

# Culture of Tri Hita Karana as Moderating Effect of Locus of Control on the Performance of Internal Auditor (Studies in the Office of the Provincial Inspectorate in Bali)

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## Abstract

This study aimed to examine the effect of Locus of Control affects the performance of the internal auditors and the Tri Hita Karana culture as a moderating variable on the influence of locus of control on the performance of the internal auditor in the Office of the Provincial Inspectorate in Bali. The study population is the entire internal auditors on five (5) Office of the Inspector in Bali (Klungkung, Karangasem, Gianyar, Bangli and Buleleng). Sample technique used was purposive sampling with certain criteria, namely the internal auditor's work a minimum of one year. The research design used in this study is a survey method by distributing questionnaires. Data were analyzed using multiple linear regression and moderated regression analysis. The results showed that locus of control affects the performance of the internal auditors, whereas locus of control moderated the Tri Hita Karana culture affect the performance of the internal auditor in the Office of the Provincial Inspectorate in Bali

**Keywords:** Locus of Control, Culture of Tri Hita Karana, Internal auditor

## 1. Introduction

Companies are required to conduct effective supervision that ensures a high level of concordance between individual goals and organizations. One of the efforts to preserve and maintain effective supervision, the company usually requires a special section called internal auditing.

The quality of internal auditing will be carried out relating to the competence and objectivity of the auditors of the organization's internal staff. Internal auditors should be free from the influence or power of the party examined, so hopefully will be able to provide an objective assessment, where reliability is unquestionable (Sujana, 2013).

Internal auditors are required to remain independent in carrying out his work as a form of responsibility to the public and the profession (Windsor, 2002). The decisions made by the internal auditor will have much effect on the organization and constituents (Arnold and Panemon, 1991).

Likewise, the internal auditors in the public sector, which became known as the Regional Inspectorate or Regional Financial Supervisory Agency, which serves as an internal auditor or examiner for the District government responsible to the Regent. In Regulatory Minister of Home Affairs number 64 of 2007 on Article 4 states that: provincial Inspectorate and the inspectorate districts/cities in implementing the tasks the following functions: planning monitoring programs; facilitation of policy formulation and supervision; and examination, investigation, testing and assessment of supervisory duties.

Inspectorate, formerly Regional Agency is part of the functional position of audit and spearheading to improve public accountability and transparency in financial management in the region (Budhiharjo (2004) in Khikmah and Priyanto (2009)). Therefore, an effort to increase the effectiveness of the inspectorate for financial supervision in the area becomes crucial. It may happen that the auditor may be aberrant behavior in completing the work (audit) given to them.

The difficulties faced by internal auditors resulting in a lack of consensus on the auditor and inaccuracies on the performance audit of judgment, resulting in a decrease in the quality of audit judgment. (Libby and Lipe, 1992). To improve the performance of audit judgment, necessary Locus of Control within an internal auditor. Locus of control is necessary to minimize the deviant behavior of an auditor so as to achieve higher levels of performance. Locus of control is a personality or a variable that can affect and control behaviors that deviate auditors (Ikhsan and Isaac, 2005).

Bali Provincial Government has organized the Tri Hita Karana Award for government agencies, schools, hotels, and other educational institutions in Bali. THK cultural role within government agencies to serve as guidelines for all elements in performing the work, including internal auditors, top management, and other employees under the manager/leader (Journal Bali, 2010). It is used as a rationale for the use of THK idea as a moderating between loci of control on the performance of the internal auditor's inspectorate. Based on the above, the issues to be studied in the form of a question can be formulated as follows:

1. Is the Locus of Control affecting the Auditor Internal Performance?
2. Is the Tri Hita Karana Culture moderate the effect of Locus of Control on Auditor Internal Performance?

