

## EFFECTIVENESS'S EVALUATION OF INTERNAL CONSULTANCY IMPLEMENTATION: CASE STUDY AT PT ABC

Neil Setiawan<sup>1</sup>, Dr. Dadan Rahadian, ST., MM<sup>2</sup>

Faculty of Economics & Business Management, Telkom University,  
INDONESIA.

<sup>1</sup>neil.setiawan25@gmail.com, <sup>2</sup>dadan.rahadian@gmail.com

### ABSTRACT

*Internal Audit Group is one of the units at PT ABC (ABC) which was formed to support the company's objectives to implement Good Corporate Governance (GCG) so that the company can continue to grow. Internal Audit activities consists of Assurance activities with the objective testing of evidence and Consulting activities with the granting of providing alternative solutions and other services related to the client needs whose nature and scope have been agreed by the client without the transfer of responsibility from management that is independent and objective.*

*Related to this, the researcher conducted a study on the evaluation of effectiveness the implementation of internal consultancy so far at ABC and examined the guidelines that could influence the effectiveness of the internal consultancy implementation. The objectives expected in this study are to make the implementation of internal consultancy in ABC more optimal so that one of the main objectives of the internal audit function as a Trusted Advisory can be achieved.*

*Based on the results of research analysis through literature studies and interviews, it was shown that the effectiveness of internal consultancy implementation in ABC needs to be improved for some principles and suggestions that are not yet effective and need deeper study by applying the principles of internal consultancy guidelines from the International Standards for The Professional Practice of Internal Auditing.*

*The researcher recommends an effort to increase the effectiveness of internal consultancy implementation at ABC again by optimally applying the principles of internal consultancy guidance and applying guidance suggestions in implementing formal consultancy assignments. And internal auditors must provide understanding to management and related parties to concepts, operating guidelines and the need for communication in carrying out internal consulting services.*

**Keywords:** Commitment; Communication; Principles; Trusted Advisory

### INTRODUCTION

PT. ABC (ABC) is a telecommunication company subsidiary of Indonesian States Owned Enterprises and foreign in Indonesia. ABC as a company that is run in accordance with applicable laws and business norms must carry out good control, risk management and corporate governance to continue to develop in achieving its goals. ABC has an Internal Audit (IA) unit or field that plays a role in conducting assurance and consulting activities independently and objectively through a systematic and regular approach to evaluate and improve the effectiveness of Governance Risk and Control (GRC) processes, to provide value added and improve ABC performance.

The scope of IA by carrying out internal control tests based on designs that have been made specifically referring to the Sarbanes Oxley Act (sections 302 and 404), risk management includes the process of determining, identifying and companywide risk mitigation plans as well as corporate governance covering matters related with compliances for the implementation of an activity against Government Regulations or applicable laws, regulations issued by capital market institutions and Company Policy.

From 2010 to 2018, IA from ABC carried out audit assignments. More assurance assignments have been carried out compared to consultancy, even though one of the future goals of the ABC IA unit is to become a Trusted Advisory. The internal consulting that has been implemented by ABC at this time still has opportunities to improve its implementation to provide added value to the company.

## **LITERATURE REVIEW**

### **Agency Theory**

The first exploration of agency theory carried out a discussion of mentioning the manager of a company as an "agent" who represents shareholders and shareholders as "principals" who delegate business decision making to managers (Jensen & Mecking, 1976). The problem that arises because of a corporate ownership system like this is that agents do not always make decisions aimed at fulfilling the best interests of the principal. Agency theory is the basis used in understanding corporate governance issues by obtaining causation from an asymmetrical relationship between owners and managers that needs to be avoided to make the company better. Agency theory is a relationship or contract between principal and agent. The principal employs agents to perform tasks to fulfill the principal's interests in implementing the concept of Good Corporate Governance.

### **Governance Risk & Control**

Referring to the International Standards for The Professional Practice of Internal Auditing that the internal audit activity must evaluate and contribute to the improvement of organizational governance, risk management and control processes by using a systematic, orderly, and risk-based approach. The credibility and value of internal audit is realized when the auditor is proactive with evaluation results that can provide new insights, consider future impacts, assess, and provide appropriate recommendations to improve the organization's governance processes and contribute to improving the risk management process. The internal audit activity must assist the organization in maintaining effective controls by evaluating their efficiency and effectiveness and promoting continuous improvement.

