

Interpret the Change of Standard in Auditing Course Learning Process Using Interactive Control System

Stanislaus Adnanto MASTAN

Universitas Ciputra, Accounting Department, Indonesia, E-mail: stanis.mastan@ciputra.ac.id

Abstract *This study aims to describe the adaptation process of audit standards in the learning process at higher education using the interactive control system's perspective. This study used descriptive qualitative approach with the case study strategy at one universities in accounting department as research subjects. This study shows that the curriculum team and Head of Department using the interactive control system to give a change signal and trigger a limited conflict between the lecturer in the form of dialogue and debate. This conflict is continuously conducted and monitored until produce a new learning which is composed from various feedback. The results of this learning will be used as a strategy for adaptation to change. This study found that through the interactive control system that is used by decision-maker in the educational process environment, higher education managed to adapt more flexible to the changes in auditing standards.*

Key words Interactive Control System, human resources, learning process, International Standard on Auditing, higher education

DOI: 10.6007/IJARAFMS/v7-i4/3439

URL: <http://dx.doi.org/10.6007/IJARAFMS/v7-i4/3439>

1. Introduction and literature review

The acceleration of Indonesia's economic growth is influenced by commercial flows in the global economy (Winerungan, 2015). Every company, especially companies with middle to upper scale is required to not only have a competitive advantage but also a comparative advantage and even strategic advantage in order to survive in the competition between countries. Corporate's excellence and advantage can be explained representatively through financial statements, which are validated through the audit process.

The audit process aims to produce audit reports, including audit opinions. Audit reports, especially audit opinion, have an important role for the future of the company, as stakeholders in the company's business ecosystem use audit opinions as one of the main foundations in decision making (Chen *et al.*, 2016). Stakeholders especially investors are very concerned about the results of the audit report as the value of each company in determining the decision and the investment period.

The corporate audit process in Indonesia requires a comprehensive, well-tested and accepted standard of public guidance, namely the Professional Standards of Certified Public Accountants (PSCPA). Any auditor who performs the audit process of the company's financial statements should refer to PSCPA, but with the changing climate of the economy make the audit standards in Indonesia also changed according to the needs of the stakeholders. The process of changing the use of auditing standards previously from PSCPA into International Standard on Auditing (ISA) issued by the International Federation of Accountants (IFAC) is done gradually and adapted to the level of corporate interests (Tuanakotta, 2013).

Every Certified Public Accountant (CPA), who has the competence to audit the company's financial statements, generated from a formal education process at the higher education level. Facilitators of learning process in universities, especially in Accounting department are required to be responsive in adapting the most up-to-date teaching materials. Each coordinator of the auditing course and/or head of study program must adapt by changing the audit standard in the learning process from PSCPA to ISA in order to prepare qualified graduates and be able to win a competition, which is significantly increasing (DIKTI, 2016).

The support of the higher education (HE) institutions which represented by the decision makers strongly influences the success or failure of the implementation of the standard audit adoption process.

Poor bureaucratic management within an HE institution is an obstacle to achieve effective policy implementation process (Ugwuanyi and Chukwuemeka, 2013). Management controls are required by stakeholders to ensure that an organization's needs are met in its operational activities (Zeff, 2008). Anthony and Govindrajana (2007) further explain the definition of Management Control System (MCS) as a process by which managers obtain and use existing organizational resources effectively and efficiently to achieve their objectives.

Every manager as a leader has a different style of leadership. Not all leadership styles support the creation of an adaptive environment for change. The instructive leadership style is one of the styles that limit the scope of the role of subordinates because managers predominantly instruct on what, how, when, and where to perform a particular task (Seperich and McCalley, 2015).

ICS is an approach used by managers to stimulate the learning process of an organization and the emergence of new ideas and strategies (Simons, 1995). Simons further explained that ICS is one of the four levers of a business's control strategy, namely the beliefs system, the boundary system, the diagnostic control system and the ICS itself as shown in Figure 1. ICS is used specifically to deal with uncertain business changes (competitive environment) through strategic uncertainties. ICS through its characteristics produce the learning and substantial change (innovation) to adapt the opportunities and facing the organizations threats.

