

# The Impact of Internal Control Effectiveness and Internal Audit Role toward the Performance of Local Government

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## Abstract

This study aimed to examine the impact of the internal control effectiveness and internal audit role toward the performance of local government. This research was conducted by census. Data analysis methods to test the hypothesis was regression analysis using SPSS. The data is primary data collected through questionnaires. This study conducted the validity and reliability test before the hypothesis test. This study concluded that there was a positive influence of the internal control effectiveness and internal audit role on the performance of local governments both simultaneously and partially.

**Keywords:** Internal Control, Internal Audit, Performance, Local Government.

## 1. Introduction

Indonesia is entering a recovery period from the prolonged economic crisis currently. All parties such as the government overcome the crisis with reforms in various fields. An attempt for recovering the economic, social and political condition is to restore people's trust in the clean which is free from corrupt practices (Corruption, Collusion and Nepotism).

The local government accompanied by the Financial and Development Supervisory Agency (BPK) must manage the local finance rightly. The financial management system in local government is considered poor by Anwar Abubakar (Reuters, December 6, 2012). BPK findings over LKGL in 2012 showed: (1) 56 potential loss cases valued at Rp 2.292.815,19 million; (2) 203 shortfall cases valued at Rp 1.771.601,09 million; (3) 395 administrative irregularity cases; and (4) 107 ineffectiveness cases valued at Rp 530.182,25 million.

Until the first semester of 2013, the auditor opinion given to 415 LKPD in 2012 caused some local governments had not been preparing the financial statements completely and/or submit them to the BPK too late. From 415 LKPD in 2012, the BPK issued 113 WTP (including 41 entities with WTP - DPP), 267 WDP, 4 TW, and 31 TMP opinions. The developments in LKPD 2008 till 2012 was the increasing number of ministries/agencies which obtain an unqualified opinion (WTP), from 34 ministries/agencies in 2008 increased to 44 in 2009, 52 in 2010, 66 in 2011 and 68 in 2012. The number of fairly presented financial statements in the ministries/agencies was increasing and the financial information in the local government financial statements was relied by users.

This would suggest that some ministries/agencies already enhanced the internal control and improve the compliance with the regulation in response to BPK recommendations and findings on LKGL. But some state ministries/agencies could not get better opinion or at least equal opinion to the previous year, due to the internal control weakness or non-compliance with laws and regulations that materially affect the fair presentation of the financial statements. In other words, the entity had not made any improvements to the internal control and the compliance with laws and regulations, since the ignorance to the previous findings.

There are various weaknesses such as uncompleted procedures in the preparation and presentation of financial statement, the management of cash, the management of fixed assets, the management of revenue; deviation from the provisions and the accountability issue. Internal auditor is part of the unit who supervised the organization. Internal auditor consists of the Inspector General or any other name monitor the internal control by supervising all activities of the Ministry of State/agency funded by the State budget. Municipal Inspectorate, to supervise all activities in the course of the duties and functions of local work units funded municipal budget municipal revenue and expenditure, and the Financial and Development Supervisory Agency (BPK), internal oversight of the state's financial accountability of activities that include, cross-sectoral activities, the general state treasury activities based on the determination by the Minister of Finance as state treasurer, and other activities based on the assignment of the President. The external auditors composed of the Supreme Audit Agency (BPK) is an independent investigative agency. The external auditor is outside the organization being examined (Mardiasmo, 2004:217).

Government auditors audits not only for the benefit of the client (in this case the government) but also for the benefit of all stakeholders. Mardiasmo (2004), identified ten users such as: (1) taxpayers, (2) grantors; (3) investors, (4) service users; (5) employer/employee, (6) supplier; (7) legislative council; (8) management; (9) voters; and (10) regulatory body. To deal with various problems and challenges, the government continues to improve the internal control effectiveness, to implement various education and training (either structural, functional, and technical training) for the human resources personnel professionalism of, to increase the welfare of employees and the personnel management restructuring, to implement the institutional and management

systems of government bureaucracy, and to accelerate the utilization of information and communication technology in every public service agencies.

