THE INFLUENCE OF INTERNAL AUDIT COMPETENCE ON SUSTAINABLE ACTIVITIES IN TIME OF COVID-19

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ABSTRACT

The goal of this research was to find out whether the internal audit competence had an influence on sustainability activities. The internal audit functioning well at PT Kitadin in ensuring the implementation of regulations regarding the sustainable activities, in accordance with the Financial Service Authorization No. 51/POJK.03/2017, and also regarding the Covid-19 pandemic condition. Although the sustainability activities were adhered in the year of 2020-2021 due to the Covid-19 pandemic condition, the Company still consistent in implementing the sustainable activates as planned.

Keywords: Sustainable Activities, Covid-19 pandemic, Financial Services Authority, Internal Audit competence

1. INTRODUCTION

Indonesia had become a part of global movement in sustainable activities since September 25, 2015, when the United Nations gathered nations to sign an agreement to support Sustainable Development Goals in all aspects of nation’s activities. The agreement made Indonesia one of 194 nations which committed to create a sustainable life by focusing on the sustainable activity development. The activity consisted of 17 aspects as the Sustainable Development Goals (SGDs) (OJK, 2016).

In carrying out the activities to support the SDGs, all components in the society should be involved. That is, it was not only a government’s obligation. One party that has many sources in the society is a company. Activities in a company could covers the economic, social, and environment aspects which was consisted in the SDGs.

The Indonesian government encourage company’s involvement in implementing this sustainable activity by issuing a regulation which was the Financial Services Authority Regulation No.51/POJK.03/2017 (FSA 51/2017). The regulation obliged all go public companies to carry out sustainability activities and then report it as a part of the obligation in annual report in the Indonesian Stock Exchange.

Sustainability Report was a media for a company to inform the organizations’ sustainability performance in three aspects, which were the economic, social, and environment. Therefore, it was not the same as the Corporate Social Responsibility (CSR) report which was obliged upon the National Companies before.

Before the issuance of the FSA 51/2017, the government tried to push National Companies to report all activities regarding its impact to the society (the CSR). In fact, this kind of activities was only a part of the sustainability report which was obliged in the FSA 51/2017. The CSR activities tended to be not sustainable in nature, in the end usually it was merely giving away donation to a society, which was not the essence of a sustainable activities at all.

However, since the CSR, there was an increase in society’s awareness of social aspect that a company should do other than making profit. The society’s demand for the company’s role to give benefit to external environment had driven the company to give a transparent, accountable information, as well as a better Good Corporate Governance (Fatchan, & Trisnawati; 2016).
At first, the FSA 51/2017 should only be implemented by all go public banks in 2017. Later, the implementation should be carried out also by all go public companies. However, the unpreparedness of the companies in carrying out the sustainable activities had forced the FSA to postpone the implementation of FSA 51/2017. The regulation was planned to be active in the 2020 reporting period. However, the Covid-19 pandemic had forced the FSA to once again postpone the implementation to the 2021 reporting period.

One function of internal audit in a company was to make sure that the company always comply with any regulations. Both internal and external regulation. Company arranges procedures, rules, for the staff to ensure the smooth activity and interaction in the organization. A company should also comply with external regulation set up by the government or other related parties, such as its parent company.

The internal audit function attached not merely to the position of internal auditor, because persons carrying out the internal audit function could come from various level of management and even various department in the company. That was so with its function of ensuring the company to comply with regulations. Also, the person carrying out the duty should have sufficient knowledge of the internal audit function.

The Indonesian government obliged public companies to implement the sustainability activities to support its commitment in reducing the global warming issue. However, during 2020-2021, the government also very aware of the Covid-19 pandemic condition, which forced it to issue many rules, policy, and even regulations to prevent the virus from spreading. These two conditions should be the focus for the internal auditor, that was to ensure that the company comply with those regulations.

With those above arguments, this paper researched the influence of internal audit competence upon the sustainability activity in this Covid-19 pandemic condition at PT Kitadin. PT Kitadin was a coal mining company which was a subsidiary of a public company. Therefore, PT Kitadin should also comply with the obligation to carry out the sustainability activity and also comply with government regulations and policies regarding Covid-19.

II. LITERATURE REVIEW

To describe some important elements related to this research, some literatures relevant to it were discussed below.

**Internal Audit Competence**

According to Tugiman (2006), internal audit was an independent function in an organization which aim was to test and evaluate organization’s activities. This function would help an organization to achieve its goals by executing a systematic approach in order to increase the effectivity to manage risks, sufficient control and organization’s management (Board of Directors IIA, 2009).

Internal audit functioning as a reviewer, conveying insight and suggestions that could help all department in an organization. It also functioned as an assurance that all regulations, policies, and procedures was properly implemented. In other words, the internal audit function ensured the good governance of the organization (Tampubolon, 2005).