## **2. Study of Theory and Hypothesis Development**

### **2.1 Agency Theory**

Agency theory explains the phenomenon that occurs when the employer delegate authority to subordinates to perform a duty or authority to make decisions (Anthony and Govindarajan, 1998). Behavioral accounting research that uses agency theory basing his thoughts on the difference of information between supervisors and subordinates. From the perspective of agency theory, the principal (owner or top management) agents in charge (employees or managers lower) to implement efficient performance.

Principals hire agents to carry out tasks including decision making and uncertain environment as companies in financial distress. Under these conditions the required basic behaviors that can be used as a guide in carrying out the work or the supervision of the concepts embodied in the Tri Hita Karana which emphasizes on the theory that the balance of the Hindu community tend to view themselves and their environment as a system that is controlled by the value of the balance, and manifested in the form of behavior (Gunawan, 2009). This is when associated with attribution theory with an internal locus of control that a person has a high confidence on its work so that in terms of the principal hires an agent through the high complexity of the task will affect the performance of the individual.

### **2.2 Attribution Theory**

Attribution theory is a theory about the process of a person to interpret an event, reason, or cause behavior (Luthans, 2005). This theory was developed by Fritz Heider, who argued that a person's behavior is determined by a combination of internal forces, the factors that comes from within a person, such as ability or effort, and external forces (external forces), the factors that comes from outside, such as difficulties in work or luck (Ikhsan and Ishak, 2005). In behavioral studies, this theory is applied to the use of the variable locus of control. These variables consist of two components, namely an internal locus of control and external locus of control (Hudayati, 2002).

Individual assumptions used in Bali in this research is the belief in the teachings of Tri Hita Karana Bali society as a way of life, so that the relationship between attribution theory containing internal and external perceptions of the individuals associated with THK guiding Balinese life that leads to the achievement of work / better performance of specific individuals or entire organizations.

### **2.3 Locus of Control**

Rotter (1996) in Patten (2005) Locus of Control (LOC) is a way of looking someone to an event whether a person can or cannot control the events that happen to him. The working pressure invite a variety of reactions from different individuals and from the pressures that are common also associated with the organization and work (Montgomery, et al, 1996, in Aji, 2010).

Rotters (1990) in the Hyatt & Prawitt (2001) states that the locus of internal and external control is an individual's level of hope that reinforcement or the results of their behavior depending on their own behavior or their personal characteristics. Those who believe they can control the destination is said to have an internal locus of control, while looking at their lives are controlled by outside forces are said to have an external locus of control.

In attribution theory, Locus of Control is a way of looking someone to an event if she feels can or cannot control the events that happen to him. Control of human not just a simple process but depends on the control itself and on whether the individual receives a causal link between behavior that requires control, both in the principal and agent relationship.

### **2.4 Auditor Internal Performance**

Performance (performance) is the result of work that can be achieved by a person or group of people in a company in accordance with the authority and responsibilities of each in order to achieve company objectives legally, do not violate the law, and in accordance with the moral and ethical (Judge. Et al, 2001).

Determinants of employee performance can be explained by using the approach of attribution theory which states that two basic categories attribution inherent in an employee who will determine its performance, the attribution is internal or dispositional (associated with the properties of people), and which are external or situational (which can be connected with one's environment (Bateman, 1984 in Maryani, 2010). It can be concluded that the employee's performance is determined by two factors: internal factors and external factors employees. Internal sources such as talent, ability, willingness and effort. While an external source consists of the work environment, co-workers, and leaders (Maryani, 2010).

Inherent differences in the nature of the internal and external attribution theory can be overcome by believing the teachings of THK as guidelines that can guide every individual both superiors and subordinates so happens that positive communication and able to provide good performance for the organization.

