

The application of the organizational learning perspective in explaining the government's internal auditor's role development

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ABSTRACT

The management of mineral and coal non-tax state revenue (PNBP Minerba) requires urgent attention and improvement, which can be achieved through appropriate oversight of internal auditors. This study assesses the efficacy of internal audit role development through an organizational learning perspective. Authors interviewed eleven informants from internal auditors of the inspectorate and auditees from the Ministry of Energy and Mineral Resources (KESDM) of the Republic of Indonesia. The data corroborates our theoretical framework within organizational significance theory, which states that the interconnection of the relationship between internal auditors and auditees, the internal audit process, and internal auditor resources culminates in the "results zone." Within this zone, internal audits yield effective outcomes that can positively influence the organization's significance. This research reveals that auditees feel that an internal auditor's findings and recommendations can influence their organization. This perspective can enhance PNBP Minerba management system and foster learning and organizational change. However, internal auditor recommendations have not effectively spurred organizational learning in KESDM, implying that KESDM is still in the developmental phase. This study stands out for its qualitative exploration of organizational characteristics, particularly the interplay between internal auditors and auditees, the internal audit process, and internal auditor resources.

KEYWORDS:

Internal auditor role; internal audit effectiveness; organizational learning; Minerba

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INTRODUCTION

The Ministry of Energy and Mineral Resources (KESDM) is one of the ministries responsible for managing non-tax state revenue from natural resources in the oil and gas, mineral and coal, and geothermal sectors. Non-tax state revenue (PNBP) is Indonesia's second-largest contributor to state revenue, following tax revenue. In 2022, PNBP reached 588.34 trillion IDR, comprising 22% of the total state revenue of 2,626.42 trillion IDR. Among various types of PNBP, revenue from natural resources contributes the most, totaling 46% of the total PNBP. After the global energy crisis in 2020, PNBP from natural resources continued to increase. According to the State Budget Performance and Facts Report (APBN KITA) of June 2023, the realization of natural resources (SDA) PNBP as of May 31, 2023, amounted to 66.49 trillion IDR, of which 55.5% originated from mineral and coal mining revenue. The contribution of non-tax state revenue from the mineral and coal sector (hereafter, PNBP Minerba) to the tax sector is growing, necessitating effective management to ensure the sustainability of state revenue.

The increasing contribution of non-tax state revenue from the mineral and coal sector to the overall tax sector underscores the pressing need for immediate and effective management to ensure sustained state revenue. The management of PNBP Minerba requires urgent attention and improvement, which can be achieved through appropriate oversight of internal auditors. According to research by Yamin et al. (2018) and Sinaga et al. (2020), the lack of internal auditor participation is one of the hindering factors in the management of PNBP in Indonesia, further emphasizing the need for swift action.

The PNBP Law Number 9 of 2018 states that internal supervision over the management of PNBP is carried out by the Government Internal Supervisory Apparatus (APIP), which is directly responsible to the Minister. APIP has orders to carry out internal supervision over the management of PNBP so that the accountability and management of Minerba PNBP can be improved. APIP's roles and responsibilities have significantly evolved in response to the enactment of Law Number 9 of 2018 concerning PNPB and Presidential Instruction (Inpres) Number 4 of 2018 concerning Increasing Supervision of Tax Revenues on Government Expenditures and Non-Tax State Revenues. This situation created opportunities for developing the role of government internal auditors in supervising PNBP, which was not regulated in the previous PNBP, Law Number 20 of 1997.

However, notable concerns persist, as highlighted in the Audit Results Report (LHP) by the Audit Board of the Republic of Indonesia (BPK) for 2021. These concerns include revenue lacking sufficient documentation, potential underpayments, and issues related to nontax receivables in transactions from 2018 to 2020. Consequently, BPK recommends that the APIP undertake a comprehensive review, verification, and recalibration of PNBP Minerba transactions. The BPK findings regarding the management of PNBP Minerba indicate that the internal auditor's role in the internal supervision of this tax source remains suboptimal. The findings and recommendations of internal auditors serve as the initial steps toward achieving effective organizational learning, underlining their importance in this process.

Research by Roussy et al. (2020) indicates that the strategic ability of internal auditors to foster organizational learning and positive change is one of the expected outcomes endorsed by the Audit Committee Chair. However, the role of internal auditors is highly complex and ever-evolving (Soh & Martinov-Bennie, 2015), leading to role uncertainty as they must serve various stakeholders, including managers, boards, and audit committees, among others (Lenz & Sarens, 2012). Therefore, research on the development of the internal auditor's role is crucial to understand the complexity

and dynamics of this evolution.

Previous research has focused more on the changing role of internal auditors on issues of independence (Ahmad & Taylor, 2009), the development of good governance (Roussy, 2013), and the conflict between the traditional and new roles of internal audit, which results in a multi-expectation situation because must serve many other actors (Khelil & Khelif, 2022; Volodina et al., 2022). Tarjo et al. (2020) focus more on the role of internal auditors as a third line of defense, which provides an independent internal control function in mitigating risk, while Bäßler and Eulerich (2022) conclude that internal auditors will intervene when the controls on the first and second pillars fail. Previous research still lacks theoretical explanations in the literature regarding the development of the role of internal auditors. According to Lenz and Hahn (2015), the literature has discussed the effectiveness of internal audits with numerous drivers and indicators. Nevertheless, the effectiveness of internal auditors remains not fully understood, which Lenz et al. (2014) referred to as a "black box." Despite the extensive body of literature on the effectiveness of internal auditors, the relationship between the effectiveness of internal auditors and organizational significance remains unclear.