Akmal (2006) explained in details the scope of work of internal audit as follows:

- Review the reliability and integrity of an information
- Review the compliance toward policies, plans, procedures, rules, and regulations.
- Review the effectivity of control on assets.
- Review the efficiency of the resource utilization
- Review operation program to determine whether the goal had been achieved in accordance with the preset planning.

In order to perform well, a person with the responsibility of carrying out the internal audit function had to have certain competency. Competency was a distinct characteristic to enable an individual to do some tasks well. Therefore, competency depends on the model and approach used (Budi, 2008).
Wibowo (2007) describe a competency was an ability to do a task or a job based on skill and knowledge and work attitude required for the job. That meant, there was a specific competency required to do the internal audit function. As Rai (2008) stated to do it right, an auditor must have a good personal quality, sufficient knowledge, and specific skills as an expert in his subject. This was being the basis for the questionnaire.

In relation to the FSA 51/2017 regulation, internal audit function had to ensure that it was well implemented in the Company. Also, during the Covid-19 pandemic condition, the internal audit function had to ensure the practice of health protocol was held in a strictly manner.

Legitimacy Theory

To be able to operate its business, an organization had to have a social contract with its environment (Guthrie & Parker, 1984). The legitimacy theory acclaimed that an organization can only be survive in the need of the society. Therefore, the existence of the organization had to be in line with the society’s value systems (Lindblom, 1994).

The legitimacy theory had driven organizations to ensure that every activity in their operations was accepted by the environment. In recent years, this legitimacy theory had been closely related to the accountability and transparency of reporting the social responsibility activities, including the impact they did to planet earth.

The Triple Bottom Line

Elkington (1997) was the creator of triple bottom line concept that became the basic of sustainability activities. The concept pointed that a company should focus on three aspects simultaneously in engaging the business in order to achieve a balance condition which would sustain the operation.

The triple bottom line consisted of the three aspects as follows:

1. **Profit** – this was the main vision of every profit-oriented organization. This economic profit was also the main objectives, since there would be no necessity to have a company when it cannot make profit. A profit was the basis for other aspects to be created. When a company could not make sufficient profit for it to be sustainable, there would be no point to go into the other two aspects.

2. **People** – the second aspect of the three bottom line concept was the people. The most important was the people who run the organization. A company had to give enough attention to this because without people (employee) the company will not be able to run well. The employee was the important resources in a company. The second was the people around the company or the society. The society – related to the legitimacy theory – had a power to decide whether a company should exist or not. Therefore, people were important for a company to strive and develop in achieving its goals.

3. **Planet** – the third aspect which importance emerged in recent decades was the planet earth. The only place to live for now. The necessity to preserve the planet was becoming clearly important today, since when the planet could no longer sustain the life in it, then all would be impossible to thrive. No planet, no people, no profit.

Those three aspects seemed obviously interconnected well, forming a life-cycle. Therefore, an organization or a company had to manage those three aspects carefully in order to have a balance condition to sustain the life of the organization.

Sustainability and Reporting

Previously, the concept of sustainability was related to forestry science (Kuhlman & Farrington, 2010). Sustainability in that context meant as an effort to never harvest more than the ability of the forest to produce in a normal condition. However, the sustainability context today was wider than the forest only.

Today, in an organization, the sustainability definition could consist of social principles such as human rights, gender equality, no discrimination, as well as environmental principles such as responsibility in water and energy consumption, innovation of environmentally friendly technology, reducing harmful emission into the ecosystem, etc.

As Khafid (2012) described, a company’s sustainability was a business approach which will increase the value of shareholders in a long-term period. This could be achieved by using resources as chances to rise a company, and
also managing risks to avoid unnecessary cost. Those activities were measured both with economic valuation as well as environment and social consideration.

As a matter of fact, the reporting of sustainability activities could have several benefits for a company, as Heemskerk, Pistorio and Scicluna (2002) identified:

1. Increasing visibility of the company for the stakeholders through transparent reporting.
2. Enhancing reputation for a long time period could create brand value, increasing share market value, and customer loyalty.
3. Continuous improvement would become a routine practice that support a good company’s culture value.
4. Encouraging continuous innovation that would create an ability to strive in the business competition.
5. Raising the risk awareness of the weakness in the company as well as the threat in the environment in all aspects.
6. Improving management system to deal with any impact the organization had toward its society and ecosystem. The system could help gathering reliable and accurate information as the basis for management’s decision making.
7. Raising the employee’s awareness, motivate them, attracting talent, and harmonize their work culture in line with the company’s vision.
8. Attracting long-term capital and profitable-low-cost sustainable financing, considering lower risk of insurance.
9. Creating Financial Value because the reporting would force the management to create value in the company’s intangible assets that show the company’s capability to thrive.
10. Increasing the company’s going concern because the sustainability report could show a good argument in a dialog with the society that the company should maintain its license to operate.