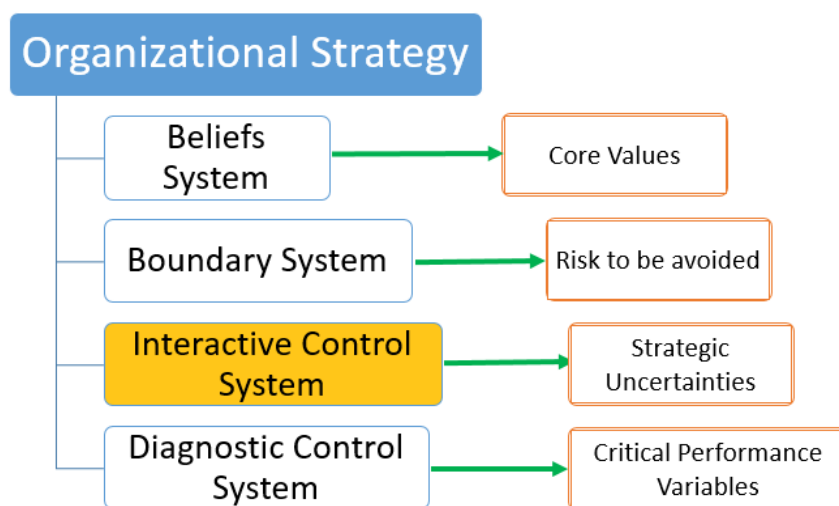


Figure 1. Four Levers of Control

Source: Simons (1995)

Management control applications in micro, small and medium enterprises (MSMEs) have a very important role in the process of strategy formulation and implementation. Research conducted by Ismail *et al.* (2012) and Kober *et al.* (2007) show that the strategy within a company is closely related to ICS. The achievement of the implementation results of the strategy and process of organizational communication within the company is done through ICS.

ICS has a focus of the main foundation for the whole process of management control, namely the strategic uncertainties, this foundation shown through question as shown in table 1. ICS mapped out any uncertainties and possibilities that threaten the company's current strategy as a basis for making decisions to achieve the organization's vision and objectives. ICS also requires managers to involve and participate in the activities of subordinates on a regular basis using the formal information system of the organization. So ICS is able to use various forms of management controls owned by organizations in a personal and interactive way.

Previous research on the concept of ICS has been largely done in the field of manufacturing and process automation, in case studies of ICS organizational management itself several studies have been conducted although the numbers are not as many as automation fields. Research conducted by Ismail (2013) shows that the strategies undertaken by Top Management relate to ICS conducted by managers, including new strategies emerging within the organization environment; this study uses the model proposed by Simons.

Table 1. Strategic Uncertainties Characters

Strategic Uncertainties	
Question that always raise	What assumptions or events can derail future achievement?
Focus on	The formation of the emerging strategy
Controlled by	Top Management Perception
Looking for	The right questions

Source: Simons (1995)

Meanwhile, different approaches are done by Zecher (2013) by comparing the three most common MCS concepts used through conceptualization analysis. The study is the development of a conceptual study conducted by Berry *et al.* (2009). Zecher found that ICS is essential in realizing the emerging strategy, ICS together with belief system creates a positive and inspirational power, this comparative study is very interesting to continue deeper with some of the most recent approaches to an active organizational environment. ICS is empirically proven to provide a positive leverage to the internal learning of an organization, furthermore managers can increase the motivation of its members by using information control interactively (Ismail, 2014; Gómez-Ruiz and Naranjo-Gil, 2014). The development of the concept of ICS is also done by Beusch *et al.* (2015), which resulted in new findings that the control components in MCS and Sustainability Control System (SCS) if done interactively will support the creation of a fully integrated sustainability strategy (Fully integrated sustainability strategy) although the integration process still encounters obstacles in the form of organizational culture and cognitive integration.