Roussy et al. (2020) provide an overview of how essential factors of internal audit effectiveness complement and relate to each other; however, their research has several limitations. They do not consider the perceptions of auditees or audited parties about how the organizational learning process is related to internal audit also how internal audit results and recommendations can influence organizational learning and change. Further research is needed to comprehend the complementary practices within the internal audit effectiveness building blocks in different organizational contexts or emerging functions of internal audit, as suggested by Roussy et al. (2020). The development of the internal auditor's role can be observed through the interconnection of internal auditor relationships, resources, and processes within an organizational context.

Departing from those backgrounds, this study analyzes the evolving role of internal auditors. It aims to assess their effectiveness (IA effectiveness), particularly regarding how internal auditor supervision in the mineral and coal (Minerba) sector can optimize the ministry's PNB. To achieve this, the authors conduct a detailed case study of the KESDM in Indonesia, considering the perspectives of both internal auditors and auditees. The study assesses role development using the four foundational components suggested by Lenz et al. (2014): organizational characteristics, internal auditor relationships, internal audit processes, and internal audit resources. These elements are interconnected in the effectiveness of internal audits aimed at stimulating organizational learning, as Roussy et al. (2020) expand upon in their organizational significance model, which builds upon Lenz's basic model of IA effectiveness. This study proposes the following research questions: (1) How has the role of internal auditors evolved in overseeing the management of PNB Minerba to optimize PNB Minerba? (2) What are the perceptions of internal auditors and auditees regarding the effectiveness of the development of internal audit roles in overseeing the management of PNB Minerba? and (3) How do the findings and recommendations of internal auditors contribute to organizational learning and change?

This study's unique contribution lies in exploring the function of internal auditors in providing interesting recommendations on organizational characteristics (in the context of PNB mineral and coal). This study focuses on the relationship between internal auditors and auditees, the internal audit process, and internal auditor resources to stimulate organizational learning. The perspectives of selected internal auditors and auditees add depth to the analysis, offering insight into how these elements come together in their domains. Additionally, it contributes valuable insights to the

ongoing discourse regarding organizational improvement efforts as a form of learning.

The Effectiveness of the Internal Auditor

Article 11 of Government Regulation Number 60 of 2008 concerning the Government Internal Control System states that the embodiment of an effective APIP should, at the very least, provide adequate assurance regarding compliance, thrift, efficiency, and the effectiveness of goal achievement. Furthermore, it should give early warnings, enhance risk management effectiveness, and maintain also improve the quality of governance in the performance of government agency tasks and functions. Hermanson and Rittenberg (2003) suggested that internal audit effectiveness indicators should encompass inputs, processes, and outputs. Furthermore, Arena et al. (2006) indicated that the internal audit's effectiveness could be influenced by the resources and competencies of the internal audit team, the internal audit process and activities, also organizational and relational factors. Supply and demand side perspectives can be used to understand internal audit effectiveness through the self-assessment of internal auditors and the perspectives of other stakeholders (Lenz & Hahn, 2015).

Lenz et al. (2014) identified drivers and indicators of internal audit effectiveness by categorizing them into four areas: organizational characteristics, internal auditor relationships, internal audit resources, and internal audit processes. The organizational characteristics within the context of the public sector organization, specifically KESDM in the scope of PNB Minerba, internal auditor relationships with stakeholders, competent internal audit resources, and the internal audit process in providing findings and recommendations can influence the effectiveness of the internal audit. Lenz et al.'s (2014) research was supported by Roussy et al. (2020), who stated that internal audits could achieve and consolidate organizational significance by activating the building blocks of internal audit effectiveness. This situation can result in organizational learning and positive change, making internal audits contribute to organizational learning and other documented roles. According to Roussy et al. (2020), internal auditors can act as change agents when the building blocks of internal audit effectiveness and organizational significance are actively engaged, fostering organizational learning. Hence, this study is interested in investigating whether such organizational learning has occurred in the context of overseeing the management of PNB Minerba.

The Development of Internal Auditor's Role in PNB Optimization

The role of APIP has evolved in PNB supervision, becoming a key player in the oversight of PNB management. Before Law Number 20 Year 1997 was enacted, PNB arrangements were diverse and inconsistent between government agencies, with PNB not managed systematically and not included in the State Budget (APBN). Law Number 20 of 1997 provided more explicit arrangements but did not explicitly regulate the role of APIP in supervising PNB management or outline the stages of supervision. However, with the implementation of Government Regulation Number 60 of 2008, the government took necessary steps to oversee the management of PNB, particularly after the mandatory implementation of the internal control system in all government agencies. This oversight was further strengthened through Presidential Instruction Number 4 of 2018, which instructed APIP to include PNB management oversight strategies covering the planning, execution, and reporting of PNB in their Annual Audit Work Program.

