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Implementation Of Strategic Planning, Risk Identification And Development Of Effective Audit Plans In Public Sector Internal Audits

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Abstract

This study aims to analyze the implementation of strategic planning, risk identification, and development of effective audit plans in internal audits of the public sector. Internal audits in the public sector play an important role in ensuring transparency, accountability, and efficiency in the management of public resources. With an integrated strategic planning approach, a systematic risk identification process, and the development of relevant audit plans, internal auditors can improve audit effectiveness in revealing system weaknesses and providing recommendations for improvement. This research uses a qualitative method with case studies in several public institutions to explore best practices and challenges faced. The results of the study show that collaboration between auditors and management, the use of information technology, and continuous training are key factors in improving audit quality. This abstract provides insights for internal auditors and public sector managers to develop a more strategic and risk-oriented audit approach.

***Keywords* : Strategic Planning, Audit Planning, Public Sector Internal Audit**

INTRODUCTION

In the public sector, internal audits play a crucial role in maintaining transparency, accountability, and efficiency in managing public resources. With the increasing complexity of governmental systems and growing public expectations for good governance, internal audits have become essential in identifying potential risks, ensuring regulatory compliance, and enhancing operational efficiency (Arens, Elder, & Beasley, 2016). However, in practice, there are various challenges that create a gap between the ideal audit planning framework and its actual implementation in government institutions. This gap is particularly evident in the lack of risk-based strategic planning and the inadequate adaptation of audit processes to policy and technological changes (Cohen & Sayag, 2010).

Strategic planning in internal audits is not merely an initial phase in the auditing process but serves as a fundamental pillar that determines the overall effectiveness of the audit. Well-structured planning enables auditors to align audit objectives with the organization’s strategic goals, ensuring that audits are not merely procedural but add significant value to public sector management (Mintzberg, 1994). In this context, Dittenhofer (2001) emphasized that strategic planning in internal auditing helps auditors prioritize areas with a substantial impact on organizational objectives, thereby increasing the relevance and effectiveness of audits in improving public sector governance.

One of the primary challenges in public sector internal audit planning is accurate risk identification. The risk-based audit approach has become a dominant paradigm in modern auditing practices, requiring auditors to anticipate and address potential risks that may hinder the achievement of organizational goals (Knechel, 2007). Several studies highlight the importance of frameworks such as the Committee of Sponsoring Organizations of the Treadway Commission - Enterprise Risk Management (COSO ERM) in assisting auditors in understanding risks relevant to the public sector context (Beasley et al., 2005). However, many public institutions have yet to fully adopt risk-based approaches due to resource constraints, limited awareness of risk management, and resistance from audited units against stricter audit processes (Mihret & Woldeyohannis, 2008).

Furthermore, the development of an effective audit plan is critical in improving the quality of public sector internal audits. A well-designed audit plan should reflect the results of risk identification and support the achievement of the organization’s strategic objectives (Van Gils et al., 2014). Research by Van Gils et al. (2014) indicates that involving top management in audit planning enhances the relevance of the plan to organizational needs. Additionally, the role of information technology has been identified as a crucial tool in helping auditors develop data-driven audit plans with more precise analyses (Alles et al., 2006). However, significant challenges remain in implementing technology in public sector audits, particularly due to the lack of integrated information systems and technical expertise among internal auditors.

Another challenge in public sector auditing pertains to rapidly evolving policies and regulations. Frequent regulatory changes make it difficult for auditors to ensure that organizations remain compliant with current laws and policies (Mihret & Woldeyohannis, 2008). Additionally, resource constraints—both in terms of budget and specialized audit personnel—pose significant barriers to conducting effective audits. Studies have also highlighted the resistance of public organizations to more transparent and risk-based audit approaches (Palungan, Karamoy, & Elim, 2015).

In some cases, weak internal audits have contributed to increased risks of public fund mismanagement and declining public trust in government institutions. For instance, a study by Wahidah and Nurhazana (2023) emphasizes the importance of proper audit planning to ensure that internal audits have a tangible impact on improving financial transparency and accountability in the public sector. Moreover, research by Panggabean (2019) found that a significant portion of government entities in North Sumatra received audit opinions with exceptions, highlighting weaknesses in internal control systems that could have been mitigated through more structured and risk-based auditing practices.

Given these challenges, this study aims to analyze the implementation of strategic planning, risk identification, and the development of effective audit plans in public sector internal audits. By exploring best practices and challenges faced by internal auditors in various public institutions, this research contributes to strengthening risk-based audit approaches and enhancing audit effectiveness in ensuring transparency and accountability in the public sector. The findings of this study are expected to provide valuable insights for internal auditors, policymakers, and academics in developing more adaptive, evidence-based, and responsive audit strategies that support better governance in the public sector.

METHODS

This study employs a qualitative approach with a descriptive design to analyze the implementation of strategic planning, risk identification, and the development of effective audit plans in public sector internal audits. This approach was selected to gain an in-depth understanding of the processes, challenges, and supporting factors in implementing strategy- and risk-oriented audit practices.