The most recent research on ICS was conducted by Jolanda and Budianto (2017), this research concludes that ICS is able to be used in facing company problem that is uncertainty and pressure, because through ICS manager able to influence employee performance. The study also found that ICS has a positive effect on the organization's internal strategy and learning process. However, the research conducted by Jolanda and Budianto has not explicitly explained how ICS is done in an organization with specific cases; the study only conducts literature analysis and draws conclusions in general. Decision-makers in higher education, especially accounting courses need to balance a creative approach in the process of adaptation of international audit standards. The right approach will ensure the successful adaptation of the new standards. This study aims to examine more deeply how the process of adaptation of universities in the face of changing audit standards from PSCPA to ISA using one perspective of MCS framework which is Interactive Control System (ICS) as the basic concept. This research does not aim to generalize the ICS application, nor does it extend the process or compare from previous research.

2. Methodology of research

This study uses qualitative descriptive approach with an instrumental strategy of case studies, this strategy is used to illustrate the real events within certain contemporary limits on decision making in the college environment. Researchers also use epistemological assumptions to build closeness with each informant as an effort to obtain evidence from the informant's point of view as deep as possible (Creswell, 2013). Two informants were chosen specifically for the in-depth interview process and recorded using electronic media. The informants must be qualified as the head of the accounting study program in the period in which there is a change of audit standard used from PSCPA to ISA. This resource was given a series of structured questions about the system used in the college. Information is explored in depth using the perspective of strategic uncertainties process and the four characteristics of ICS then triangulation process is done to ensure the quality of information in depth and broad.

Higher Education studied is an institution that has stood more than 4 years at the time this study was made. This institution, especially accounting department must be registered with BAN PT DIKTI and have minimum accreditation B. Higher Education should also have an integrated and informal education management information system as a Critical Success Factor (Ahmad *et al.*, 2007). This study was conducted in several stages as shown in Figure 2.

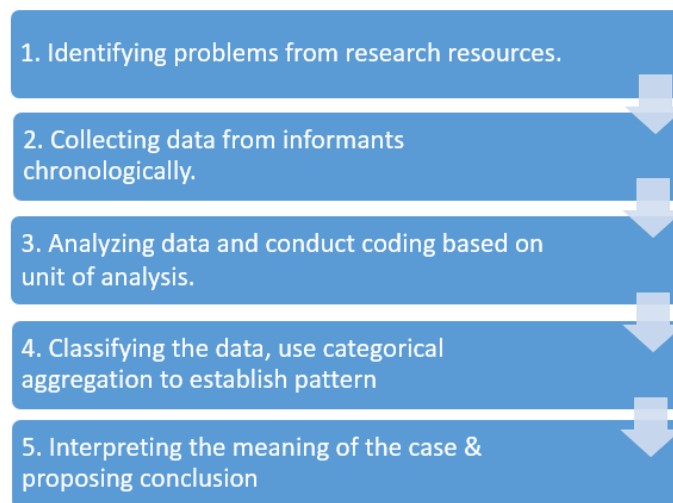


Figure 2. The Research's Phase

Source : Creswell (2013)

Clearly the proposition of research question in this study is how the changing process of standard in auditing course learning process using Interactive Control System chronologically, the findings will give some contribution as described in research background section. The exploration objects area of this research would be explained through cyclic process as shown in figure 3.



Figure 3. Research's stage based on adaptation process

3. Discussion and findings

This research of Adaptation the new standard audit would be divided into 3 sections, Preparation, Execution and Evaluation. At the very first Head of department (HOD) of Accounting Department stated the standard that used in learning process should be using the latest standard and must be comply with it, including the audit standard must refer to the International Standard on Auditing (ISA). HOD also says that one of primary priorities in the department was the Lecturer, and he is focusing on the 3 main role of a lecturer which is teaching, researching and do social service. HOD also maintains the environment as the conducive environment with high sense of kinship.