The issuance of Presidential Instruction Number 4 of 2018 was strengthened by the enactment of Law Number 9 of 2018 on PNB, which mandated that APIP conduct internal oversight of PNB management. Consequently, Presidential Instruction Number 4 of 2018 and Law Number 9 of 2018 marked the development of the role of government internal auditors in the oversight of PNB. The

PNBP-implemented units carry out planning, execution, monitoring, evaluation, and oversight processes. In this process, the APIP plays a role in conducting oversight, as stipulated in Article 45 of Law Number 9 of 2018, which states that internal oversight of PNBP management is conducted by the APIP, which is directly accountable to the Minister/Leader of the Institution. Based on the development of the internal auditor's role in this study, the development of the internal auditor's role encompasses the roles and responsibilities of APIP that emerged with the enactment of Law Number 9 of 2018 and Presidential Instruction Number 4 of 2018 concerning the oversight of PNBP Minerba management activities.

Organizational Significance Theory

Organizational learning is a process that leverages experience to identify issues within the organization, align with the environment, predict environmental changes that may disrupt the alignment, determine solutions, and adapt to environmental changes (Kloot, 1997; Roussy et al., 2020). This process, as part of organizational learning theory, allows organizations to maintain or improve performance based on their own experiences (Gilson et al., 2007). By drawing on this experience, organizations can identify and address internal also external issues, determine the best solutions, and ultimately influence their own significance. This concept was the focal point of Roussy et al. (2020), which established a connection between internal audit effectiveness and organizational significance through an internal audit's impact on organizational learning (Ridley, 2015).

Roussy et al. (2020) introduced organizational significance as a conceptual framework to understand internal audit effectiveness from the perspectives of two groups of stakeholders involved in management (supply and demand side). In other words, it explores how internal audit achieves and consolidates organizational significance. In this research, internal auditors play the role of the supply side, providing findings and recommendations. At the same time, the agencies responsible for PNBP Minerba management represent the demand side, requiring these findings and recommendations. Roussy et al. (2020) focused on organizational significance and considered the building blocks of Lenz et al. (2014) in evaluating the effectiveness of internal audit functions. The effectiveness of the internal audit function is considered successful when it meets stakeholders' expectations; however, when internal auditors fail to meet stakeholders' demands, it can lead to disappointment and negatively affect the overall organizational significance (Roussy et al., 2020). Therefore, internal auditors must understand stakeholders' expectations and endeavor to fulfill these demands, thus enhancing the effectiveness of the internal audit function and positively contributing to organizational performance and learning.

Roussy et al. (2020) structure the drivers of internal audit effectiveness differently from Lenz et al. (2014), focusing more on effective internal audits to achieve organizational significance. Roussy et al. (2020) placed organizational characteristics as the backdrop for the execution of the internal audit function. Figure 1 shows that when the relationship of internal auditors, internal audit processes, and internal audit resources are combined and intersect, they create an effective internal audit that leads to organizational significance.

Internal auditors do more than merely achieve effectiveness; they are the backbone of organizational learning and positive change. The development of the internal auditor's role in overseeing PNBP provides a roadmap for the organizational learning process to achieve organizational significance. Roussy et al. (2020) also Roussy and Brivot (2016) demonstrate the effectiveness of internal audits in organizations, empowering them to achieve organizational learning and positive change. In this context, the theory of organizational significance is crucial for

this study. This approach allows us to delve into the effectiveness of developing the internal auditor's role through Roussy et al.'s (2020) building blocks (organizational characteristics, internal auditor relationships, internal audit processes, and internal audit resources) in the context of PNBP Minerba to stimulate organizational learning. The theory of organizational significance contributes to organizational learning by positioning internal audit as an agent of change, providing findings and recommendations that assist management in improving organizational performance.

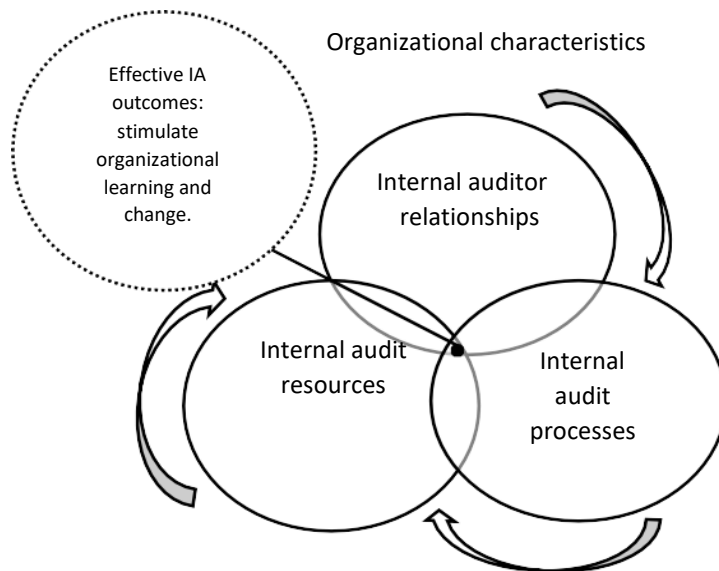


Figure 1. Internal Audit Organizational Significance Theory

Source: Roussy et al. (2020)

RESEARCH METHOD

The study utilized a case study approach due to the limited research on the topic in the specific context and the interdependence of the studied phenomenon with the context. Therefore, authors employed the case study method to investigate the specific issues related to the effectiveness of developing the internal auditor's role in a government institution, specifically the KESDM. An illustrative case of the internal auditor's work overseeing the management of PNBP Minerba was utilized. The case also illustrates how to assess the benefits of internal auditor findings and recommendations that could drive organizational learning and change when addressing issues related to the management of PNBP Minerba. This study used semi-structured interviews following Cohen et al. (2018) so that authors can be more flexible in designing questions to obtain respondent information. The authors also used documentary data analysis to understand the research context in KESDM better.