### **2.5 Tri Hita Karana**

Philosophy of Tri Hita Karana Bali culture that emphasizes the balance theory states that the Hindu society tend to view themselves and their environment as a system that is controlled by the value of the balance, and manifested in the form of behavior (Gunawan, 2009). Tri Hita Karana culture contains values the importance of

alignment behavior in life and work. Research by Gunawan (2011) revealed that the values of the philosophy of Tri Hita Karana form of mental attitudes and behavior of managers who have played a role in the growth and THK Performance is a philosophy and has become a way of life the people of Bali in all aspects of life. THK contains elements *parahyangan* (harmonious relationship between man and God), *pawongan* (harmonious relations between people), *palemahan* (harmonious relationship between humans and the environment). THK concept of culture is a concept that emphasizes the principles of harmonization, alignment, and balance between economic, environmental and cultural preservation, as well as aesthetic and spiritual (Riana, 2010).

THK doctrine was believed to provide a balance of life for the individual people of Bali. So in this case the attribution theory and agency theory is closely associated with the teachings of THK. This means that if an individual who has an external or internal locus of control in attribution theory will be balanced, or more likely to lead to an internal locus of control to achieve better performance. While in the context of the relationship between superiors and subordinates are also very real influences, which are able to reduce the arrogance THK superiors or subordinates at work.

## **2.6 Internal Auditor / Regional Inspectorate**

Internal auditors are persons or entities who carry out internal auditing activity. Therefore, internal auditors continually strive to enhance and complement each activity with a direct assessment of any form of supervision to be able to follow the development of an increasingly complex business world (Nasution, 2003).

In Government Regulation No. 41 of 2007 on the Organization of the regional superintendent of Article 12 mentioned elements are the Regional Supervisory Board, who then called the District Inspectorate. Regional Inspectorate became pillars that served as a supervisor at once guards in the implementation of the program set out in the Regional Budget (Hutabalian and Pasmaulina, 2010).

## **2.7 Conceptual Framework**

Conceptual framework of this study explain that to realize the performance of the internal auditor needs a fundamental behavior and felt able to control themselves each individual is Locus of Control of internal and external (Hyatt and Prawitt, 2001). Effect of locus of control moderated by Tri Hita Karana. The conceptual frameworks of this study are presented in Figure 1.

## **2.8 Formulation of Hypothesis**

### *2.8.1 Influence of Locus of Control on Auditor Internal Performance*

Based on the results obtained and Prawitt Hyatt (2001) no symptoms that both the structure of the audit and the locus of control is estimated to affect auditor performance. Patten (2005) suggests a potential role of audit structure and locus of control in the internal audit department; it will be able to enrich the knowledge and insight to the audit department staff to improve performance.

According Saputra (2012) in his study states that internal auditors who have an internal locus of control have a better level of performance than the internal auditors who have an external locus of control.

Based on the above explanation of the results of previous studies, the hypothesis can be formulated as follows:

H1: Locus of control affects the Auditor Internal Performance Inspectorate of Government.

### *2.8.2 Relationship Locus of Control, Auditor Internal Performance and Tri Hita Karana*

The results of the study Patten (2005) shows that the understanding of the structure of the audit and its relationship with Locus of Control can help internal audit departments to improve the performance of their staffs. Patten (2005) also expressed when the auditor has an internal locus of control, so that they will believe her ability to complete their jobs, it will create a sense of satisfaction of their work and also to improve their performance. Hyatt and Prawitt (2001) found that in companies that are not structured, higher performance than the internal external. However, contrary to expectations, there was no significant difference in performance between the internal and external in a structured corporate environment. This means that no significant relationship was found between experience and Locus of Control for respondents from the more structured company.

Research conducted by Saputra (2012) states that the loci of control have a significant effect on the performance of the internal auditor in the hotel with a variable Tri Hita Karana as a moderating variable. Saputra (2012) also states that internal auditors who have an internal locus of control have better performance with Tri Hita Karana as moderating compared with the internal auditors who have an external locus of control.

From the above explanation of the results of previous studies, the hypothesis can be obtained as follows:

H2: Tri Hita Karana moderating effect of locus of control on the performance of the internal auditor's government inspectorate.