### **Teori Efektivitas**

Effectiveness is the use of resources, facilities and infrastructure in a certain amount that is consciously determined beforehand to produce several jobs on time (Abdurahmat, 2008). Effectiveness is related to the implementation of all main tasks, goal achievement, timeliness and active participation of members and shows the degree of conformity between the stated goals and the results achieved. Effectiveness can be interpreted as a process of achieving a predetermined goal.

### Good Corporate Governance

The National Committee on Governance Policy (2016) issued via [http://www.ecgi.org/codes/documents/indonesia\\_cg\\_2006\\_id.pdf](http://www.ecgi.org/codes/documents/indonesia_cg_2006_id.pdf) as general guidelines for Good Corporate Governance (GCG) Indonesia which states that GCG is a reference for companies in order to encourage the achievement of a sustainable company through management based on the principles of transparency, accountability, responsibility, independence as well as fairness and equality by taking into account the interests of the company's stakeholders with the aim of increasing the company's competitiveness both nationally and internationally. The principles of GCG (Indonesian Minister of BUMN, 2002) there are transparency, accountability, independence, and fairness: fairness and equality in fulfilling stakeholder rights that arise based on agreements and applicable laws and regulations.

### The Institute of Internal Auditors Research Foundation, Chapter 4: Assurance and Consulting Service (Urton Anderson, 2003)

Internal audit functions in providing added value to the organization by conducting Assurance & Consulting Services. Auditing and assurance standards are the main mechanisms that have been developed to protect the interests of third parties and enable efficient assignment of services.

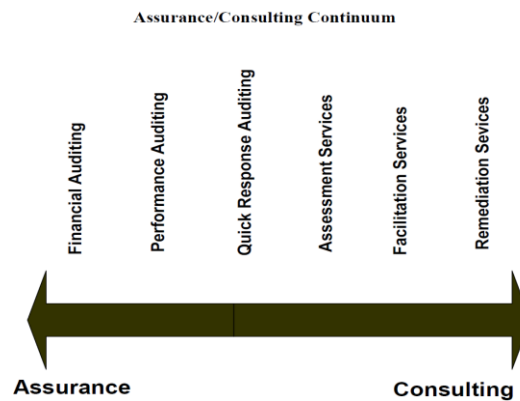


Figure 1. Assurance/ Consulting Continuum (The Institute of Internal Auditors Research Foundation, 2003)

The difference between assurance and consulting activities:

1. Assurance engagements require an opinion on the results of the engagement. Consulting engagements result in recommendations if there is a formal request accompanying them.
2. Assurance engagements are mandatory, so that the audit function cannot unilaterally decide not to perform this engagement after it has been identified as a required area. Consulting engagements may be rejected by the audit function without requiring justification.

### International Standard for Professional Practices Framework (IPPF) (The Institute of Internal Auditors, 2017)

The IPPF Standard states that internal audits are carried out in various legal and cultural environments in various organizations that have various objectives, sizes, complexities, structures and are carried out by various parties both inside and outside the organization. Although differences may affect internal auditing practices in each environment or

organization, compliance with standards is essential in fulfilling internal audit responsibilities and internal audit activities.

Guidance on the nature of consulting services be defined in the Internal Audit (IA) Charter using Practice Advisory 1000.C1-1: Principles Guiding the Performance of Consulting Activities of Internal Auditors consist of:

1. Value Proposition: internal audit activities are embodied in every organization that involves internal audit in a way that is appropriate to the culture and resources of the organization.
2. Consistency with Internal Audit Definition: a systematic evaluation methodology that is included in every internal audit activity.
3. Audit Activities Beyond Assurance and Consulting: assurance and consulting are not mutually exclusive and do not preclude one another from auditing services such as investigative and non-audit roles.
4. Interrelationship Between Assurance and Consulting: internal audit consulting can enrich the added value of internal audit.
5. Empower Consulting Through the Internal Audit Charter: empower internal audit activities to perform value-added services that do not become a conflict of interest or reduce obligations to the committee.
6. Objectivity: increase the auditor's understanding of business processes or issues related to assurance assignments and does not necessarily damage the auditor or the objectivity of internal audit activities.
7. Internal Audit Foundation for Consulting Services: performs types of consulting work based on standards of objectivity and breadth of knowledge about organizational processes, risks and strategies.
8. Communication of Fundamental Information: providing assurance to Senior Management and the Chairman of the Audit Committee in a context that must be understood by all.
9. Principles of Consulting Understood by the Organization: basic rules for the performance of consulting services that are understood by all members of the organization and these rules must be included in the IA Charter which is approved by the audit committee and promulgated in the organization.
10. Formal Consulting Engagements: enable internal audit activities to have unique qualifications for several formal consulting assignments, so that internal audits are carried out in a systematic and disciplined approach.
11. CAE Responsibilities: allows the Head of Internal Auditor to have a dialogue with management to discuss specific issues responsive to management's needs.
12. Criteria for Resolving Conflicts or Evolving Issues: internal auditors are the first and foremost of internal audit assignments guided by the Code of ethics and The IIA's Standard Attributes and Performance Standards from the International Standards for the Professional Practice of Internal Auditing.

Guidance on providing formal consulting understanding using *Practice Advisory 1000.C1-2: Additional Considerations for Formal Consulting Engagements* consist of:

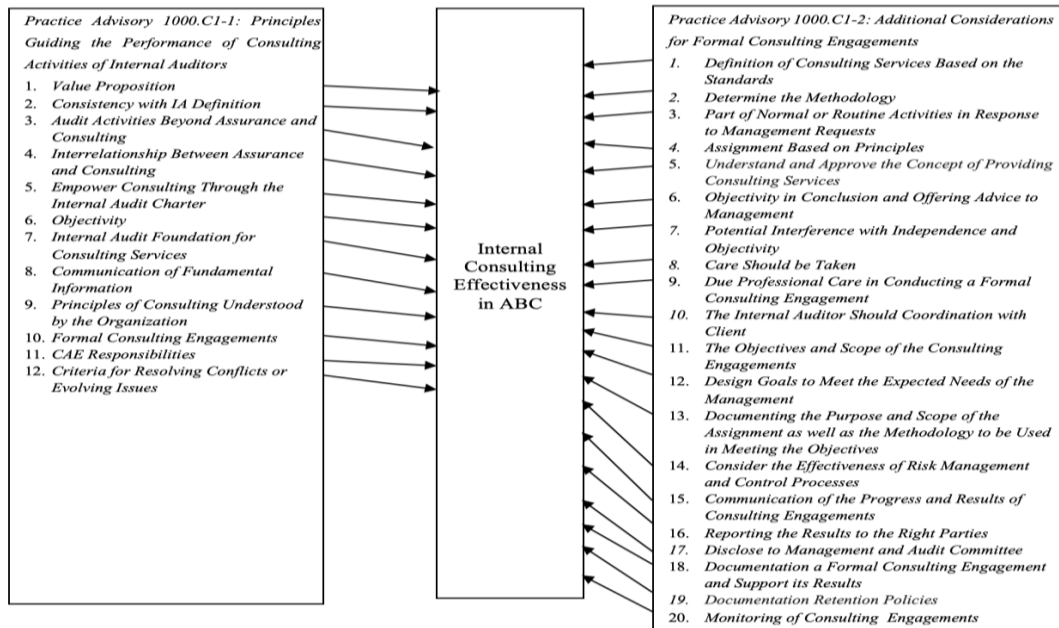
1. Glossary for defining consulting services.
2. The Head of Internal Audit must determine the methodology to be used to classify his involvement in the organization.
3. Internal auditors may perform consulting services as part of normal or routine activities in response to management requests.
4. Auditors generally do not agree to undertake consulting engagements simply to avoid or to allow others to disagree.
5. Independence and Objectivity in Consulting Engagements (Standard 1130.C1)
  - a. The Chief Internal Auditor must confirm that the Board understands and approves the concept of providing consultancy services for the IA Charter.
  - b. Internal auditors must maintain their objectivity when drawing conclusions and offering advice to management.
  - c. Independence and objectivity are supported by assigning different auditors to perform each service.
  - d. Be alert when engaging in ongoing or continuing consulting assignments.
6. Due Professional Care in Consulting Engagements (Standards 1210.C1, 1220.C1, 2130.C1, and 2201.C1)
  - a. Formal consulting engagements by understanding the needs of the management officer.
  - b. Evaluation of independence and objectivity must conduct adequate meetings and collect the necessary information.
7. Scope of Work in Consulting Engagements (Standards 2010.C1, 2110.C1 and C2, 2120.C1 and C2, 2201.C1, 2210.C1, 2220.C1, 2240.C1, and 2440.C2)
  - a. Understand the purpose and scope of a consulting engagement.
  - b. The design goals are appropriate to meet the expected needs.
  - c. Documentation of objectives, scope and methodologies to be used in meeting the objectives.
  - d. Effectiveness of risk management and control processes during formal consulting engagements.
8. Communicating the Results of Consulting Engagements (Standards 2410.C1 and 2440.C1):
  - a. The format for communicating the results of the consulting engagement should clearly describe the nature of the engagement and any limitations, restrictions, or other factors regarding the users of the information that must be notified.
  - b. Reports are expanded with results communicated to appropriate parties.
  - c. Appropriate description of the type of engagement and recommendations communicated and fulfilled responsibilities.
9. Documentation Requirements for Consulting Engagements (Standard 2330.C1)
  - a. Documentation of work results is carried out based on formal consulting assignments.
  - b. Adopt record/document retention policies, such as retention of consulting assignment documents.
10. Monitoring of Consulting Engagements (Standard 2500.C1)