The respondents in this study included internal auditors at the Inspector General of Energy and Mineral Resources and auditees at the Directorate General of Mineral and Coal, which is the agency that manages PNBP for minerals and coal. In determining the respondents, purposive sampling is based on the criteria of work experience as an internal auditor or auditee for a minimum of two years. The selected internal auditors conducted the 2021–2022 mineral and coal sector PNBP compliance audit, and the selected auditees were coordinators and sub-coordinators at the Directorate of Mineral and Coal Revenue with a minimum work period of 12 years. During data collection, the authors interviewed 11 respondents. Five internal auditor respondents based on the

core team supervising PNBP for mineral and coal in the Audit Order for Compliance with the management of PNBP in the mineral and coal sector for 2021–2022 also six audit respondents based on the organizational structure of the Directorate of State Revenue, which had four subdirectories, were selected. Table 1 presents the demographic profile of participants.

Table 1. Respondent

Position	Code	Year Experience	Interview Method	Duration (minutes)
Senior Auditor 1	A1	13	Online	82
Senior Auditor 2	A2	13	Online	77
Senior Auditor 3	A3	15	In-person	44
Senior Auditor 4	A4	12	In-person	133
Senior Auditor 5	A5	12	Online	47
Senior Auditee in Section A	M1	15	In-person	35
Senior Auditee in Section B	M2	14	Online	49
Senior Auditee in Section C	M3	15	Group in person	78
Senior Auditee in Section C	M4	12	Group in person	78
Senior Auditee in Section C	M5	12	Group in person	78
Senior Auditee in Section D	M6	12	Group in person	78

This study employed the interactive data analysis technique model by Ridder et al. (2014), which comprised four streams of activities: data collection, data condensation/reduction, data display, and conclusion drawing/verification. First, data was collected by communicating with potential respondents, conducting semistructured interviews online and offline, and gathering documents from various official institution websites. A total of 11 respondents were involved in this study, including five senior auditors from the Inspectorate General of the Ministry of Energy and Mineral Resources (Itjen KESDM) responsible for overseeing PNBP Minerba management and six individuals from the Directorate of Mineral and Coal Revenue of the Directorate General of Mineral and Coal. Second, data reduction was performed on the transcribed interview results and document analysis, followed by annotation and coding. Third, data presentation was done in narrative form, figures, or tables based on the research objectives. Fourth, conclusions were drawn based on the data analysis results aligned with the research questions.

This study fostered a collaborative approach in assessing data validity by employing source data triangulation, technique triangulation, and member checking (Hartono, 2018). Triangulation refers to the effort to obtain actual improvements in a situation by combining different perspectives (method/technique triangulation) or different findings (data triangulation) (Silverman, 2013). Authors also conducted member checking, a process that involved verifying the data obtained with the interviewees to analyze data accuracy and determine data alignment with the information from the interviewees (Cohen et al., 2018). This collaborative validation process ensures the data is accurate and aligned with the interviewees' perspectives. The reliability procedures are done by documenting the entire research process from start to finish and securely storing documentation evidence, cross-checking by comparing interview transcripts with recordings to ensure no errors and cross-checking the developed codes to ensure no deviations or shifts in code definitions (Creswell, 2009). A reference code for each respondent's answer is provided to simplify classifying the codes into research themes and subthemes.

RESULT AND DISCUSSION

Development of APIP'S role in PNBP Minerba Oversight

The interviews showed positive responses to the APIP's involvement in improving the governance of mineral and coal nontax state revenue PNBP. APIP now has broader authority, as previously, PNBP supervision was limited to reviews or included in the scope of annual performance audits. Presidential Instruction Number 4 of 2018 instructed APIP to include a supervision plan for PNBP management, covering planning, implementation, and reporting of PNBP in the Annual Monitoring Work Program (PKPT). Furthermore, Law Number 9 of 2018 and its implementing regulations, namely Government Regulation Number 58 of 2020 and Government Regulation Number 59 of 2020, clearly define APIP's roles and various authorities in PNBP supervision, providing a solid legal foundation for these changes. APIP's implementation of these mandates involves thematic supervision of PNBP Minerba, a strategic move aimed at preempting overlaps with other assignments. This approach is designed to enhance the effectiveness and efficiency of supervision. By focusing on specific themes, APIP ensures that its supervision remains targeted and avoids becoming unfocused due to overly broad implementation.

“So, we go in thematically in every planning, implementation, and reporting stage. If the supervision is done sequentially, from planning to implementation and reporting, it can be too broad in scope. Assignments must be balanced because we also have other supervisory duties and tasks.” (A5-34).