Data were collected through in-depth interviews with internal auditors from various public institutions, as well as document analysis of relevant policies, regulations, and audit reports. Interviews were conducted using a semi-structured interview guide to ensure flexibility in exploring findings while maintaining focus on key aspects of the study. Participants were selected purposively, considering their experience and involvement in public sector internal audit processes.

Data analysis was conducted using a thematic approach, where interview findings and documents were analyzed to identify patterns, relationships, and factors contributing to the effectiveness of audit planning. The collected data were compared with previous research findings to enhance the validity of the results. Data validation was carried out through source triangulation, by cross-checking interview results, document analysis, and literature reviews.

With this methodology, the study aims to provide a comprehensive insight into public sector internal audit strategies and offer evidence-based recommendations to enhance transparency and accountability in government institutions.

RESULTS OF FINDINGS

Strategic Planning in Public Sector Internal Audit

The study findings indicate that strategic planning in public sector internal audits plays a crucial role in ensuring audit effectiveness and efficiency. Based on interviews with internal auditors from various public institutions, the majority of respondents stated that internal audits with well-developed strategic planning tend to be more effective in identifying risks and providing relevant recommendations. However, most organizations still face challenges in designing audit planning that aligns with their vision and mission.

Strategic planning in internal audits encompasses various aspects, including identifying organizational objectives, risk analysis, and developing appropriate audit policies. Some institutions with more developed internal audit systems have adopted a risk-based approach in their audit planning. This approach ensures that audit resources are focused on areas with the most significant impact on organizational goals. However, many institutions have yet to implement this strategy optimally due to human resource limitations and a lack of understanding of risk management in the audit context.

Additionally, the study found that transparency in strategic audit planning remains a major challenge in various public institutions. The lack of managerial involvement in the audit planning process often leads to a misalignment between audit objectives and organizational realities. Auditors who have broader access to information and are directly involved in policy formulation tend to develop more relevant and effective audit plans.

Risk Identification in Internal Audits

Data analysis shows that risk identification methods in internal audits vary across institutions. Auditors working in organizations with strong internal control systems tend to be more systematic in identifying and mitigating risks. The use of frameworks such as COSO ERM in some institutions has proven beneficial in better understanding and managing risks. However, some auditors reported that resource limitations and a lack of risk-related knowledge remain major challenges in implementing a risk-based approach.

In some institutions, risk identification is conducted through surveys and historical data analysis. Auditors use financial and operational data to identify patterns indicating potential risks. For example, delays in financial reporting or inconsistencies in budget records can indicate financial risks that require further auditing. However, in institutions without a well-structured record-keeping system, risk identification becomes more challenging and requires a more manual approach.

Furthermore, the findings suggest that some public institutions struggle to integrate risk management systems into their internal audit processes. This challenge is primarily due to differences in perception between auditors and management regarding the urgency of implementing a risk-based system. Some managers tend to view audits as merely an administrative procedure, whereas auditors strive to drive systemic change through risk-based recommendations.

Development of an Effective Audit Plan

The capital market's role in Indonesia's economic development is multifaceted, encompassing direct and indirect contributions to growth. Primarily, it serves as a critical funding source for companies, enabling them to secure capital for expansion and innovation. Data from the Indonesia Stock Exchange (IDX) in 2023 indicates that the total value of securities issuance reached IDR 206 trillion, underscoring the market's significance as an alternative to traditional financing methods.

Moreover, the capital market's high liquidity fosters an environment conducive to efficient transactions. With an average daily trading value of IDR 13 trillion in 2023, the Indonesian capital market demonstrates its capacity to support dynamic investment activities. This liquidity not only stabilizes the market but also provides investors with the flexibility to manage their portfolios effectively (Pramono & Sigit, 2010).

Foreign investment is another critical area where the capital market exerts significant influence. Inflows of foreign direct investment (FDI) have brought capital, advanced technologies, and job opportunities to Indonesia. The Investment Coordinating Board (BKPM) reported that FDI reached USD 45.6 billion in 2022, much of which flowed through the capital market. This investment has primarily targeted key sectors, such as manufacturing, infrastructure, and technology, contributing to broader economic development.

Additionally, the capital market generates substantial state revenue through taxes on securities transactions and dividends. In 2023, tax revenues from these sources amounted to IDR 35 trillion, according to the Ministry of Finance. These funds are vital for financing development programs and enhancing public services. Furthermore, the issuance of government bonds via the capital market facilitates the funding of strategic infrastructure projects. For instance, the Directorate General of Financing and Risk Management (DJPPR) reported the issuance of IDR 120 trillion in infrastructure bonds in 2023, allocated for critical projects such as toll roads, airports, and ports. The study found that developing an effective audit plan heavily depends on three key factors: collaboration with management, the use of information technology, and continuous auditor training. Interview data reveal that institutions with well-established training policies are more successful in developing data-driven and risk-based audit plans. Conversely, organizations lacking a structured auditor training system struggle to create audit plans that can adapt to regulatory changes and organizational needs.