Interactive control system occurred by the uncertain conditions from internal and external environment. Head of department (HOD) using informal communication channel to gather information and insert the updated information what should be done to occupied or confront the emerging condition which is must be in-line with department's vision and mission. While the lecturer and staff did not realize the control system being conducted as seen in figure 4.

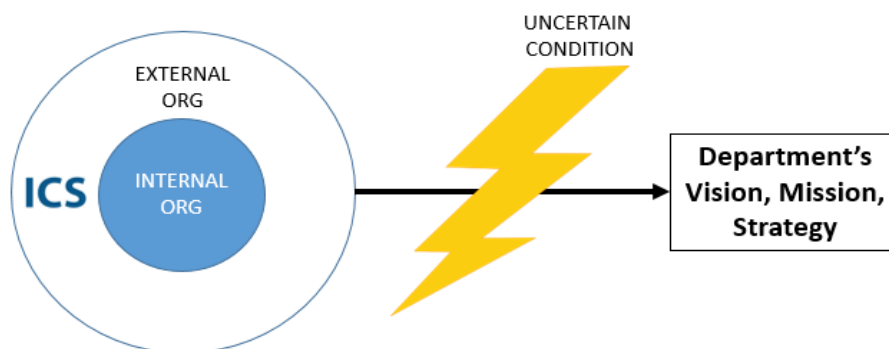


Figure 4. Organization Process

In preparation phase of adaptation the new standard which is ISA, lecturer and head of department discuss the newest issue in specific area, such as audit standard. After the discussion being conducted, the lecturer started gathering the fact and information from social media, official professional association and board of chartered accountant. Once the information confirmed, lecturer bring the material to head of department to gain feedback. The confirmed information become the foundation to do many changes in the study process, HOD and lecturer stated and dealing preliminary decision which one is need to change and which one is not, also the HOD consider it with cost constrain and the likeliness with department's grand strategy.

Informant B said the informal discussion is usually helpful to gain and cultivate the idea of change, when the formal meeting did not success to bring out the fullest idea and need because the formal situation limits the openness of the lecturer. Because the basic component in ICS is asking, oftentimes HOD calling lecturer to do some conversation in personal or in a group and if it is possible HOD several times visit the lecturer's desk to have some conversation about the emerging issue or personal matters. The informant said that this guerilla method is very effective to dig many findings about the departments' improvisation in facing the uncertainties. Informant B believes that the idea of changes in the learning process often comes from the input of lecturer staff, the ideas usually relevant with technical problems in the field. Then HOD gathers and polishes the ideas using his experiences and does some adjustment according to department's need and policy. The gathered ideas will be discussed in the team meeting including the timeline, responsibility and detail of action that will be executed. When the matters being settle down, Head of Department tend to use the informal meetings such as lunch hour or even the break time to ask the progress of the adaptation process as the controlling function. Informants A said that through the informal communication she realized that the team could achieve more than using the formal controlling process such as direct command, personal coaching, strategic meeting and regular meeting (pre and post meeting).

While HOD need to collect feedback and early response for the lecturer team, HOD also give several facilities and privileges support to ensure the lecturer do the adaptation of new standard smoothly. First, start from the knowledge area the support will cover from cost for training, books, and certification in certain subject. In addition to the knowledge the HOD gives support from campus infrastructure such as computer, printer, library, meeting rooms etc.

Through ICS, HOD also create competitive atmosphere among the lecturer through challenges even conflicts. For example, while in a break for lunch, HOD joked about the research performance of certain lecturer, and then asks the others about their planning for the research. In the end period when a lecturer achieves good result, the HOD give recognition through reward and vice versa. Obstacles and problems always occur in the middle of the ISA adaptation process, when it occurs HOD will ask for responsibility and quick report from person in contact (PIC). Some of the findings and topics will be escalated and disseminated among the others staff and or departments as an example and inspirational testimonial, so when the others facing the similar case, they could use historical data and approach from events in the past whether it is an achievement or a problem. HOD tends to use informal approaching to solve the problem than using the formal ways, but when it needed, HOD used both of them.

