



## **The Urgency of Internal Audit and Good Governance in Public Higher Education**

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### **ABSTRACT**

The quality of higher education starts with good university governance. One way to achieve good university governance is by ensuring that operations at an institution are by existing regulations. As independent parties, internal auditors monitor and evaluate the effectiveness and efficiency of an institution's operations. However, internal audits in public universities are still considered trivial, and some institutions do not have an internal audit unit. This study examines the importance of internal audits in achieving good governance in public universities. The research approach was carried out by a literature review of journals from 2004 to 2021 and observation at one of the state universities in Indonesia. This study concludes that an internal audit in higher education is needed to ensure that internal control in each work unit is running well. When internal control is reasonable, the government can ensure that the management or governance of higher education, especially public higher education, is good. Finally, quality education is realized.

Keywords: Good Governance, Internal Audit, Public Higher Education

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### **1. Introduction and Literature Review**

Previous studies have widely discussed the importance of the internal audit function for public companies (Cohen et al., 2004; Ege, 2015; Hass et al., 2006; Lin et al., 2011; Prawitt et al., 2009). However, few still discuss the internal audit function in a higher education institution or university. Do higher education institutions need the role of the internal audit function? What is its urgency, and how does it relate to good governance structures?

Education is a key factor in improving a country's competitiveness. To maintain the excellence of higher education institutions, especially public higher education, improving the quality of all parties involved is necessary. Quality improvement is a global strategy for the development of modern higher education (Aleksandrova et al., 2019). Martins (2012) and Acosta-Ormaechea and Morozumi (2021) state that today's educational institutions face several new problems that require innovative solutions and substantial changes from traditional management models. These changes relate to decentralization in the decision-making process, giving greater authority to the lowest line. To keep up with these changes and continue improving and maintaining higher education quality, a party must ensure that the institution's mechanisms and internal controls are running well. Both external and internal parties can ensure this. Internal auditors are internal parties whose role is to provide assurance services. The assurance must be based on specific criteria: regulatory requirements, educational standards, licensing and accreditation of educational activities, state certification, rating assessments, etc.

The accountability and performance report from the Ministry of Education in 2014 showed that its performance achievement was far from the target due to the ineffectiveness of internal controls within the Ministry of Education. Audit results from the Supreme Audit Agency (BPK) in 2014 also showed that internal controls in Indonesia are still ineffective. The ineffectiveness was caused by the lack of commitment of institutional leaders to improve internal control units and the lack of awareness of institutional leaders in responding to recommendations and findings from internal auditors (Baheri et al., 2017). Facing these conditions, management and all parts of higher education must make more efforts to improve the management mechanisms and governance structures of good higher education institutions. The Indonesian government has issued specific regulations to improve the governance practices of higher education institutions to overcome these problems, namely the Minister of National Education Regulation Number 16 of 2009 concerning Internal Audit Units within the Ministry of National Education.

The Institute of Internal Auditors (IIA) defines internal audit as an independent and objective assurance and consulting service to increase the added value of company operations in achieving objectives systematically and continuously evaluating and performing effective risk management along with control activities and improving good corporate governance (IIA, 2013). Based on this definition, internal audit is not limited to financial reporting but also the overall operations of an institution. All institutions certainly have their risks, and it is just that each institution's risk level is different. Internal audit ensures that all parts of the institution have implemented internal control activities to minimize existing risks. Therefore, all institutions, including universities, need the existence and function of internal audit. However, not all higher education institutions have an internal audit function. Zakaria et al. (2006) revealed that many private higher education institutions do not have an internal audit function.

In several studies related to internal audit, DeSimone and Rich (2020) examined the determinants of the internal audit function in universities in the United States and its impact on the quality of financial reporting and receipt of federal grants. Although limited research exists on the role of internal audit in higher education, it turns out that the internal audit function in higher education is more complex and requires a more comprehensive understanding than the internal audit function in public companies (van Gils, 2012).

This research is interesting to conduct for several reasons. First, public higher education institutions have a different context regarding governance, structure and stakeholders, regulations, and policies because their missions, funding sources, and operational scope differ from public companies. This is expected to provide insight for researchers and practitioners regarding the role of internal audits outside of public companies. Second, how the supervision and evaluation of internal auditors ensure the effectiveness of risk management and internal control spread with more resources is an interesting point to explore. This study explores the urgency of the role of internal audit and good governance structures in public higher education.

The expected contribution of this research is first theoretically adding to the literature that highlights internal audits in higher education institutions, especially public universities. Second, practically, it is expected to be input and review material for leaders of public higher education institutions in Indonesia to think about how to take the right approach to maximize the role of internal audit so that it has positive consequences on institutions and also the government, creating good organizational governance, and improving the quality of higher education.

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## 2. Research Method

This research method is qualitative with a literature review approach. Literature sources were obtained from previously conducted studies in journals and books from 2004 to 2021 to explain the role of internal auditors from time to time. This study is also based on researcher observations regarding the role of internal auditors at one of the state universities in Indonesia. Based on the literature review and observations, an in-depth analysis was conducted regarding internal auditors' importance in achieving good university governance. This research focuses on the urgency of internal auditors at public universities in Indonesia. However, the analysis was also carried out by exploring the role of internal auditors in several countries to provide a strong reason that internal auditors are indeed needed to support good governance.

