

The Design of a Risk-Based Performance Audit Program for Court-Fee Management for the Comptroller of Supreme Court of Indonesia

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This research aimed to design a risk-based performance audit program for court-fee management for the comptroller of the Supreme Court of Indonesia by analyzing the implementation of the existing audit-planning process. This research is qualitative research with descriptive analysis. It used responses from people in the comptroller's office to analyze the existing audit-planning process and use responses from court-fee managers at district courts to analyze the court-fee management. The initial results showed that, although the comptroller has limited resources, the existing audit-planning process has not fully used the risk base. Therefore, in this research, we proposed an audit program using a full-risk basis. The district courts do not have a risk register for court-fee management. Therefore, we facilitated the creation of a risk register for court-fee management using the previous audit reports and the responses of risk owners. We further determined the audit objective, audit scope, audit criteria, and audit procedures as components of an audit program using mind mapping based on the risk register. Finally, this research produced a risk-based performance audit program for the comptroller in the face of resource constraints.

Keywords: Audit planning, risk-based audit, performance audit, internal audit, court fees.

1. INTRODUCTION

The Supreme Court of Indonesia provides judicial services in Indonesia. The Supreme Court gets financial support from the state budget and non-state budget. The non-state-budget financing comes from court fees paid by the claimants. The balance of court fees in 2015 amounted to IDR147,192,729,428.27, which was managed by 821 courts. The general court that consists of 380 courts (350 district courts and 30 high courts) has retained the largest court fees compared to other units that have a total court-fee value of IDR70,409,382,094.27.

Performance audits on the court fees are conducted by the Supreme Audit Board of Indonesia as the external auditor and the comptroller of the Supreme Court as an internal auditor. As of February 28, 2017, a special audit of court fees has only ever been conducted twice by the Supreme Audit Board (in 2009 and 2014).

Accountability for court fees depends on the audit conducted by the comptroller. The large quantity of court units and the limited number of human resources are challenges for the comptroller. Therefore, it is necessary to use audit techniques that can work effectively, even with limited resources. Several studies state that a risk-based internal audit can focus time and resources effectively and efficiently on potential areas of risk. Based on this statement, this study will propose a risk-based performance audit program for the Supreme Court.

This paper is organized as follows. In section 2, the audit-planning process and risk-based internal audit theory are given. In section 3, the method used to design the audit program is given, which is based on risk-based internal audit theory. The result of the audit program is obtained by using the risk basis. Finally, this research is summarized in the last section of this paper.

2. LITERATURE REVIEW

Internal auditors must conduct a preliminary assessment of the risks that are relevant to the activity under review¹. The Institute of Internal Auditors defines a risk-based internal audit as a methodology that links internal auditing to an organization's overall risk-management framework². A risk-based internal audit can focus time and resources onto potential areas of risk^{3,4,5}.

The Supreme Court has not yet implemented full risk management and has no risk register for the area of court-fee management. There are several studies related to risk-based audits for organizations that have not implemented risk management. When an organization is classified as being risk naive, or the organization has not developed or lacks formal risk management, a risk-management process may not exist for that organization⁶. Therefore, internal auditors should perform their own risk assessments, although this is a long and not-cost-effective process for the internal audit function⁶.

The Internal Audit Community of Practices (IA CoP) provides guidance to the government's internal auditors on the stages of the risk-based audit-planning process⁷. The IA CoP states that, in the absence of risk management, the

internal auditors of the government need to identify and assess their own risks using the following steps: (1) identifying events that may give rise to risks and opportunities across the audit universe; (2) discussing risks and opportunities with managers to obtain their views on completeness, and discussing with managers their views on the organization’s risk appetite; (3) scoring events in terms of probability and impact (taking into account management actions to mitigate risk) to identify the level of residual risk; and (4) discussing the approach with managers and obtaining agreement on the way risks are being scored⁷.

IPPF-2200 states that internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations¹. The steps for preparing an engagement plan or audit program can be seen in Table 1.