In fulfilling the mandate of Presidential Instruction Number 4 of 2018, APIP also structured the supervision process PNBP Minerba based on risks and weaknesses, subsequently identifying the most important themes to be addressed. These supervisory themes are taken from each stage of PNBP management, including planning, implementation, and accountability. The preparation of this audit planning aligns with the PNBP Supervision Guidelines for APIP, which also state that APIP must consider the complex business process risk map, high inherent risk, and vulnerable points in PNBP management. APIP has also transformed its role from being seen as a watchdog that always sniffs out or looks for audit mistakes. From both the auditor's and auditee's perspectives, this watchdog paradigm has now evolved into that of a consultant or partner, as stated by respondent A4: “In my opinion, now we are much more like consultants. When they do their work, they also involve us, meaning it is a two-way discussion...” (A4-50).

These statements align with Roussy et al. (2020), who find that internal auditors' participation as consultants and catalysts is higher than their role as overseers. This disparity occurs because participation is related to providing added value to the organization, the involvement of internal auditors in achieving goals, taking preventive action, risk mapping, and understanding the organization's operations. In response to the first research question, these findings indicate that the development of the internal auditor's role in the internal supervision of PNBP Minerba has been conducted thematically with a focus on crucial risks, not limited to auditing specific stages or subdirectorates. The development of the role and function of internal auditors in the supervision of PNBP Minerba aligns with the concept of organizational learning proposed by Kloot (1997), where internal auditors actively identify issues, provide solutions, and adapt to changes in laws and regulations.

The Effectiveness of Internal Audit Role Development: Auditor's and Auditee's Perceptions

Lenz et al. (2014) identified the drivers and indicators of internal auditor effectiveness through four building blocks: organizational characteristics, internal auditor relationships, internal auditor resources, and internal audit processes. Therefore, the effectiveness of internal auditors in overseeing PNB Minerba is assessed based on the factors within these building blocks and from the perspectives of both internal auditors and auditees.

Organizational characteristics

In this study, organizational characteristics encompass the culture of transparency, trust, and willingness to learn within the organization. Based on the interviews, respondents perceive that organizational culture can influence the other three aspects within the building block of internal audit effectiveness: internal auditor relationships, internal audit processes, and internal auditor resources:

“There must be a shared perception, intention, and purpose between the auditor and the auditee. So, between the auditor and the auditee, there should be an open exchange of information...” (A1-20).

This statement aligns with Roussy et al. (2020), a culture of transparency and trust in the company means that internal auditors promptly communicate various issues to identify solutions and ways to address them. Organizational characteristics also encourage both internal auditors and auditees to be open to learning.

“In my opinion, it continues to evolve. We continue to engage in discussions, so we keep learning continuously regarding business processes, regulations, and policies related to PNB Minerba” (A1-32).

“... So, the recommendation is to expedite the development of improvement systems from year to year, which is quite significant” (M4-70).

From the perspective of the auditee, respondent M3, in this case, a culture of transparency and trust must be established to foster a willingness to learn from the APIP and auditees. This approach helps avoid errors in interpreting the business process conditions:

“APIP must also understand the business processes within the unit. The unit provides information or explains the business process conditions to APIP. This means that when APIP leaves, they convey information about the unit, and it matches” (M3-33).

This perspective aligns with Cohen's statement in Bapuji and Crossan (2004) that organizational learning can become challenging when cultural and logical differences exist. Conversely, Lenz et al. (2014) suggest that organizational characteristics are more related to factors such as the company's size, governance context, and the legal basis for internal auditors, influencing the effectiveness of internal auditing.

Internal auditor relationships

Consistent with organizational characteristics, internal auditor relationships are also related to the culture of transparency and trust between internal auditors, auditees, and other parties. Transparency and trust are essential for resolving potential or actual issues arising in the field (Roussy et al., 2020). From the auditee's perspective, respondent M1 emphasized the importance of the relationship between auditors and auditees in terms of trust and equal information in managing

PNBP Minerba. At the heart of this issue lies the relationship between auditors and auditees. As respondent M1 aptly put it, trust and equal information are not just important but crucial. A shared understanding of regulations and mutual trust is the bedrock upon which a collective verification of a PNBP transaction can be built.

According to Roussy et al. (2020), the driver of the internal audit relationship is the quality of the relationship between internal auditors and auditees, and it is related to how confident internal auditors are in addressing complex issues:

“We are confident and independent because we have access to and mandate regulations. There is no interference because it is purely supervision to reduce risk exposure. The regulations support our independence, making it stronger” (A2-24).

However, the reality is not always ideal. In the context of data transparency and information equality, all five internal auditor respondents admitted to facing challenges when it comes to accessing data during audit assignments. This stark reality is best captured in the following statement from respondent A2:

“It is a bit difficult to access mineral and coal data, as they may consider it confidential, although we have access authority under the supervisory ministerial regulation” (A2-22).

Ministerial Regulation Number 3 of 2018 and the Internal Audit Charter of Itjen KESDM stated that Itjen KESDM has the authority to access all data and information while executing its duties. Internal auditors have organized focus group discussions (FGDs) and one-on-one meetings to address this issue. They have also requested access roles from the Center for Data and Information of the KESDM for all applications related to minerals and coal. Nonetheless, respondent M2 explained that full data access has already been provided to APIP:

“... we trust the internal auditors. We have already provided data access through access views. It is our obligation to provide data, and there is nothing to hide or be concerned about” (M2-16).