## **3. Research Methods**

### **3.1 Research Methods**

The number of internal auditors in each Inspectorate Office District / City in Bali province is 16 people of nine Inspectorate Office District/City, only 5 Office of the Inspector that gives permission to do the distribution of the questionnaire, while the four other Inspectorate Office is conducting an audit process so do not be distributing

questionnaires. To get a quick response to a questionnaire spread, researchers confronts internal auditors who are in office and take back the completed questionnaires.

The study population was all auditors on five (5) Office of the Inspector in Bali (Klungkung, Karangasem, Gianyar, Bangli and Buleleng). The sampling technique used purposive sampling to certain criteria, namely the internal auditors who worked at least 1 year. The research design used in this study is a survey method. Survey researches design that every Office Inspectorate directly approached and given a questionnaire. The number of auditors who meet the criteria of sample who participated in this study as many as 34 people with the details as presented in Table 1.

### 3.2 Operational Definition of Variables.

#### 3.2.1 Locus of Control

Locus of control is defined as a level one accepts personal responsibility for what happens to them (Lopez. Et al, 2008). To measure the locus of control variable will be used instrument consisting of 29 items and has been used extensively in psychological research and is also the locus of control measure used by Hyatt and Prawitt (2001), Patten (2005), Chetty (2008) and Menezes (2008).

Statement for internal locus of control indicator scorable answer is 0 statement for an external locus of control indicator scorable answer is 1, while there are some statements in the indicators that are Distracter items. By using such instruments, Locus of control scores can range from 0-23 with a note that the value is less than or equal to 12 indicates a tendency "internal", whereas a higher value or equal to 13 indicates the quality of the "external".

#### 3.2.2 Auditor Internal Performance

Definition of performance (performance) is the result of the quality and quantity of work achieved by an employee in carrying out their duties in accordance with the responsibilities assigned to him (Mangkunagara, 2010).

Variables measured by the performance construct of Patten (2005), which consists of 18 items to measure the performance of the survey participants. Internal auditors are being sampled were asked to identify the level of performance of 18 different items. Results of responses using the 1-5 scale ranging from "strongly disagree" at the lower limit of the scale (1) and "strongly agree" at the upper limit of the scale (5). Scores for each of the 18 items are combined and produce a total score of the performance of the internal auditors Inspectorate.

#### 3.2.3 Tri Hita Karana

Variable THK specifically intended to explain the orientation of organizational culture at the level of department or section. THK cultural perception variables measured by the instrument developed by Gunawan (2009). THK orientation measured with 13 grains of questions that have been used by Gunawan (2009). 1-5 Likert scale used ranged from "strongly agree" at the lower limit of the scale (1) and "strongly disagree" at the upper limit of the scale (5).

### 3.3 Data Analysis Techniques

To examine the effect of task complexity variables and Locus of Control on Auditor Internal Performance Regression test was used, whereas modern behavior Tri Hita Karana with variable complexity of the task and Locus of Control is done by testing Moderated Regression Analysis (MRA). Previously tested the validity and reliability of the above instruments are used. This study used the classical assumption that also includes test *multicollinearity*, *heteroscedasticity* test, and test for normality. Test the validity of using the Pearson Correlation scores correlate to each of the questions with a total score which is the sum of the correlation. Be valid if the variables have a positive correlation coefficient greater than 0.3 (Sugiyono, 2010) or the significance of less than 0.05, whereas the variable said to be reliable if the Cronbach alpha value greater than 0.70 (Ghozali, 2011). Tests conducted using the Kolmogorov Smirnov normality with Asymp coefficient. Sig is greater than 0.05. Used to detect the presence of *multicollinearity* tolerance value  $\leq 0.10$  and Variance Inflation Factor (VIF)  $\geq 10$  testing *heteroscedasticity* using test Park by regressing the absolute value of residuals with the independent variables. If it has a significance value above 0.05, is said not happen *heteroscedasticity*.