Using ICS, HOD received many input from many perspectives, informant A said that she uses these opinions to build contingency plan for the current mission. The other findings according the informant A, somehow she could see the rivalry among the lecturer, when it through the normal boundary, HOD uses communication skill to comprehend the issue, based on her experience this rivalry being good advantages for accounting department to access the higher level achievement. In line with Simons (1995) and Beusch *et al.* (2015) ICS complement the formal system not replace it, therefore HOD using formal channel system to distribute and manage the job description while ICS hovering it as a control parameter using by HOD. Informant B said that ICS has been done regularly but in informal way, He called it “Leadership by walking around”. Nowadays in competitive environment, HOD will think many creative strategies to confirm the organization’s goal, hence HOD using various things under his sleeve to confront it, and ICS very useful to make this process done. Although that not everyone in organization totally agreed with it, but when they see the progress of the result, eventually they will accept it, said informant B. In the evaluation and controlling process HOD also used the information given by Campus Information System (CIS) as the basic data to monitor the lecturer activities. Let’s say when a lecturer did not well-performed, the HOD pursue any lack of requirement informally through ICS rather than through formal communication like direct warn letter. As the part of formal information system, the HOD also using data from CIS to guiding the competencies of a lecturer as the teaching forces in higher education according to 3 main role of a lecturer. Every lecturer need to accomplish the certain parameter as part of performance appraisal process.

Carry out the daily task of controlling using ICS perspective also bring some others benefit such as knowing the work load and schedule when it was idle and when it was hectic, HOD could maintain the stress level of the lecturer so that they are not worn out and vice versa. The HOD also use the ICS as the triangulation method to make sure the validity of the current issue among the lecturer, for example, when the ISA standard already implemented, the HOD could easily confirm it to other lecturer, admin staff or even the students. ICS been proved as the effective way to check the information whether it is true or not.

Interactive control system gives big contribution for HOD in the decision making process approval including the ISA adaptation process in audit course, both informant A and B stated that ICS bring major impact that evidenced by the existence of learning and change of the process, these act is a part of institution support for lecturer to establish a competitive adaptability. All findings concluded as shown in table 2.

Table 2. The Research findings

Findings	
1.	Competitiveness in higher education environment made university change according to the emerging issue, including the standard especially in auditing courses.
2.	Both informants agreed that, The best strategy is using cultural control system within Interactive Control System.
3.	HOD believes that support from top management and institution will ensure the goal of departments will be achieved timely.
4.	HOD tends to asking question rather than give direct command to staffs.

4. Conclusions

HOD believes that culture is the most powerful control system in all organizations because it covers all the activities from many perspectives. One of the core values in ICS was also in line with cultural matters; ICS need informal channel and system information to deliver the control that answering the uncertainties which is called uncertainties strategic. The adaptation of the new audit standard (ISA) in this research’s subject environment show that when HOD using ICS, HOD could ensure the process adaptation going smoothly and goals of the organization achieved.

The main contribution of this research is to interpret how ICS be used / applied in higher education processes. This research is still limited in using ICS’s concept in the framework level but not yet holistically, further research can use full ICS technique, especially the design of control system on the larger object of the research, especially in the project management case study.

Acknowledgements

Author of this research want to give thanks to RISTEKDIKTI (Ministry of Research, Technology and Higher Education of the Republic of Indonesia) for the opportunities to conduct this study through their grant in PDP scheme. The author also wants to say thank you to Ciputra University, colleagues and family for the support so this study could be done completely.