This statement suggests that the relationship between internal auditors and auditees lacks transparency. Roussy et al. (2020) stated that a lack of transparency could lead internal auditors to deal with irrelevant issues and a lack of professional judgment in the competence or resources of internal auditors, causing the internal audit team to address too many issues. Internal auditors' relationships involve auditees and other parties, such as coordinating with taxpayers, the Legal Bureau of KESDM, the Center for Data and Information, and the Ministry of Finance. When coordinating with oversight agencies between APIP of ministries/agencies (K/L), Finance and Development Supervisory Agency (BPKP), and BPK, overlapping oversight sometimes occurs within a close timeframe, focusing on intersecting or identical themes. This situation makes it challenging for auditees to follow up on oversight results since they continuously face examinations.

Overall, the findings related to the internal auditor relationships are consistent with prior literature; however, this current study contributes by emphasizing the importance of equal information between internal auditors and auditees. Equal information is critical because differences in perceptions and challenges in accessing data occur due to a lack of trust, which can hinder the formation of the "outcome zone" in the effective implementation of internal audits (Roussy et al., 2020). Limited access can be overcome by building trust to establish equal information. This situation ensures that both internal auditors and auditees have a shared understanding of a problem and enables the recommendations provided by internal auditors to address the root causes of issues.

Internal audit processes

As emphasized by Roussy et al. (2020), the internal audit process is not just a routine procedure but a crucial link between long-term internal audit plans and strategic and operational risks. It's a process that, when effectively implemented, can lead to significant organizational change and learning. As respondent A1 aptly put it:

“The purpose of these recommendations is to improve the internal control system. The hope is that the internal control carried out by the working unit can minimize the risks that may occur... In terms of business processes, it greatly helps the working unit because it facilitates more effective and efficient improvements in the execution of the tasks and functions of Directorate of State Revenues” (A1-48).

The respondents indicate that internal supervision of PNB Minerba management has only recently become more intensive in the last two years (2022–2023):

“It has only been in recent years. In 2018, it was an annual process, but it has become thematic in the past few years. So, it is not only specific to PNB, but its goal is continuous supervision for the optimization of PNB” (A2-10).

Nonetheless, respondents M2 and M3 indicate that auditees still feel that the APIP internal audit process is not optimal. Internal oversight of PNB Minerba management began only last year and was still ongoing; thus, the impact had not been strongly felt:

“Because it was only last year, so perhaps it could be more optimal... As for auditing the management of PNB, as far as I can remember, it is only this year that it is currently ongoing” (M2-6).

“Even though it is thematic, no matter what, we should conduct supervision or assistance. But in my opinion, it is still lacking” (M3-15).

These statements reflect auditees' unmet expectations regarding the internal audit process conducted by internal auditors. Auditees feel that the focus on PNB Minerba has only recently been established, and the role of internal auditors is not yet optimal. In contrast, internal auditors mention that the oversight of PNB Minerba has been ongoing in the form of reviews and monitoring of revenue realization, even if it is not explicitly focused on issues related to PNB Minerba. An internal auditor stated that they have been overseeing the permit and system since 2022.

“... So recently, we have been focusing on permits; we have input on how the evaluation process should be phased, and we have given feedback... We are improving the SOPs, and the system will be integrated, but that process takes time” (A2-20).

The evolving audit oversight process strategy currently implemented by Itjen KESDM emphasizes investigating the overall management process of PNB Minerba or the end-to-end process to identify risk gaps and crucial issues, making the oversight more effective and efficient. This approach is a manifestation of best practices in risk management and control. This strategy aligns with the view of Roussy et al. (2020), emphasizing the need to link the audit plan with organizational risks. Additionally, in the organizational significance model of internal auditing, Roussy et al. (2020) describe the internal audit process as involving training sessions for internal auditors.

“Because the business processes in mineral and coal are extensive, efforts have been made to enhance the auditors' competence in the past two years. Last year, there was training related to mineral and coal business processes” (A3-26).

Furthermore, respondent A4 mentioned that changes in the internal audit process strategy also involved leveraging technology for PNPB Minerba oversight. The change in audit strategy focuses on the utilization of digital systems with analytical data and ensuring the system's accuracy:

“But the change in the process strategy was more toward the fact that in the past, it was manual, there was no computer system; now we are using digital systems... So, the strategies we are adjusting include, firstly, analytical data and secondly, ensuring the system is correct” (A4-38).

This development is consistent with Lenz et al. (2014), i.e., technology enhances the effectiveness of internal audits. Technology can automate the risk control monitoring process, saving time and resources.

Regarding the internal audit process, the study highlights the complex challenge of meeting the expectations of the auditee regarding the internal audit process conducted by internal auditors. Auditees feel that the oversight of PNPB Minerba is relatively new, and the role of internal auditors is not yet optimal. Conversely, according to internal auditors, the oversight of PNPB Minerba is continuously being pursued through reviews and monitoring of revenue realization, even if not explicitly focused on issues within PNPB Minerba. This situation has posed a significant challenge, preventing the internal audit aspect from effectively influencing or intersecting with other aspects to create the "zone of significance" in the organizational significance model proposed by Roussy et al. (2020).