The Indonesian government encourage companies to engaged in the sustainable activities balancing the three aspects: profit, people, planet through the FSA 51/2017 regulation. The objective of the regulation was to create a national economy that would have a stable growth, inclusive, and sustainable. The ultimate goal of it is to give social and economic wealth for all Indonesian people (OJK, 2017).

The government had signed the agreement along with other 193 countries in September 2015. Together, the nations were committed to make the planet earth to be a better place to live in for today and future generations. The Indonesian government had set the program to fulfill the SDGs.

The SDGs consisted of 17 aspects that should be achieved until 2030. The goals were (OJK, 2016):

1. No poverty
2. Zero hunger
3. Good health and well being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnerships for the goals
In engaging the activities towards the SDGs, the government should be supported by the society. One that has wide range of resources is a company. Therefore, the government involved the companies to carry out the activities.

Also, to protect and manage the environment wisely. The process of economic development should focus on the harmony of economy social, and environment aspects. The objectives of the Sustainable Development Goals were to ensure the completeness of the live environment, safety, ability, wealth, and quality of life of today as well as future generations (OJK, 2017).

However, due to the Covid-19 pandemic condition, it seemed that the focus was distracted from other aspects to one main problem, that was preventing the virus from spreading. In doing so, there were several regulations and policy that had been released. Indonesian government disseminate health protocol in dealing with Covid-19 pandemic situation in many forms. In March 2020 there was a wide scale social restriction regulation that had stop many companies from doing business to prevent physical interaction at the work place.

This physical distancing was still had to be implemented when companies opened for business, including with the rules to wear mask every time, body temperature checking and washing hands. There were task forces to ensure the health protocol was implemented everywhere. Government’ task force had the authority to close a business when a company disregard the protocol.

III. METHODOLOGY

Objectives
The main objective of this research was to find out whether the internal audit competence (X variable) influence the sustainability activity in accordance with the items in the 2nd Attachment of FSA 51/2017 (Y variable).

Additional goal of this research was to find out how was the internal audit functioning in dealing with the Covid-19 pandemic condition at PT Kitadin.

Research Hypothesis
Based on the theory described above, the hypothesis drawn for the research were:

H_0: The internal audit competence does not influence the sustainability activity
H_a: The internal audit competence influences the sustainability activity

Sample
The sample was taken using purposive sampling method, by selecting PT Kitadin’s employees who were involved in the internal audit function, from the lowest level to the highest level. The sample collected were 36 employees.

The 36 employees were the respondents of this research. The questionnaire was consisted of closed-ended and open-ended questions. The closed-ended questions were used to statistically measure the influence of the internal audit competence on the sustainability activity. The open-ended questions were used for elaborate the discussion regarding the conditions of both variables in the company.

The hypothesis was tested using the simple linear regression method (Ghozali, 2016) to come up with the formula to measure the influence of X1 variable on the Y variable. In other words, this was to find out whether the internal audit competence had significant influence on the sustainability activities in the Company in accordance to the 2nd Attachment of Financial Services Authority Regulation No. 51/03.OJK/2017.

The regression model used in this research was:

Y = β0 + β1X1 + e

Description:

Y = Sustainable activities in accordance with the 2nd attachment of POJK No. 51/03.OJK/2017
β0 = constant
The questionnaire was also analyzed using statistic descriptive models. The responds were classified into 5 categories, which were “very good”, “good”, “neutral”, “poor”, “very poor”, based on the percentage comparing the actual score to the ideal score.

IV. RESULT AND DISCUSSION

Results

The validity test showed that the questionnaire was valid, while the reliability test showed the consistency of responds from the respondents were reliable. Therefore, the tool was good for measuring the model.

Using SPSS ver.20, the calculation resulted in the simple linear regression model, which showed the influence of the internal audit competence on the sustainable activities in accordance with the 2nd attachment of FSA 51/2017, as follows:

\[ Y = -0,173 + 0,943 X + e \]

The formula showed that without X variable (internal audit competence), the dependent variable (sustainable activities) was at the value of -0.173. After the inclusion of X variable in the formula, there was an increase of 0.943 in Y variable for every 1 X variable increase. That meant the higher internal audit competence resulting the higher sustainable activities, with the comparison of 1:0.943.

The t-test to see how far the independent variable influence the dependent variable in the regression model showed the significance value of 0,000<0,05 sig. Also, the t-cal 7.517 > t-table 1.691. Therefore, Ha is accepted, meaning the internal auditor competence had a significant influence on the sustainability activity.

The determinant coefficient using \( R^2 \) test showed the value of 0.624. It meant that the sustainability activity could be explained by the internal audit competence as much as 62.4%, and 37.6% were other variables outside this research.