Table 1. Steps for Preparing an Audit Program

Step	Internal Audit Standard
Preliminary Assessment	IPPF-2210 A1: Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review ¹ . IPPF-2210 A2: Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives ¹ .
Setting the Engagement Plan’s Objectives and Scope	IPPF-2210 A1: The engagement objectives must reflect the results of this assessment (preliminary assessment) ¹ . IPPF-2220: The established scope must be sufficient to achieve the objectives of the engagement ¹ .
Setting the Engagement Plan’s Criteria	IPPF 2210 A3: Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished ¹ . If adequate, the internal auditors must use such criteria in their evaluation ¹ . If inadequate, the internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board ¹ .
Resource Allocation and Setting the Engagement Plan’s Work Program	IPPF 2230: The internal auditors must determine appropriate and sufficient resources to achieve the engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources ¹ . IPPF 2240: The internal auditors must develop and document work programs that achieve the engagement objectives ¹ .

3. RESEARCH METHOD

This research is a case study of court-fee management in the district court, in the context of the performance of the audit planning conducted by the comptroller of Supreme Court of Indonesia. The district court is one of four court types within the Supreme Court. This research uses four research methods: an open-ended questionnaire, interviews, focus-group discussions, and field observations.

In **Phase 1** of the preliminary study, interviews were conducted with internal auditor and the secretary of the comptroller. An open-ended questionnaire was used in individual interviews to collect data from five district courts (PN A, PN B, PN C, PN D, and PN E). Questionnaires were used in order to provide an overview of existing court-fee management and performance audit planning. The data collected were used as a reference in the second stage to design a risk-based audit program.

In **Phase 2**, at the comptroller’s office, we performed a data analysis of the existing performance-audit-planning documents. We conducted interviews with the heads of program planning and the budget arrangement sub-division, and two internal auditors about the audit-planning process. Based on the weaknesses in the existing audit-planning process, we defined audit techniques and appropriate actions to address the existing weaknesses.

At the district court, we conducted a data analysis to identify the problems that have occurred in court-fee management. The preliminary data in Phase 1 consist of external audit reports⁸, internal audit reports⁹, and news in the mass media that is relevant to court-fee management. The initial data were then discussed with four risk owners of court-fee management in district court A (PN A). The identified risks were scored based on their impact and probability, and made into a risk register.

Based on the risk register and the results of the problem identification, we determined (1) the audit objectives and scope, (2) the audit criteria; and (3) the audit procedures used in the audit program. Finally, out of Phase 2, a performance audit program for court-fee management was produced for the comptroller.

In **Phase 3**, we confirmed the feasibility of the audit program design. The output was sent and presented to the head of the comptroller’s office (the chief audit executive) on June 2017.

4. RESULTS AND DISCUSSIONS

The Supreme Court has 821 units in total across all provinces in Indonesia. In 2016, the comptroller conducted a performance audit of 101 units. Field audits for each unit were conducted over four days (including one day trip and one last day for the presentation of findings) by one team leader and three team members. The team examined four areas of court performance; one of the areas was the court-fee management. In practice, an audit of this area for one court unit is assigned to only one auditor. In fact, the court fees are the main source of financing for the core business of the Supreme Court. Based on the findings of the interviews with the auditors, this occurs because the comptroller has a limited quantity of resources.

In the face of these resource constraints, the comptroller has not fully used the risk base in audit planning. The audit theme is directly determined by the chief audit executive based on top management concerns. In addition, the audit objectives and procedures had not been prepared based on documented risk assessments. As a result, the audit is potentially less valuable to the organization.

Based on the weaknesses of the existing audit planning, we designed an audit program for court-fee management using a full-risk basis. The audit program was designed through four steps that we report on separately.

In the **first step**, we conducted a preliminary assessment. At this stage, we found some problems in court-fee management. The results of the problem identification result then became the basis for identifying and assessing risks. The criteria for performing risk assessment can be seen in Tables 2 and 3. Risk appetite is shown in Table 4.

Table 2. Likelihood Criteria

Level of likelihood	Likelihood Criteria	
	%	Frequency in 3 years
Never (1)	$x \leq 5\%$	0–1 District Court
Rarely (2)	$5\% < x \leq 10\%$	2 District Courts
Sometimes (3)	$10\% < x \leq 20\%$	3–5 District Courts
Very Often (4)	$20\% < x \leq 50\%$	5–8 District Courts
Always (5)	$x > 50\%$	> 8 District Courts

*based on the audit report of the external and internal auditors

The impact criteria are classified into several types of events that occur in government agencies. The criteria used are state expenses (SA), decreased reputation (DR), sanctions (SA), disruption to organizational services (DOS), and decreased organizational performance (DOP). Each criterion is rated on a scale of 1–5; i.e., (1) incidental, (2) minor, (3) moderate, (4) major, and (5) extreme.