Internal audit resources

According to Roussy et al. (2020), a crucial aspect of internal audit resources is ensuring that the team working on these significant projects meets the requirements in terms of both quantity and quality. Therefore, efforts must be made to enhance the quality and quantity of internal auditors to make their oversight more effective. The respondents emphasized the need for internal auditors to continually improve their knowledge and competencies. Enhancing and developing the competencies of internal auditors can be achieved through training, certifications, seminars, and FGDs.

“In my opinion, the flexibility level of internal auditors is very high... so there must be continuous improvement related to knowledge and competencies... It could be through FGDs and knowledge sharing to enhance auditor competencies. In my opinion, the current condition is heading in the right direction with training programs, certifications, and participation in seminars...” (A1-30).

Based on the 2022 Performance Report of Itjen KESDM, Itjen KESDM is equipped with human resources holding both national and international professional certifications that support internal oversight, such as CFE, CRMP, CFRA, CGAP, CLA, CRMO, CRGP, CCSA, QIA, QGIA, CHCM, and other certifications. Some respondents indicated that the number of internal auditors involved in assignments was sufficient; however, respondent A4 expressed that performing oversight tasks in practice was still inadequate.

“In terms of organizational aspects, the workload calculation for auditors in the organizational function of Itjen KESDM is more than sufficient. However, in practice, all of us still feel there is a shortage. This means there is a gap here, whether the auditors are at fault, the techniques are not precise, the arrangement is not precise, the workload assessment is not precise, or the assessment procedure is not precise. So if asked about the quantity now, we are lacking” (A4-28).

“Right now, many oversight tasks overlap, and their priorities are all equally important. So this

is the constraint, which one should be prioritized...” (A3-10).

These statements indicate that despite calculating the employee workload, the number of internal auditors remains insufficient due to task overlap. Conversely, according to the 2022 Performance Report of Itjen KESDM, Itjen KESDM is supported by 78 auditors divided into five inspectorates; these numbers suggest an adequate quantity of internal auditors.

The respondents also emphasized the importance of team balance, considering various aspects such as audit experience, skills, positions, personal abilities, conflict of interest risks, and educational backgrounds. This finding aligns with Roussy et al. (2020), emphasizing the significance of having a diverse background within the internal audit team. Diverse competencies build collective intelligence among internal auditors, leading to agile and future-oriented internal audit functions; thus, internal audit resources that can adapt and continually enhance their competencies will drive effective internal audit outcomes.

The research highlights an insufficient quantitative constraint on internal auditors. Even though internal auditors' workload has been considered sufficient regarding calculations, they face task overlap in practice. Therefore, the constraint in the internal audit resources aspect hinders the formation of the "outcome zone" from effective internal audit execution according to the organizational significance model Roussy et al. (2020).

The second research question was answered based on the respondents' interviews regarding the four aspects of the Lenz et al. (2014) building blocks and the analysis with the internal audit organizational significance model of Roussy et al. (2020). The aspects of internal audit relationship, internal audit process, and internal audit resources do not overlap. In the organizational significance model by Roussy et al. (2020), internal audit relationships, internal audit resources, and internal audit processes are placed within three interconnected circles; when combined and overlapping, these circles form the "outcome zone." Within this zone are the outcomes of effective internal audits that can contribute positively to organizational significance; however, some respondent statements reveal that differences persist in perception and obstacles in internal audit relationships, internal audit processes, and internal audit resources. These differences prevent these three aspects from influencing each other and overlapping. Thus, unfulfilled auditee expectations in the internal audit process, transparency issues in the internal audit relationship, and resource quantity issues in internal audit resources contribute to the non-formation of the "outcome zone" of effective internal audits that stimulate learning and organizational change.

Organizational Learning and Change

Roussy et al. (2020) argue that the organizational significance of internal audits depends on how well internal auditors meet stakeholders' expectations; thus, the results of internal audits reported by the interviewed respondents are at the core of the organizational significance model. Based on the interviews, auditee respondents have expectations regarding the role and function of internal auditors to improve PNPB's management system, increase PNPB Minerba, and improve KESDM's financial reporting.

“I believe there are findings to improve it... so we are confident that the findings can improve the management system of PNPB”(M2-30).

“We both have the same understanding, with the same background, we will increase state revenue from the mining sector, so we have the same understanding and interpretation to manage a PNPB payment transaction itself...” (M1-34).

“Perhaps the most concrete is that with the role of APIP, we hopefully can improve the financial reporting of the Ministry of Energy and Mineral Resources...” (M2-34).

The "outcome zone" has not been formed because the findings and recommendations from internal auditors are still being pursued. Auditees are working on following up on the findings and recommendations of internal auditors as part of the organizational learning efforts to improve PNB Minerba's management system. The findings and recommendations from APIP's oversight are being pursued for follow-up, particularly regarding improving the licensing process and system integration.

