination, contains the steps of examination from the planning stage of audit, the implementation of audit in the field until the stage of reporting. As explained in the previous chapter, the implementation of RBAA is carried out at the planning stage. Based on the results of interviews with informants, it is found that the BPK team conducted an audit of Local Government Financial Statement Regency "M" FY 2013 by using a risk-based approach (RBAA). To assist in achieving the quality of the audit as required by the NPL, an Audit Guidebook was prepared for the Local Government Financial Statement used in each Local Government Financial Statement audit. The manual serves as a guide for all auditors in conducting Local Government Financial Statement examination. The guidance is the development of the general policy of Local Government Financial Statement examination in BPK RI.

The guidelines adopted some of the literature sources specifically concerned with RBAA relevant to Local Government Financial Statement examination. The purpose of the preparation of these guidelines is to enable the Auditor to carry out the audit procedures required for the Local Government Financial Statement examination by using a risk-based audit approach (RBAA). In addition, the auditor is expected to have similar perspectives and perceptions related to the problems found in the Local Government Financial Statement examination, which in turn will improve the quality of examination of Local Government Financial Statement. The Third Amendment of the 1945 Constitution of the State of the Republic of Indonesia, Article 23 E Paragraph (1) explains that in order to examine the management and responsibility of the state finance, a free and independent Audit Board is established. In order to ensure the enhancement of the role and performance of the Supreme Audit Board as a free and independent institution, all audit fees made by BPK RI are charged to the State Budget (APBN). Thus, BPK RI can carry out the task of auditing the management and financial

responsibility of the state by upholding the basic values of independence, integrity and professionalism.

4. Conclusions And Recommendations

Based on the results of this study, can be drawn some conclusions. First, In Indonesia, Risk Based Audit Approach is used in the planning stage of examination which aims to detect areas (accounts) of any high risk in local government financial statement. The RBAA applies to several audit steps in the planning stage of the examination including understanding of the entity, understanding and assessment of internal auditor (SPI) both entity level and business process level, audit risk assessment and assessment, determination of initial materiality level and determining audit coverage.

Second, Factors affecting auditor behavior do not preclude the application of risk-based audit approach (RBAA) on local government financial statement examination. The experience of qualified auditors, the fulfillment of knowledge and competence of auditors, there are examination steps in Audit Program, the guidance for auditor in conducting local government financial statement examination with Risk Based Audit approach and audit fee which has been charged to APBN, become proof that RBAA is applied well to BPK RI Representative of East Java Province.

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