Efforts to monitor the results of consulting assignments as the factors agreed in the assignment engagement or the internal auditor's assessment of the project's risk or value to the organization.

**Professional Standards, Internal Audit and Manual Audit of ABC**

Based on the ABC Internal Audit Professional Standards (IAPS) that in carrying out audit and evaluation assignments, standards are needed that regulate the ethics and behavior of auditors so that objectivity and reliability can be accounted for. The purpose of this IAPS is to establish basic principles that represent internal audit practices that should be implemented, become a framework reference, and form the basis for measuring performance and was prepared referring to the Internationally recognized Standards for Professional Practice of Internal Auditing (SPPIA) issued by the Institute of Internal Auditors (IIA). Internal Audit (IA) ABC Charter is an internal audit guideline with the ABC Internal Audit Professional Standards (SPIA) and has received approval from the Leaders and Supervisory Board of the Organization as a guideline for the implementation of internal control in accordance with the Corporate Strategy to support the achievement of the Company's goals and to support compliance with the principles GCG and laws and regulations. The ABC Internal Audit Professional Standard (IAPS) states that the Head of Internal Audit must establish policies and procedures as guidelines for the implementation of internal audit function activities, one of which is the Audit Manual that defines Internal Audit is an activity that provides independent and objective assurance and consulting services designed to provide added value and improve organizational operations.

**MODEL FRAMEWORK**



**Figure 2. Model Framework of ABC Internal Consulting Effectiveness Evaluation**

The application of the guiding principles of consulting at ABC refers to *Practice Advisory 1000.C1-1* and application of formal consultancy guide suggestions refers to *Practice Advisory 1000.C1-2*.

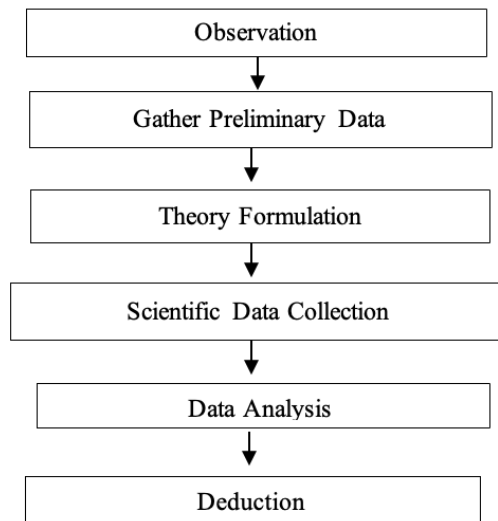
**METHODS**

This study uses several research methods carried out by collecting and analyzing data to find out the implementation of internal consulting at ABC as shown in the following table:

**Table 1. Characteristics of Study**

N	Karakteristik Penelitian	Jenis
1	Method	Qualitative
2	Objective	Decriptive
3	Inquiry Type	Case Study
4	Research Engagement	Observation
5	Units of Analysis	Internal Company
6	Research Setting	Non-Contrived Setting
7	Research Tim	Longitudinal/ Time series

The systematic stages of research are as follows (Sekaran, 2006):



**Figure 3. Stage of Research (Sekaran, 2006)**

1. Observation: researchers want to explore the effectiveness of the implementation of internal consulting at ABC because it has important consequences for the company.
2. Gather Preliminary Data: researchers collected documentation on the implementation of internal consulting at ABC for the 2010-2018 period and sought more in-depth information about the effectiveness of internal consulting implementation.
3. Theory Formulation: the researcher combines all the information logically so that the factors related to the problem to be studied can be conceptualized and tested. Further scientific data collection
4. Scientific Data Collection: researchers collect data related to each variable that needs to be collected.
5. Data Analysis: the researcher analyzes the data collected.

6. Deduction: researchers draw conclusions by interpreting the meaning of the results of data analysis so that they can then propose recommendations for solutions to a problem.

## **RESULT AND ANALYSIS**

### **ABC's Practice Advisory 1000.C1-1: Principles Guiding the Performance of Consulting Activities of Internal Auditors**

1. Value Proposition: it has been effectively implemented but there is an opportunity for improvement (Opportunity for improvement) regarding the socialization of internal audit guidelines, including the IA Charter and other audit documents to all organizational units both at the Head Office and in the Areas.
2. Consistency with Internal Audit Definition: has been effectively implemented with a systematic evaluation mechanism and methodology in place for each internal audit activity for assurance and consulting services through documentation of monitoring and follow-up which is carried out annually.
3. Audit Activities Beyond Assurance and Consulting: has been effectively implemented with the IA Charter concerning assurance and consulting assignments that are not mutually exclusive and hinder each other because it is clearly stated in the terminology of the definition of Internal Audit.
4. Interrelationship Between Assurance and Consulting: has been effectively implemented with the condition that the relationship between the two assignments can complement each other and add value to one another.
5. Empower Consulting Through the Internal Audit Charter: has been effectively implemented with many services that can be provided by the internal audit needed by the company to provide values for progress and goals.
6. Objectivity: has been implemented effectively by not taking over responsibility for implementing recommendations that are the responsibility of management without transferring responsibility to the internal audit.
7. Internal Audit Foundation for Consulting Services: has been effectively implemented where consulting assignments have so far come from assurance assignments, investigations and other assignments carried out by internal audit.
8. Communication of Fundamental Information: has been effectively implemented where the internal audit in carrying out its duties must be responsible, coordinate and provide confidence to the Audit Committee and Main Director.
9. Principles of Consulting Understood by the Organization: has been effectively implemented by having the main basic rules for the performance of consulting services contained in the IA Charter but needs to be improved again in terms of understanding of the assignment/consulting services to all members of the organization.
10. Formal Consulting Engagements: have been effectively implemented where consulting activities are carried out with the main concern being to increase the effectiveness of risk management, control and good corporate governance processes and the aim is to increase value and improve operations and is carried out with a systematic approach.



11. CAE Responsibilities: has been effectively implemented where the dialogue between the Head of Internal Audit and the Audit Committee and the Main Director to discuss specific matters as contained in their functional responsibilities and in coordination meetings that report audit results, recommendations, follow-up on audit findings significant and in the operational reporting of Internal Audit.
12. Criteria for Resolving Conflicts or Evolving Issues: has been effectively implemented by having Internal Audit Professional Standards (IAPS) that regulate the ethics and behavior of internal auditors so that they are objective and reliable and serve as a framework reference and form the basis for performance measurement and have been prepared with reference to the Standards for Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