Furthermore, based on the problem identification and discussions with risk owners, 20 risk events were identified. All risk events were then assessed on the basis of the criteria in Tables 2, 3, and 4. Among the 20 risk events there are two risk events that have scores in the risk acceptance area, so only 18 risk events will be followed up on in the audit program. All remaining risks can be seen as risk level 3 (red boxes) in Figure 1.

In the **second step**, we set the engagement plan's objectives and scope. The determination of audit objectives and scope using mind mapping is illustrated in Figure 1. Risk level 1 (black box) in Figure 1 is “Court-Fee Management in the District Court is Ineffective and Inefficient.” Based on risk level 1, the performance audit objective is “Examine the effectiveness and efficiency of court-fee management in the district court.”

The audit scope is determined based on the availability of resources owned by the comptroller as internal auditor of the Supreme Court. However, this paper has provided a minimum scope that only tests the occurrence of 18 risks and the reliability of internal controls in mitigating risks.

In the **third step**, we set the engagement plan's criteria. The proposed audit program uses the criteria from best practice. We defined the best-practice criteria based on risk level 2 (blue boxes) shown in Figure 3. The criteria are used by the auditor to answer audit objectives. The criteria of leading practice proposed in this paper are (1) the district court has adequate resources to manage court fees, (2) the district court manages court fees efficiently, and (3) the district court reports court fees adequately. These criteria are general criteria that can be described more detail depending on the audit needs.

Table 3. Impact Criteria

Impact	(1)	(2)	(3)	(4)	(5)
SE	0.01 permil $\geq X$	0.01 permil $< X \leq 0.1$ permil	0.1 permil $< X \leq 1$ permil	1 permil $< X \leq 10$ permil	> 10 permil
DR*	4.5 $< x \leq 5$ (scale 5)	4.25 $< x \leq 4.5$ (scale 5)	4.25 $< x \leq 4$ (scale 5)	3.5 $< x \leq 4$ (scale 5)	≤ 3.5 (scale 5)
SA			Administrative: the defendant is the Echelon IV Officer, the equivalent executive	Criminal Case: $x \leq 2$ yrs Civil Cases: 5 billion $< x \leq 25$ billion Administrative: the defendant is the Leader (Echelon II)	Criminal Cases $> 2,000$ Civil Cases > 25 million
DOS**	$x < 5\%$	5% $\leq x < 15\%$	15% $\leq x < 35\%$	35% $\leq x < 50\%$	$x \geq 50\%$
DOP	$x \geq 95\%$	90% $\leq x < 90\%$	80% $\leq x < 90\%$	75% $\leq x < 90\%$	$x < 75\%$