References

1. Ahmad, H., Francis, A., and Zairi, M. (2007). Business process reengineering: critical success factors in higher education. *Business Process Management Journal*, 13(3), 451-469. doi:10.1108/14637150710752344
2. Anthony, R. N., and Govindarajan, V. (2007). *Management control systems*. Boston: McGraw-Hill.
3. Berry, A., Coad, A., Harris, E., Otley, D., and Stringer, C. (2009). Emerging themes in management control: A review of recent literature. *The British Accounting Review*, 41(1), 2-20. doi:10.1016/j.bar.2008.09.001
4. Beusch, P., Frisk, J. E., Rosen, M., and Dilla, W. N. (2015). *Management Control for Sustainability: The Development of a Fully Integrated Strategy* (August 14, 2015). AAA 2016 Management Accounting Section (MAS) Meeting Paper. Retrieved from <https://ssrn.com/abstract=2644396>
5. Chen, P. F., He, S., Ma, Z., and Stice, D. (2016). The information role of audit opinions in debt contracting. *Journal of Accounting and Economics*, 61(1), 121-144. doi:10.1016/j.jacceco.2015.04.002
6. Creswell, J. W. (2013). *Qualitative Inquiry and Research Design: Choosing Among Five Approaches* (3rd ed.). Thousand Oaks, California, CA: SAGE Publications, Inc.
7. DIKTI. (2016, September 3). *Tantangan Universitas Lahirkan Lulusan Berkualitas – Ristekdikti*. Retrieved March 1, 2017, from <http://www.dikti.go.id/tantangan-universitas-lahirkan-lulusan-berkualitas/>
8. Gómez-Ruiz, L., and Naranjo-Gil, D. (2014). The effects of interactive control system and team identity on team performance: An experimental study. *Performance Measurement and Management Control: Behavioral Implications and Human Actions*, 155-176. doi:10.1108/s1479-3512_2014_0000028014
9. Ismail, T. (2013). Formatting strategy and management control system: Evidence from Indonesia. *International Journal of Business and Social Science*, 4(1), 196-205.
10. Ismail, T. (2014). *Interactive Control System dan Strategi untuk Meningkatkan Pembelajaran Internal Studi Kasus Pada Industri Kreatif di Jawa Barat*. *Jurnal Organisasi dan Manajemen*, 10(1), 1-14.
11. Ismail, T., Wiyantoro, L. S., Meutia, and Muchlish, M. (2012). *Strategy, Interactive Control System and National Culture: A Case Study of Batik Industry in Indonesia*. *Procedia - Social and Behavioral Sciences*, 65, 33-38. doi:10.1016/j.sbspro.2012.11.087.
12. Jolanda, V., and Budianto, Y. (2017). *Interactive Control System dalam Implementasi Strategi Penyelesaian Masalah Perusahaan*. *Jurnal Ilmiah Bisnis dan Ekonomi Asia*, 11(2), 59-65.
13. Seperich, G. J., and McCalley, R. W. (2015). *Managing power and people*. London: Routledge.
14. Simons, R. (1995). *Levers of control: How managers use innovative control systems to drive strategic renewal*. Boston, MA: Harvard Business School Press.
15. Strauß, E., and Zecher, C. (2012). *Management control systems: a review*. *Journal of Management Control*, 23(4), 233-268. doi:10.1007/s00187-012-0158-7.
16. Tuanakotta, T. M. (2013). *Audit Berbasis ISA (International Standards on Auditing)*. Jakarta: PT Salemba Empat.
17. Ugwuanyi, B.I., and Chukwuemeka, E.E. (2013). *The Obstacles to Effective Policy Implementation by the Public Bureaucracy in Developing Nations : The Case of Nigeria*. *Singaporean Journal of Business , Economics and Management Studies*, 1(8), 34-43. doi:10.12816/0003788.
18. Wang, D., and Ap, J. (2013). *Factors affecting tourism policy implementation: A conceptual framework and a case study in China*. *Tourism Management*, 36, 221-233. doi:10.1016/j.tourman.2012.11.021.
19. Winerungan, R. (2015, July 22). *Pengaruh Ekonomi Global Terhadap Rentannya Perekonomian Indonesia | Inspirasi Bangsa*. Retrieved February 1, 2017, from <https://www.inspirasibangsa.com/pengaruh-ekonomi-global-terhadap-rentannya-perekonomian-indonesia/>