### **ABC's Practice Advisory 1000.C1-2: Additional Considerations for Formal Consulting Engagements**

1. Definition of Consulting Services Based on the Standards: effectively implemented but needs improvement in consulting in the future.
2. Determine the Methodology: a more in-depth and comprehensive study is still needed because so far there has been no decision that combines the assurance and consulting assignments into one consolidated approach approach.
3. Part of Normal or Routine Activities in Response to Management Requests: effectively implemented where the internal auditor has provided consulting services on normal or routine activities referring to the method that has been owned and based on management's request.
4. Assignment Based on Principles: effectively implemented by specifically defining Consulting as an activity of providing alternative solutions and other related services needed by clients, whose nature and scope of assignment has been agreed upon with clients aimed at adding value and improving the company's governance processes.
5. Understand and Approve the Concept of Providing Consulting Services: effectively applied where the Internal Audit (IA) terminology of assurance and consulting activities that are independent and objective, with the aim of increasing value and improving the company's operations, through a systematic approach, by evaluating and improve the effectiveness of risk management, control, and corporate governance processes.
6. Objectivity in Conclusion and Offering Advice to Management: effectively implemented where the internal audit carries out assurance and consulting activities carried out independently and objectively and is designed to add value and improve the company's operational performance in accordance with the Internal Audit Professional Standards.
7. Potential Interference with Independence and Objectivity: effectively implemented by assigning different auditors to perform each service, establishing independent management oversight, defining the separation of responsibilities for the results of the assignment, and disclosing it.
8. Care Should be Taken: effectively implemented where care has been taken, both in the involvement of assurance and consulting assignments, so that the internal auditors have no concern regarding management's responsibilities as not in line with the objectives and scope of consulting assignments.

9. Due Professional Care in Conducting a Formal Consulting: effectively implemented where the Internal Audit function must be free from various influences, both individuals and organizations within the Company are responsible for complying with the Internal Auditor's Code of Ethics contained in the Internal Audit Professional Standards (SPAI).
10. The Internal Auditor Should Coordination with Client: effectively implemented, but in its implementation so far there are still opportunities for development.
11. The Objectives and Scope of the Consulting Engagements: effectively implemented where the internal auditor must master an understanding of the objectives and scope of a consulting engagement with clients who receive services.
12. Design Goals to Meet the Expected Needs of the Management: effectively implemented with a formal consulting assignment plan, so that internal auditors must design goals to meet the expected needs of clients who receive this service, including when there are special requests.
13. Documenting the Purpose and Scope of the Assignment as well as the Methodology to be Used in Meeting the Objectives: effectively implemented where formal consultation assignments have documented the objectives and scope of the assignment and the methodology to be used in meeting the objectives.
14. Consider the Effectiveness of Risk Management and Control Processes: effectively implemented where the internal auditor has paid attention to the effectiveness of risk management and control processes during formal consulting assignments and for certain situations.
15. Communication of the Progress and Results of Consulting Engagements: only the results of consulting assignments submitted to clients and for reporting are generally determined by internal audit and there has been no communication of the progress of the progress submitted to the client, so related advice guidelines need to be reviewed comprehensively.
16. Reporting the Results to the Right Parties: the internal auditors have submitted their results to the Audit Committee and the Main Director, so that the related advice guidelines need to be reviewed comprehensively.
17. Disclose to Management and Audit Committee: effectively implemented where so far, the internal audit has disclosed the results of assurance and consulting to Clients, the Audit Committee, and the Board of Directors.
18. Documentation of a Formal Consulting Engagement and Support its Results: effectively implemented where the internal audit has documented the results of consulting assignment work.
19. Documentation Retention Policies: effectively implemented where the internal audit complies with existing and applicable regulations.
20. Monitoring of Consulting Engagements: effectively implemented where the internal audit monitors the results of consulting assignments.

## CONCLUSION AND RECOMMENDATION

1. An organization or company in implementing internal consulting should refer to the existing guidance. This research uses Practice Advisory 1000.C1-1: Principles Guiding the Performance of Consulting Activities of Internal Auditors and Practice Advisory 1000.C1-2: Additional Considerations for Formal Consulting Engagements. Both guidelines come from the International Standards for The Professional Practice of Internal Auditing (IPPF-Standards-2017).
2. Based on Practice Advisory 1000.C1-1 and C1-2, most of the principles are in accordance with the implementation of internal consulting at ABC and there are principles that will be developed and studied in a comprehensive manner further. And these various suggestions if implemented optimally will have a good effect and impact in implementing formal consultancy in an organization or company.

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