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## 3. Discussion

Audit science is one of the main foundations in supporting good governance to fulfill the principles of transparency, accountability, responsibility, independence, and fairness. Internal auditors have a more significant role in taking responsibility and monitoring strategic objectives, supporting decision-making, controlling and preventing abuse of power, and identifying possible risks of fraud or error (Castro, 2013). The need for auditing and performance monitoring for public higher education institutions is becoming more significant as every organization must meet the principles of transparency and accountability (Acosta-Ormaechea & Morozumi, 2021; DA SILVA, 2016; Semyonov & Platonova, 2017). Universities face increasing demands for accountability. Students demand a strong institutional commitment to quality education. Politicians and regulatory bodies want to ensure assurances that educational institutions contribute to economic development, legal compliance, and procedural regulations. Donors or grantmakers ask for evidence that their contributions and investments are well spent. Finally, alums want assurance that their alma mater is always at its best and continues to grow.

The internal audit function is part of the corporate governance structure. The current demand for good governance also applies to higher education institutions, not only public companies. Attention must be paid to the importance of the internal audit function in a higher education institution. The broad role of internal audits requires auditors to have a comprehensive understanding and good verbal and written communication skills to face a more complex audit scope in higher education. The complexity of the internal auditor's duties in higher education occurs due to the different structures and character of public companies and other non-profit organizations. Internal auditors in higher education in Indonesia must be responsible for assurance and consulting services that cover a wide range of topics, from operations to management of government funds and utilization. Internal auditors focus more on compliance with government regulations and key programs and oversight, strengthening reporting systems by minimizing internal control weaknesses (DeSimone & Rich, 2020).

The urgency of the role of internal audit in public higher education is also implicitly stated in the study by Archambeault et al. (2008) that internal audit plays an important role in providing added value, as reflected in its efforts to increase governance transparency and improve the grant process. These benefits are especially pronounced during high competition for foreign grants (Howard & Laird, 2013). In addition, the large number of resources in public higher education institutions, namely institutional leaders, lecturers, students, employees, and internal and external parties with interests, means that many risks must be monitored at every level. Teixeira (2006) concluded that internal audit should strengthen its role in the governance of business organizations, especially over risk management, assist in loss prevention, and identify opportunities for improvement in management and control operations. The goal is to provide reliable information and contribute to management and better decision-making in the face of changes and challenges in today's modern era. Rodrigues (2017) provides clear evidence that the internal audit function in Brazilian universities plays a more significant role in management control to guide and support operational decision-making. In addition, internal auditors also need to monitor the implementation of evaluations from internal or external control bodies, prepare reports, and, most importantly, actively promote transparency. Internal auditors must ensure that institutional management acts by the rules and regulations related to budget, finance, and personnel.

Internal audits are no longer limited to checking the legality and appropriateness of operations. They also help achieve good governance by promoting accountability (Fonseca et al., 2020). In public higher education institutions, internal audits are essential to assess the level of achievement of plans and possible deviations that arise. In addition, an internal audit must also ensure that all operations in the institution comply with existing laws, regulations,

and norms so that there needs to be transparency. So, in achieving good governance, internal auditors are interested in periodically evaluating and recommending improvements to the performance and achievements of the public higher education institution team and its role in risk control and management.

Agree with Zakaria et al. (2006) that higher education institutions must have an internal audit function. Internal audits are integral to an institution because they are part of its governance structure. Its mechanism and effectiveness are needed to assist management in providing better control over resources and the quality of education it provides. Sofyani et al. (2021) concluded that the difference in internal control in higher education is its design. Different internal control designs occur because internal control is attached to Standard Operating Procedures (SOPs), which are undoubtedly different in each institution. Apart from these differences, internal audits generally play a role in the supervisory mechanism of these internal controls. The implementation of internal controls contributes positively to increased accountability and reduced fraud. Internal auditors must ensure that the implementation goes well and can mitigate potential risks.

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#### 4. Conclusion

This article concludes that internal audits are urgent in public higher education institutions. This is due to the existence of a governance structure that is quite different and complex, with many resources spread across many directorates, faculties, and even business units (specifically for business entity universities), thus requiring more excellent supervision, evaluation, and risk monitoring by internal auditors. In addition to functioning to improve the financial reporting system by upholding the principle of transparency, internal auditors must also improve internal control in every layer within it. Internal auditors must also maintain the government's and all stakeholders' trust by ensuring proper management within public higher education to realize good performance and quality of higher education. Effective internal audits will help achieve good quality management in the future.

This research is limited to the data source, a literature study that interviews and observations should support. Therefore, this article provides an opportunity for future researchers to develop other study approaches, such as case studies in Indonesia and/or experiments with the support of in-depth interview and observation data with internal auditors and related parties to investigate further the consequences and urgency of the internal audit function in higher education. Furthermore, this study is also limited to public higher education, which is the subject of the study. Future researchers can consider private higher education institutions, whereas previous research states that many private higher education institutions still do not have an internal audit function. Finally, this study only discusses the importance of internal audits so that further research can develop what challenges are faced by internal audits in higher education, especially when there are environmental changes, how internal auditors respond to these challenges, and also research on the impact and consequences of the internal audit function on the operations and quality of higher education is enjoyable to do.

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