The central theme discussed in this research is whether the performance of local governments will better by having the effective internal control and the internal audit role in the local government. The research question is whether the internal control effectiveness and the internal audit roles affect the performance of local government. The purpose of this study is to obtain empirical facts about the influence of the internal control effectiveness and the role of internal audit on the performance of local government. The goal is to analyze the impact of the internal control effectiveness and the internal audit role toward the performance of local government.

## 2. Review of Literature

### 2.1. Internal Control Effectiveness

Effectiveness proposed by Etzioni, et al., (1985:54-55); Mardiasmo (2002:134) that define effectiveness as the level of success of the organization in an effort to achieve the objectives and goals; Komaruddin (2000:269); Arens and Loebbecke (1999:817) effectiveness is the degree to which organizational goals have been achieved. provide a definition of effectiveness as output relationship and purpose, or may be a measure of how much output level of the organization's policies and procedures.

Effectiveness focuses on outcomes (results), programs, or activities that are considered effective if the resulting output can meet the desired objectives. Based on the effectiveness of some sense it can be concluded that the effectiveness of an organization is successful in achieving the desired objectives or outcomes with a comparison between the output, Devas (1989); (Mahmudi, 2005:92).

Definition of internal control put forward by Konrath (2002:205), quoting from the American Institute of Certified Public Accountants (AICPA) Professional Standards, defines internal control as follows: "The process effected by an entity's board of directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) operating control-relating to the effective and efficient use of the entity's resources; (b) financial reporting controls-relating to the preparation of reliable published financial statements; and (c) compliance controls-relating to the entity's compliance with applicable laws and regulations".

Boynton et al. (2006:326), states: Control the safeguarding of assets against unauthorized acquisition, use, and disposition, which may imply that an internal control to safeguard assets against expropriation, use, and disposition of assets illegally. According to the Internal Audit Consortium Professional Organization (2004:136) the general purpose of the internal control process is to support the parties involved in the activities of the organization in managing risk and achieve the goals that have been set and communicated by the organization, with the aim of: (1) reliability and integrity of financial and operating information, (2) operating activities implemented efficiently and achieve the desired results effectively, (3) the security of state assets, and (4) the activities and decisions of the organization within the corridor of compliance with laws and regulations apply.

Internal control as a means of being created for the benefit of the organization in line with the definition put forward by the Committee on Auditing Procedure of (AICPA) in 1949 (Sawyer, 2003: 81) as follows : "Internal control comprises the plan of organization and all of the coordinate and methods measures adopted within a business to safeguarded its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies".

The description indicates that the internal control has broad sense which includes also through budgetary control, standard cost, accountability periodic activity reports, statistical analysis, employee training programs and staff of internal control. Application of regulations within the government is an agreement commitment to build good governance supported by a bureaucracy with integrity.

To achieve the objectives of internal control are: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations, management must implement the components of internal control in each operating activities. COSO (1994:16-18), giving the components of internal control include: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. There is a direct relationship between the objectives are achieved and the components of internal control (IAI, 2001:319.2). Here's an explanation of each component of internal control.

One of the basic concepts of internal control which only provide reasonable assurance to management with respect to the achievement of organizational goals. The reason is due to the innate limitations of internal control in each of the following organizations. According to COSO (1994:79): 1) Judgement 2) Breakdowns 3) Collusion 4) Costs Versus Benefits.

### 2.2. Internal Audit Role

Soekanto (1984:237) role is a dynamic aspect of the position (status). If the person who did the rights and obligations in accordance with his position, then he runs a role. While Nasution (1994:74) states that the role includes rights obligations related position. Furthermore Setyadi (1986:29) stated that the role is a dynamic aspect

of a pattern of action that is both abstract and concrete, and any existing status within the organization.

Based on some opinions can be concluded that the role is part of a task that must be carried out in accordance with the position. Internal audit function of the organization is in charge of testing and evaluating the activities of the organization. Without the internal audit function, the board of directors and head of the unit does not have a free internal resources of the organization, such as the following definition of internal auditing. The definition of internal audit are as follows: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process." (IIA, 1999).