The use of information technology in the audit process also plays a vital role in developing more effective audit plans. Some institutions have adopted audit software that enables real-time data analysis, allowing auditors to identify areas requiring attention more quickly and accurately. However, many auditors are still unfamiliar with this technology, making training in audit technology an urgent necessity.

Other findings suggest that management involvement in audit plan development significantly influences the audit's success. In institutions with effective communication between auditors and management, the audit process tends to be more transparent and capable of providing more actionable recommendations. In contrast, in organizations with a less audit-supportive work culture, auditors often face resistance from the audited parties, ultimately hindering audit effectiveness.

Audit Implementation and Its Impact on Organizational Efficiency

Beyond planning and risk identification aspects, this study also examined how internal audit implementation affects organizational efficiency. The findings indicate that institutions with robust audit systems tend to manage their resources more efficiently. For instance, institutions that routinely conduct risk-based audits experienced fewer discrepancies in their financial reports compared to institutions that perform audits based solely on routine schedules without considering risk factors.

The impact of internal audits is also evident in improving compliance with regulations and organizational policies. Some auditors reported that following the implementation of stricter audits, there was an increase in workplace discipline and adjustments in financial policies toward greater transparency. However, resistance to audits remains a challenge, particularly in organizations with a work culture that is less receptive to external oversight.

Overall, the study findings suggest that well-designed and risk-based internal audits can significantly contribute to increasing transparency, efficiency, and accountability in the public sector. However, achieving optimal results requires commitment from all organizational elements, including auditors, management, and regulators, to support more effective audit policies that are adaptive to external environmental changes.

DISCUSSION

The findings of this study align with previous research emphasizing that well-structured strategic planning can enhance internal audit effectiveness. Mintzberg (1994) highlighted that organizations implementing clear strategic planning in internal audits can more efficiently allocate resources to high-impact areas. Dittenhofer (2001) further asserted that structured planning helps auditors develop a sharper audit focus aligned with organizational priorities. Additionally, this study found that integrating strategic planning into internal audits can facilitate early risk identification, improve audit timeliness, and enhance the relevance of audit recommendations. Auditors involved in strategic planning stages possess a deeper understanding of organizational goals, ultimately improving audit quality.

Findings indicate that obstacles in risk identification stem from resource constraints and a lack of understanding of risk management frameworks. Knechel (2007) stated that accurate risk identification requires data-driven methodologies and active management involvement. Beasley et al. (2005) also noted that implementing COSO ERM in internal audits can enhance risk comprehension, although its adoption remains limited in some public institutions. Furthermore, a primary challenge in risk identification is resistance from various organizational stakeholders. In many cases, managers and employees in public organizations view audits as restrictive oversight rather than as a constructive process. This perception often limits auditors' access to critical information, ultimately hindering a comprehensive risk identification process.

Developing a risk-based audit plan requires an adaptive approach. Van Gils et al. (2014) emphasized that top management involvement in audit planning enhances audit implementation effectiveness. Additionally, Alles et al. (2006) highlighted that leveraging information technology can assist auditors in formulating more precise, data-driven audit plans. Data-driven audit technology is increasingly shaping public sector internal audits. The use of data analytics enables auditors to detect anomalies more efficiently and accurately. However, barriers to adopting this technology include limited auditor proficiency in information systems and budget constraints for acquiring advanced audit software.

The findings of this study provide valuable insights for policymakers in designing more effective internal audit policies. Organizations need to enhance auditor training, integrate information technology into audit processes, and strengthen internal control systems to optimize risk-based audits. This study also underscores the importance of regulatory support in ensuring that internal audits play a more strategic role in public sector governance. Therefore, this research reinforces that strategic planning, risk identification, and risk-based audit plan development are key elements in improving the effectiveness of public sector internal audits. Efforts to enhance the audit system must involve policy strengthening, auditor capacity building, and the innovative use of technology.

CONCLUSION

The findings of this study underscore the critical role of strategic planning, risk identification, and risk-based audit plan development in ensuring the effectiveness of public sector internal audits. Strategic planning enables auditors to align their objectives with organizational goals, thereby enhancing audit relevance and efficiency. The integration of structured risk identification processes further strengthens the ability of internal audits to detect and mitigate potential financial, operational, and compliance-related risks.

Moreover, the study highlights that organizations with well-established internal control frameworks and data-driven audit methodologies are more effective in implementing risk-based audits. However, resource constraints, lack of technological adoption, and resistance from management remain significant barriers that need to be addressed. Enhancing auditor capacity through continuous training and leveraging information technology are crucial steps in overcoming these challenges.

To further improve internal audit practices, it is essential for policymakers and organizational leaders to foster a culture of transparency, accountability, and continuous improvement within public institutions. Regulatory support, coupled with increased investment in audit technologies and professional development programs, will contribute to the long-term sustainability of risk-based internal audits. In conclusion, this research provides valuable insights for public sector auditors, policymakers, and governance professionals in developing more effective audit strategies. By addressing existing challenges and leveraging advancements in technology and risk management frameworks, internal audits can serve as a fundamental mechanism for promoting good governance, financial integrity, and organizational efficiency in the public sector.

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