To test the effect of the dependent variable (performance) with the independent variables (locus of control and task complexity) and to test the interaction effect of moderating variables (tri hita karana) using Multiple Linear Regression and Moderated Regression Analysis (MRA), as the following equation:

a) Multiple linear regression model for hypothesis 1:  $AIP = \beta_0 + \beta_1 LOC + \beta_2 THK + e$

b) MRA equation model for hypothesis 2:

$$AIP = \beta_0 + \beta_1 LOC + \beta_2 THK + \beta_3 LOC*THK + e$$

Specification:

AIP = Auditor Internal Performance

LOC = Locus of Control

THK = Tri Hita Karana

LOC \* THK = Interaction between the Locus of Control with the Tri Hita Karana

#### 4. Results and Discussion

Profiles of the respondents in this study are grouped according to age, education, and the auditor's work. Characteristics of respondents by age shows at the age of 30-39 years are as much as 20%, of respondents were in the 40-49 years age as much as 41.76% and by the age of 50-59 years as much as 38.24%. Most respondents educational background is as much as 82.35% S1, S2-S3 educated as much as 17.65%. Based on the working lives of the respondents, a total of 88.24% of respondents have a service life of 1-10 years and 11.76% have a service life of > 10 years. The results of testing the validity and reliability of the instrument indicates that the instrument used in this study is valid and reliable, as indicated by the value of the item-total correlation coefficients of variables is greater than 0.3 and less than 0.05 significance. Reliability test results shows Cronbach alpha values for all variables used in this study is greater than 0.70. The results of a descriptive analysis of the variables Locus of Control on the average show score of 9, which means the majority of respondents in a state of internal locus of control, with a minimum of 6 and maximum score is 13. performance variable has a minimum value of 67 and a maximum value of 81 with the average -rata 73.11, that the performance of the respondents in this study are included in the high category, because of the 18 questions, obtained an average total respondents is 73.11, so the majority of respondents are strongly agree. Tri Hita Karana variable consists of 13 questions with a minimum value of 13.00 and the potential is the potential maximum value is 65.00. Average score for the variable Tri Hita Karana is equal 54. This indicates that the variable Tri Hita Karana some respondents stated the answer strongly agree. Testing results multicollinearity VIF value is less than 10, the test with the test *heterokedastisitas* Park shows the value of the significance of all the variables above 0.05. Kolmogorov Smirnov normality test showed Asymp.Sig result of 0.593.

Statistical analysis showed the hypothesis 1 is accepted. There is significant Locus of Control (LoC) on the performance of auditors. These results indicated that the participants who were in the category of internal LoC capable of affecting the performance of the internal auditors. Someone who has an internal locus of control will view the world as something that can be predicted, and the behavior of individuals played a role in it. They are individuals who have the confidence that they are responsible for the conduct of their work in the organization. In this case the internal auditors within five (5) Office of the Inspector in the province of Bali believes himself that to improve performance, they have to do the work based on the capacity that is in accordance with their respective responsibilities in carrying out the job as a government auditor. The results obtained support the research and Prawitt Hyatt (2001) and Saputra (2012) which states Locus of control affects the performance of the internal auditors and internal locus of control have a better level of performance than the internal auditors who have an external locus of control.

While the results of testing hypothesis 2 which states that the Tri Hita Karana (THK) moderate the influence of locus of control on the performance of the internal auditors government inspectorate, successfully accepted. This indicates that government auditors in the Office of the Inspector in the province of Bali in this case as Hindus have actually implement the teachings of THK as major capital principle of their lives as individuals are constantly looking at themselves and the environment as a system that is controlled by the value of the balance, and manifested in the form of behavior. It is the same with the view they are seen in the attitude of self-control is internal (internal LoC) that stands in his duties as an auditor for the government so it can have an impact on performance improvement. This supports the results of research conducted by Saputra (2012) which states that internal auditors who have an internal locus of control have better performance with Tri Hita Karana as moderating compared with the internal auditors who have an external locus of control.