To achieve these objectives the internal audit should analyze, assess, make recommendations, provide information in connection with the activities examined, as proposed by the Administrative Affairs Internal Audit (2005:3), is: "Internal Audit Is a staff function and has no direct responsibility for, nor authority over, any of the activities reviewed. Therefore, an Internal Audit review in no way relieves management of any assigned responsibilities".

Internal audits are part of an organization or a company that is an integral and perform its functions based on policies set by senior management or the board of directors. A very important role in the organization or company will contribute to the management and the external auditors.

Further understanding of the internal audit presented Carl Geffken (2004:48) as follows: "Internal auditing is a sure way to identify key staff responsibilities to assess how procedures are documented, to confirm how well staff and workers are trained in their assigned tasks, and to determine where significant control points are needed to assure your product quality by meeting written specifications. A well designed audit should address all the critical steps and opportunities for process flow from beginning to end. It should also identify how, where and when necessary corrections will be made, as well as how any specified and acceptable target conditions are controlled and documented".

Internal Auditing is a profession, in which the profession should be developed in accordance with the company's development. In June 1999, the Internal auditing is officially defined by the Board of Directors re- IIA, is: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization Accomplish its objectives by bringing a systematic, disciplined Approach to Evaluate and improve the effectiveness of risk management, control, and governance processes."

Furthermore Sawyers (2003:10) defines a broad internal audit as follows: "Internal auditing is a systematic objective appraisal by the Internal Auditors of the diverse operations and controls within an organization to Determine Whether: (1) financial and operating information is accurate and reliable, (2) risk to the enterprise are identified and minimized; (3) external regulations and acceptable internal policies and procedures are Followed; (4) satisfactory operating criteria are met; (5) resources are used efficiently and economically; and (6) the organization's objectives are effectively Achieved- all for the purpose of assisting members of the organization in the effective discharge of their responsibilities."

According to the Internal Audit Consortium Professional Organization (2004:9) provides a definition of internal audit are: "Internal audit is the assurance and consulting activity independent and objective, which is designed to add value and improve an organization's operations. Internal Audit helps the organization to achieve its objectives, through a systematic and orderly approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

Based on some of the above definition that the internal audit activity is an independent, not side to side which gives the assignment of inspection, as well as to the parties under investigation, competent in performing the examination, provide an objective assurance and communicate the results of the examination with the competent parties in within the organization, and is designed to increase the value of the organization's activities. Internal Audit helps the organization to achieve its objectives through a systematic and orderly approach to evaluate and improve the effectiveness of risk, control and governance processes of the organization. Over the government's internal audit organization is largely based on the concept that local leaders and employees who manage public funds should be accountable to the public. (Boyton et al 2006:505).

### *2.3. The Performance of Local Government*

Performance (performance) by Manning and Curtis (1998) is a work achievement, actions, deeds, etc. (accomplishment of work, acts, feat, etc) in the sense that other Manning and Curtis defining performance as the result of something that has been done (something done or performed). LAN (2000:3) defines performance as an overview of the level of achievement of the implementation of an activity/program/wisdom in realizing the goals, objectives, mission and vision of the organization as stated in the formulation of strategic schemes (strategic scheme) of an organization. In general it can be said that the performance of an organization's achievement that can be achieved within a certain period (Boland and Fowler, 2002:2). Understanding of public sector accounting should be complemented with the evaluation, in order to assess the achievements of an agency or a manager.

Sedarmaryanti (2007:226), explains that the performance is a record of the results obtained from the functions of a particular job or a certain activity for a certain period. Performance is an overview of the achievement of the implementation of an activity/program/policy in achieving goals, objectives, mission, and the organization as stated in the formulation of strategic schemes (strategic planning) an organization (Indra, 2006:239).

Performance measurement is essential in the management of the overall program, because performance can be measured to encourage the achievement of such performance. Indra further asserts that performance measurement is a management tool to improve the quality of decision-making and accountability.