“...we provided input for simplifying permits. Processes related to the Service Level Agreement should not take more than 14 days; we evaluated that it should not be too slow. So, the team made improvements based on our recommendations; they revised ministerial decrees, for example. So, after our involvement, they revised the SOPs. The SOPs were improved, and the system will be integrated, which is a lengthy process” (A2-20).

Improvements in PNB Minerba's management system take time to implement. Internal auditors also continually monitor the actions taken by the auditees to ensure that organizational improvement efforts continue.

“Yes, changes are happening, changes toward improvement are there, but they do not necessarily result in immediate excellence. It means continuous improvement; the suggestions provided by the Inspectorate are about continuous improvement. It does not guarantee that the suggestions applied now will meet next year's needs because changes keep happening. However, it should be implemented because we have a follow-up monitoring process to update data on whether it has been acted upon” (A4-16).

APIP plays a pivotal role in the internal oversight activities of PNB Minerba. Their audits yield results that not only impact the Directorate General of Mineral and Coal but also foster learning within the KESDM. This learning involves continuous system improvement, the establishment of good governance, risk, and compliance, the development of technology-based oversight systems through digitalization and system integration, coordinating with other agencies, and synchronizing oversight activities with auditing agencies.

The results of the third research question align with the second research question, which is that the benefits of internal auditor recommendations have not fully stimulated organizational learning from implementing effective internal audits because they are still in the process stage. This outcome occurs because the auditee is still trying to follow up on the internal auditor's recommendations regarding licensing improvements and application system integration to improve mineral and coal PNB management. However, the findings and recommendations provided by internal auditors are believed by auditees to impact the auditee's organization, which can improve the PNB Minerba management system and financial reporting. Roussy et al. (2020) argue that the organizational significance of internal audits depends on the extent to which internal auditors meet stakeholder expectations. Thus, when the auditee has followed up on the internal auditor's findings and recommendations and can improve the PNB Minerba management system according to stakeholders' expectations, the result zone in the form of the internal auditor's recommendations can stimulate organizational learning to improve.

CONCLUSION

The findings of this study indicate that the development of the role of internal auditors in the

internal supervision of PNB Minerba has been carried out following statutory regulations in a thematic manner by focusing on crucial risks. The development of the role and function of internal auditors in supervising PNB Minerba aligns with the concept of organizational learning. Internal auditors actively identify issues within the auditee organization and propose solutions through recommendations to address problems and adapt to changing legal regulations.

The analysis confirmed the four aspects of Lenz et al. (2014) within the framework of internal audit effectiveness and the organizational significance model of Roussy et al. (2020). The analysis reveals that the aspects of internal audit relationships, processes, and resources do not fully overlap. Unfulfilled auditee expectations, transparency concerns in the audit relationship, and resource limitations hinder the creation of an "outcome zone" where internal audits drive learning and organizational change.

This study demonstrates that auditees perceive internal auditors' findings and recommendations as having the potential to affect their organization, with the potential to improve the management system for mineral and coal PNB (nontax state revenue) and promote learning also organizational change. Nonetheless, the findings highlight that within KESDM, internal auditor recommendations have not successfully stimulated organizational learning yet. A gap exists between the value of recommendation and its realization. The gap in implementing effective internal audits suggests that KESDM is still evolving in terms of its internal audit capabilities. Roussy et al. (2020) argue that the organizational significance of internal audits depends on the extent to which internal auditors meet stakeholder expectations. Thus, according to the research framework, this study suggests that when the auditee implements the findings and recommendations of the internal auditor, leading to enhancements in the PNB Minerba management system that meet stakeholder expectations, the outcome manifests in the form of a recommendation zone capable of stimulating organizational learning for positive change.

This study contributes to both the academic and practical domains. First, it advances the literature on internal auditors' role in overseeing organizational work to support organizational learning. In our illustrative case, Itjen KESDM identifies issues within auditee organizations and determines solutions by providing recommendations to address these problems and adapt to evolving legal regulations. The oversight by Itjen KESDM illustrates that organizational learning actively identifies internal and external organizational issues and formulates solutions. This research identifies the evolving role of internal auditing in alignment with the aspects within the framework of internal audit effectiveness, even though it has not yet achieved organizational significance. Second, this study offers practical contributions by showing that, while the "outcome zone" as per the model of organizational significance has not yet been established, internal oversight of PNB Minerba remains a continuous learning process striving to become more effective. The findings and recommendations provided by the internal auditors are believed to have the potential to impact the Directorate General of Mineral and Coal positively, leading to improvements in the management of PNB Minerba and financial reporting by KESDM. The results of this study can serve as a basis for evaluating and enhancing the performance of internal oversight within Itjen KESDM.

Nonetheless, this study has limitations as it primarily relies on interview and document analysis research techniques. Additionally, the depth of document data analysis is constrained due to limited access to certain documents. The study also faced challenges related to conducting in-depth interviews within the time constraints of the auditee.

Future research endeavors may consider exploring the practices of internal auditors from a more profound perspective, encompassing not only the viewpoints of auditors and auditees but also those of external auditing bodies. This broader perspective can enrich insights into the role of internal auditors. Furthermore, future research is necessary to understand the internal audit practices through the lens of the building blocks and organizational learning in organizations with different characteristics (such as the case presented here on optimizing PNB Minerba), diverse geographic contexts, or emerging internal audit functions.

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