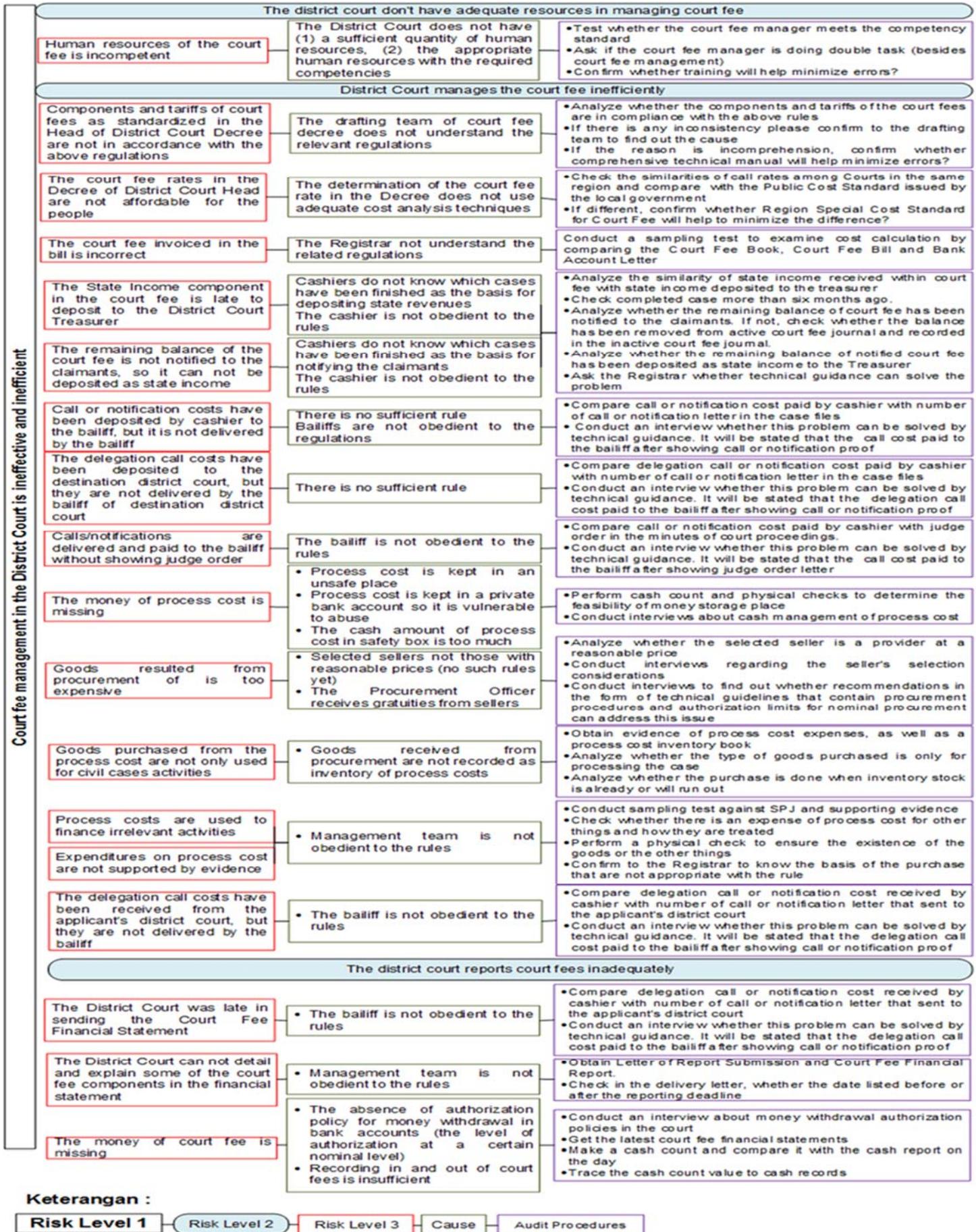
Information: *x=User Satisfaction **Service hours operational delay

Table 4. Risk Analysis Matrix

Matrix		Impact Level				
		1	2	3	4	5
Likelihood	5	9	15	18	23	25
	4	6	12	16	19	24
	3	4	10	13	17	22
	2	2	7	11	14	21
	1	1	3	5	8	20

Risk Acceptance Area

Follow-Up Area



In the **fourth step**, we set the engagement plan's work program. A total of 18 risk events that we previously identified became the basis for cause identification. The cause then became the basis for determining the audit

procedures. The causes (green boxes) and audit procedures (purple boxes) can be seen in Figure 1.

By this stage, we had finished designing a risk-based audit program of court fees management to be proposed to the Supreme Court. The proposed audit program includes the engagement plan's objectives and scope, general criteria, and audit procedures.

5. CONCLUSIONS

Court fees are the main source of funding support for civil litigation in the district courts. The court fees have a balance of IDR147,192,729,428.27 as of December 31, 2015, which is administered by 821 courts in Indonesia. The largest balance of court fees is administered by 350 district courts. Accountability for court-fee management depends on the audit conducted by the comptroller.

The comptroller, as the internal auditor of the Supreme Court, has limited resources compared to a large number of courts (an audit object). However, the comptroller has not used a fully risk-based audit to solve this problem. Therefore, we proposed that the comptroller should use risk-based audit techniques to prepare a performance audit program for court-fee management.

The performance audit program in this paper was designed through several stages. First, we conducted a preliminary assessment to understand court-fee management in the district courts. We also facilitated a risk assessment with the risk owners. The resulting risk register consists of 18 risk events to be followed up in the audit plan.

In the next stages, we developed mind mapping to determine the audit objectives and scope, criteria, and procedures. Mind mapping was conducted to link risk to audit objectives and scope, criteria, and procedures. Finally, we delivered a risk-based performance audit program for the comptroller that will work effectively in the face of resource constraints.

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