Whittaker (1995), asserts that government performance is a management tool used to improve the quality of decision-making and accountability in order to assess the success or failure of the implementation of activities (programs) in accordance with the goals and objectives that have been set previously in order to realize the mission and vision of the agency government.

Performance measurement is also used to assess the achievement of goals and objectives. In this case there are four key elements of performance measurement systems, namely: (1) planning and goal setting, (2) development of relevant size, (3) a formal reporting of the results, and (4) the use of the information. Performance measurement systems help managers monitor the implementation of the business strategy by comparing actual results with targets and strategic objectives. Performance measurement system usually consists of a systematic method in setting goals and objectives and periodic reporting that indicates achievement of realization of goals and objectives.

Based on these notions can be stated that the performance measurement tool used by management to assess the achievements of the organization and is not intended as a suggestion that contribute to reward or punishment, but is used as a medium of communication management to improve organizational performance. According to Abdul Halim (2004:15), the budget is a financial work plan (financial workplan) is made for a certain period of time and in the legislature (DPRD) to give credit to the executive agencies (Regional Head) in order to finance the needs of local households according to the design that became the basis for determining the budget, and that shows all the income to cover expenses earlier.

Public sector performance measurement system is a system that aims to help public managers assess the achievement of a strategy through measuring instrument of financial and non-financial. Performance measurement system can be used as a means of controlling the organization, because the measurement of performance is strengthened by establishing reward and punishment system. Performance measurement of the financial aspects usually by comparing the budget with its realization. While non-financial performance measurement can be done by evaluating the implementation of managerial functions: planning, inspection, coordination, assessment, supervision.

Mardiasmo (2004:121) public sector performance measurement: (1) measurement of the public sector are intended to help improve the performance of the government, (2) measure the performance of the public sector is used for resource allocation and decision-making, and (3) the size of the public sector performance is intended to realizing public accountability and improve institutional communication.

Measurements of performance by Bastian (2001:331-332) is usually performed for the following aspects: "financial, customer satisfaction, and operation of the internal market, employee satisfaction, community satisfaction and shareholders/stakeholders, as well as the time". a) Financial aspects b) Customer satisfaction c) Integral Operations and Markets d)

Employee satisfaction e) Community satisfaction and Shareholder/Stakeholder f) Time. Performance indicators are quantitative and qualitative measure that describes the level of achievements as an or its intended purpose, taking into account the elements of performance indicators. Elements contained in the performance indicators by Bastian (2006:267) as: "Indicators Input, Process, Output, Outcome, Benefit, Impact".

These indicators are directly or indirectly to indicate the extent to which the successful achievement of goals. In this connection, the establishment of performance indicators is a process of identifying activities, development, and consultation on the selection of performance indicators or performance measures or measures of success of activities and programs the agency.

### 3. Theoretical Framework

Public sector organizations have unique characteristics compared to commercial organizations. One of the unique organization is reflected in the form of services provided or known by the public services in the areas of financial management and budget form. To ensure that the services provided to the public in accordance with the plan has required certain media, a media that is considered relevant internal control. In this case the internal control is not limited to the plan of organization, but also the procedures and records relating to the decision-making process that led to the authorization of superiors for certain transactions.

In relation to good internal control is a form of internal control which is run by the executive to ensure the achievement of the objectives of local government, seeks to improve the welfare of society. As confirmed by Cox et al. (1999), asserts that every government implemented internal control because of the relationship of the

central government and local government complex. This assertion indicates that the dependence of local governments to the central government in terms of funding or financial balance control mechanisms that lead lasted less effective. Internal controls can be carried out by two groups: (1) control carried out by the legislature, and (2) control carried out by the executive.

Similarly, Anthony et al. (2003:2), confirms the internal control in the public sector is a process that directs public sector organizations is a process in the form of activity in the environment that are subject to change. Public sector management control can also be viewed as a process to motivate and inspire personnel in carrying out the activities for achieving the objectives of public sector organizations. Responsibility for the establishment of an effective internal control is not on the internal auditor, external auditors, as well as other groups except the management Cangemi and Singleton, (2003:69).