The questionnaire for the X variable, that was the internal audit competence, consisted of 12 questions, classified in three categories, those were:

the personal quality. Questions regarding the curiosity of internal auditor, open-minded, capable handling uncertainty, cooperation in team, able to do analytical review.

general knowledge. Questions regarding organization theory knowledge, how to do audit, preparing report and suggestions, knowledge of up-date information, ability to process numbers, formal and informal education.

specific skills. Questions regarding ability to do an interview, using computer, ability to write and presenting report well.

The responds on the questions showed that the personal quality was in the range of “very good” (94.44% actual score compare to the ideal score). The general knowledge had a 72.44% actual score compare to the ideal score, that means it was in the “good” category. Whilst the specific skills had 90.56% which put it in the range of “very good” classification. Therefore, overall, the variable of internal audit competence was in the range of “very good” category.

The responds on the open-ended questions regarding the variable of internal audit competence also in line with the closed-ended questions. Mostly agreed that competence was an important factor in order to support the personnel to do the function well.

The questions regarding the sustainability activities were classified into 6 categories, consisted of 29 questions. The result of each category was described in the Table 1 as follow:

<table>
<thead>
<tr>
<th>Sustainability Indicators</th>
<th>Actual Score</th>
<th>Ideal Score</th>
<th>%</th>
<th>Category</th>
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</thead>
</table>
As Table 1 shows the overall scores sat on the “very good” category. That meant almost all of the components of sustainable activity in the FSA 51/2017 were conducted well.

V. DISCUSSION

The research result showed that the competence of internal audit function had a significant and positive influence on the sustainable activities. This result supported the Company’s mission which were to create sustainability value for stakeholders through the development of business portfolio alongside the need of future energy, and to implement sustainable ways in managing environment, social, and governance aspects. It was clear that internal audit function had an important part in supporting the sustainable activities in PT Kitadin.

To deepen the insight regarding PT Kitadin, the research also questioned the respondents regarding sustainable activities, and also regarding the Covid-19 pandemic condition in the Company. Summary of some comments on the works of internal audit function and the sustainability activities were described as follow:

The vision and mission of the company had clearly stated that the company was committed to help the society and the environment.

The company had a long-term plan in carrying out the sustainability activities, regarding both society and environment.

The company always prepare a budget for the activities since the resources was sufficient to support the activity.

The company had always been complied with government regulation to maintain its integrity. Since the business was considered to have quite a big impact to the environment, the company was very serious in carrying out the post-mining liabilities. The activities include reclamation by revegetation, building water channels to irrigate the farms in utilizing the pot-mining holes, stockbreeding, preparation for tourist attraction, etc.

Planning, carrying out the activities based on the predetermined procedures and evaluating the result of the activity was the key to a successful sustainability program.

The employee realized that the activity was a must and it had to be carried out within the daily operation activities.

However, there was some obstacles in carrying out the sustainable activity program, especially because of the Covid-19 pandemic condition which hindered many physical contacts in the society. Therefore, some respondents thought that the timing for the activity was not in the “right” time. Human resources were also facing many limitations in this time of pandemic.

In relation to the policy and regulation regarding the pandemic condition, the internal audit function always ensure that health protocol was held, such as:

Work from Home for office staffs when there was no necessity to go to the office.

No more than 10 people in the meeting room, or try to do the meeting outdoor or on-line.

Temperature checking and washing hands before entering the office and the mining location, also when leaving the office/mining location after office hour.

Spray the office areas every week with disinfectant

Wearing mask properly was a must, both in the office and in the mining location.

Prohibit crowding in one area (implement social distancing).
The health protocol was strictly applied in the office and mining location. This clearly prevent many physical interactions and become quite a hindrance in implementing the sustainability activities. Obstacles that came from the internal were that sometimes the dissemination of the program was not well enough, therefore the lower-level employees were not quite informed. The internal audit investigation saw this was caused by the lack of or insufficient reporting of the previous activities.

External problem came from the lack of information technology in the society, not all the needs in the society could be fulfilled, not all stakeholders were aware of the importance of the program, and sometimes political factors also became a problem in planning the budget, where some party tried to take advantage of the sustainability activities.

VI. CONCLUSION

This research result was that the internal audit competence had a significant and positive influence on the sustainable activities at PT Kitadin. Further interview also showed that the competence of internal audit function played an important part in ensuring that the company comply with regulations regarding the sustainable activities while keeping caution on the Covid-19 pandemic condition.

Some suggestions were as follows:

Increase communication between levels in the company to smoothen out the activity.

Dissemination to stakeholders to increase their awareness of the sustainable activities in order to get them involved in it.

The Company had to be brave to report any misappropriation of the sustainability activity program to higher authority.

REFERENCES