With the development of technology, the scope of work is not only limited to the above. In accordance with the internal audit function IIA (2001) that internal audit should assist the organization in an effective internal control to evaluate the adequacy, efficiency, and effectiveness of these control, as well as encourage continuous improvement of internal control. Internal audits should be professional in infomasi collect, analyze the situation and identify problems and formulate solutions so that they can play a role as a representative of management. With the involvement of the internal audit is expected to affect the optimal management process more effective and local government objectives can be achieve. Evaluation and appraisal report on the achievement of the internal audit activity is feedback to the government officials in performing their duties in their respective local governments. Thus, the internal audit function that goes well will produce valuable output to be input to the external auditors, the executive, and the legislature to improve financial management and accountability in the countries future. Therefore, it is proper internal control functions more empowered and implemented in synergy in order to achieve good governance in the public sector with the establishment of transparency, accountability, financial management.

Wakhyudi (2009) In Public Accountants Professional Standards (SPAP, 2001 and Ramos, 2006:114), states that the internal audit function are set in units of effort to examine and evaluate the adequacy and effectiveness of internal control policies and procedures. Determination of an effective internal audit function include consideration of authority and reporting relationships, staff qualifications, and sources of funds. Therefore, internal audit should position itself as a partner that is trusted by the organization and its officials, as well as well as a critical analyst, where lies the virtue of the independence of an organization audit institution, either independence in the profession. The purpose of the review of the adequacy of internal control is to determine whether internal controls are implemented have ensured a viable or sensible that the goals and objectives of the organization can be achieved economically and efficiently. In addition, the purpose of reviewing the effectiveness of internal control is to ascertain whether the internal controls are functioning as expected.

Performance measurement in the private sector or the public sector, including the government is concerned with the relationship between the economic problems of accountability, transparency, efficiency and effectiveness of government institutions. Accountability of central and local government can be measured by measuring the financial and non-financial performance can be used in conjunction with complementary. Performance measurement also has a significant role or managerial internal controls to ensure that the organization can be managed in accordance with the wishes of all stakeholders. To assess or evaluate the performance of an institution such performance should be measured. Mwita (2000:3), insists that if we can not define the performance, we can not measure or manage it. Performance shows what work we are doing and what results will be achieved. Also a multidimensional performance that can be measured, depending on the variation of the factors being compared. Lin et.al. (1993:17), confirms the measurement and assessment of government performance is a crucial quality improvement and financial information of government becomes an important task. Lin further confirms the main focus of governmental accounting and financial reporting is done to simplify the control of the legislature as a form of public demand.

Performance evaluation is an assessment of the operational effectiveness of the organization, organizational sub-units, and personal organization periodically based on objectives, standards and criteria that have been set previously. Organization run by humans, so the performance evaluation is the assessment of human behavior or those who play a role in the organization (Siegel et al. 1989:19). This means that assessment is carried out to detect the deviations that occur at the same time serve as a reference in developing the organization forward. Siegel et al further. confirms the main purpose of performance evaluation is to motivate employees to achieve organizational goals and to comply with the standards of conduct set forth previously, in order to produce the desired actions and outcomes.

#### **4. Hypothesis**

Hypothesis is a tentative conclusion that should be tested or proven to be true, Sekaran (2003). Based on the research problem, and a framework that has been stated previously, the research hypothesis can be formulated as follows: the effectiveness of internal control and internal audit roles affect the performance of the government.

## 5. Methodology

Research methods used in the study is the census, the method of research in which all elements of the population studied (Nur Indriantoro and Bambang Supomo, 1999:116).

To clarify the research variables are defined so that these variables can be operationalized. Kerlinger (1997:51), states that the definition of the operation means attaching meaning to a construct or variable by specifying the activities or actions that need to construct or measure these variables. In other words, an operational definition is a specification of the research activities in measuring a variable. The operational definition of variables in this study are as follows:

1. Effectiveness of internal control (X1) internal control is a process that is integral to the actions and activities carried out continuously by management and all employees to provide reasonable assurance for achieving organizational goals through effective and efficient, the reliability of financial reporting, safeguarding of state assets, and adherence to laws and regulations. Variable internal control consists of five dimensions, namely the control environment (X1.1), risk assessment (X1.2), control activities (X1.3), information and communication (X1.4), monitoring (X1.5) as measured by ordinal scale. COSO (1994), Konrath (2002), Boynton (2006), Messier (2008), Regulation No. 60 (2008), Arens et al (2010).
2. Role of Internal Audit (X2) is an independent appraisal function within an organization to examine and evaluate the activities of organizations that do. Variable internal audit consists of five dimensions: independence (X2.1), the professional ability (X2.2), the scope of the assignment (X2.3), the implementation of inspection activities (X2.4), internal audit management section (X2.5) which measured with an ordinal scale. Moeller (1999), SPAP (2001), Sawyer (2003), Pickett (2003), IIA (2004), Geffken (2004), Kopai (2004).
3. Local Government Performance (Y) is an overview of the level of achievement of the implementation of an activity/program/policy in achieving goals, objectives, mission and vision of the organization as stated in the formulation of strategic planning an organization. In general it can be said that the performance of an organization's achievement that can be achieved within a certain period. Whittaker (1995), Manning (1998), LAN (2000), Indra (2006), Kimsean (2004), Mardiasmo (2004), Keban (2004).

The population of this study is an analytic unit of observation conducted by survey method. In this study sampling was not carried out, considering the unit of analysis is not much, but by doing the census. Census is a research method in which all the population to be studied (Nur Indriantoro and Bambang Supomo, 1999:116).

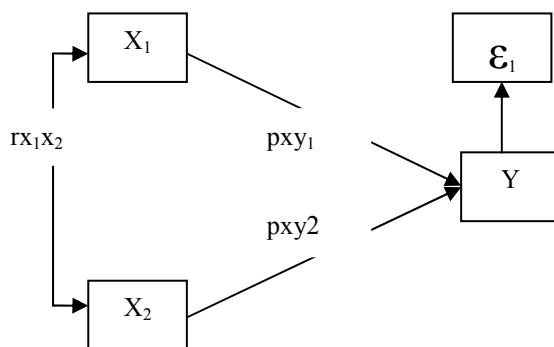
Data collection techniques used for this field of research to compile a list of questions (questionnaire), which is a structured list of questions and statements are addressed to the respondent.

The respondents in this study are as follows: 1) the effectiveness of internal control by the head of the supervisory filled in on education because he understands about the implementation of internal control in local government, 2) the internal audit team leader in internal audit resources for the task in question is audit team in the implementation of internal audit on education and 3) BPK audit team leader who will check that the financial statements of the local government as responsible for the implementation of the audit of the financial statements of the local government or heads of municipal government leaders.

Therefore, field data collection in this study was obtained by submitting a questionnaire to the respondent through the questionnaire, the seriousness of the respondents in answering the questions is very important. Legality and validity of the study results is largely determined by the measuring instruments used, thereby measuring instruments used must be valid and reliable. That the data obtained from the respondents are valid and reliable the data, gauge the validity of data need to be tested (test of validity) and reliability test (test of reliability).

Hypothesis testing the effect of variable X1 and X2 on Y can be described in the following structure:

$$Y = \beta_{YX_1} X_1 + \beta_{YX_2} X_2 + \epsilon_1$$



**Picture: 1**  
**The influence of variables X1 and X2 to Y**

Description:

X1=Effectiveness of Internal Control

X2=Role of Internal Audit

Y=Local Government Performance

P= Other variables that affect Y

ε1=Other factors that affect Y but not examined in this study.

## 6. Results and Discussion

The hypothesis being tested is the effectiveness of internal control (X1) and the role of internal audit (X2) effect on local government performance (Y), either simultaneously or partially. Hypothesis used to answer multiple regression analysis using SPSS.

To test this hypothesis needs to be calculated and the value of the coefficient of correlation coefficients between variables effectiveness of internal control (X1) and the role of internal audit (X2) partially independent variables affect the performance of local governments (Y) above may be formed as a structural equation the following:

$$Y = 4.705 + 0.132 * X_1 + 0.328 * X_2, \text{ Error var.} = 0.210, R^2 = 0.790$$

The calculation known of the influence of the effectiveness of internal control and internal audit role on the performance of local governments simultaneously or partially. From the structural equation coefficients obtained for the influence of the effectiveness of internal controls over local government performance ( $\rho_{YX1}$ ) is positive with a value of 0.132 and a coefficient for the effect of the role of internal audit on the performance of local governments ( $\rho_{YX2}$ ) is positive with a value of 0.328.

The analysis showed that together (simultaneously) directly influences the effectiveness of internal control variable (X1) and the role of internal audit (X2) on the performance of local governments (Y) of 12.50% and indirect influence of 66.50%. Thus the total effect of the effectiveness of internal control and internal audit role on the performance of local governments indicated by the value of R-square (R<sup>2</sup>) is the calculation result by 79%.

From the calculation can be seen that the direct influence of the effectiveness of internal control of the performance of local governments amounted to 1.74% and the direct influence of the role of internal audit amounted to 10.76%. Total direct influence variable effectiveness of internal control and internal audit role on the performance of local governments amounted to 12.50%.

While the indirect effect through the effectiveness of internal control by the internal audit role by 54.38% and by an internal audit role with the effectiveness of internal control by 12.12%. Therefore, the total indirect effect through the variable effectiveness of internal control and internal audit role on the performance of local governments 66.50%. The direct and indirect effect of variable effectiveness of internal control and internal audit roles simultaneously on the performance of local government by 79%. While other factors that influence the magnitude of 21%. If the magnitude of this effect is interpreted that the influence of the effectiveness of internal control and internal audit role to local government performance is high or strong according to Guilford. Independent of the magnitude of the effect on the performance of local governments, variable internal audit role is more dominant effect on the performance of local government. This suggests that the increasing role of internal audit in municipal government the increased performance of local governments.

The magnitude of the direct effect of variable effectiveness of internal control of local government performance by 1.74%. Indirect effect through the variable role of internal audit 54.38%. So the total direct and indirect influence the effectiveness of internal control of local government performance in municipal government of 56.12% with positive direction. Judging from the influence of the effectiveness of internal control of local government performance is positive means that the better internal control, the better the implementation of local government performance.

Interpretation of the results of this study indicate that the better performance of internal control that encourages local governments to better the municipal government. Influence the effectiveness of internal control of local government performance is very low indicates that the implementation of internal control in local government at the municipal government limited support for the implementation of the implementation of internal control. This indicates that the low control apparatus at the local level because it is not the proper functioning of the internal control in accordance with Government Regulation No. 60 Year 2008 on the implementation of internal control in local government.

The magnitude of the direct effect of the role of internal audit variables on the performance of local governments by 10.76% and the indirect effect through the internal control variable 12.12%. So the total effect on the performance of the internal audit role of local governments in the municipal government of 22.88% with positive direction. Seen the influence of the role of internal audit on the performance of local government that can be interpreted positively that the better part of the internal audit local government the better the performance of local governments.

Internal auditors must be independent and objective in performing their work. Independent and objectivity are often used together and a lot of internal auditors can not tell the difference, there will be if the objectivity of internal auditors have the mental attitude of independence in providing professional services as auditors of the company. Separation and organizational status of the internal auditor can liberate an emotional tendency to parties under investigation. Internal auditors can be said to be independent if he works independently and objectively. Sawyer (2003:35) that the internal auditor must have professional independence to fulfill their professional obligations; give opinions, not biased, and not restricted, and report the problem for what it is, not as you wish to report executive or agency.

## 7. Conclusions

Research on the impact of internal control effectiveness and internal audit role toward the performance of local government by 79%, either simultaneously or partially. With simultaneously to three variables can be synergy, then the local government performance can be achieved. This means that in order to improve the performance of local government required the effectiveness of internal control and internal audit role.

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