#### 5. Conclusions, Limitations and Suggestions

Based on the results of testing that has been done, the overall hypothesis formulated in this study successfully received. Locus of Control (LoC) affects the performance of the internal auditors. It is because the respondents are in the LoC condition internally. Results of moderation Tri Hita Karana (THK) gives the results of a positive influence on the performance of the internal auditors. THK values believed by the internal auditor as the main capital principle of their lives as individuals are constantly looking at themselves and the environment as a system that is controlled by the value of the balance, and manifested in the form of behavior. It is proven to provide support to the LoC can improve the performance of the internal auditors.

This research is expected to contribute to the interested parties such as the Office of the Inspector in the province of Bali in formulating policies and standards to enhance the implementation of the guidelines work for the auditor. In addition to always consider the values of philosophy/religion as a factor to be considered in delivering audit assignments in various forms of implementation are possible.

This research cannot be separated from some limitations. Here are some limitations and suggestions that can be given as follows:

- a. This study has inherent limitations due to the study uses primary data obtained through questionnaires, namely the possibility of differences in perception between researcher and respondent. Therefore, the study would be more representative if combined with the method of the interview so that the perception of the

- respondents to the question or statement can be known in depth.
- b. This study used a sample only internal auditors working in the office of the Inspectorate in Bali Province. Thus, the results and conclusions of this study cannot be generalized to the entire internal auditors in the Office of the Inspector in the entire Indonesian. Future studies are expected to expand the coverage area of the sample in order to obtain the results of the study with a higher level of generalization.
  - c. This study uses only variable Locus of Control and the Tri Hita Karana (the value of Hindu philosophy) to determine the effect on the performance of the internal auditors. The researchers further recommended considering the use of other variables organizational commitment, self-confidence, job satisfaction, and the development of variable values of other philosophies and so on.

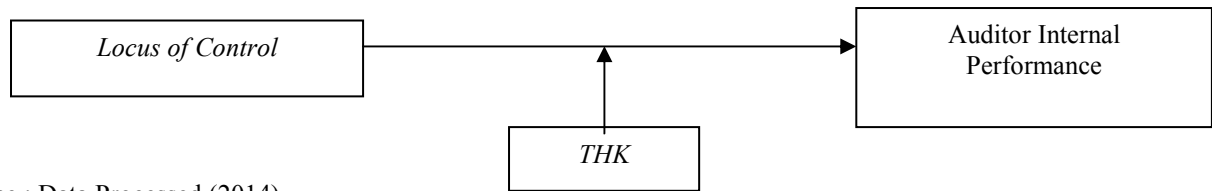
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**Attachment**

Figure 1. Conceptual Framework



Source : Data Processed (2014)

Table 1. Details of the number of samples

Description	Number
1. Karangasem Regency	4
2. Klungkung Regency	5
3. Gianyar Regency	6
4. Bangli Regency	6
5. Buleleng Regency	13
Total	34

Source : Data Processed (2014)

Table2. Descriptive Statistics

	Descriptive Statistics			N
	Mean	Std. Deviation		
kinerja	73.1176	3.54849		34
LoC	9.5882	2.25788		34
THK	54.3235	3.32776		34

Source : Data Processed (2014)

Table. 3  
 Testing Hypotheses 1 and 2: Multiple Linear Regression

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.754 <sup>a</sup>	.568	.525	2.44680

a. Predictors: (Constant), THK, kompleksitas, LoC

Coefficients <sup>a</sup>							
Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1 (Constant)	-2.104	12.316		-.171	.865		
LoC	.588	.223	.374	2.640	.013	.719	1.392
THK	.783	.150	.735	5.220	.000	.728	1.375

a. Dependent Variable: kinerja  
 Source : Data Processed (2014)

Table 4. Testing MRA : Hypotheses 2

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.765 <sup>a</sup>	.585	.543	2.39817

a. Predictors: (Constant), MLTHK, THK, LoC



ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	242.993	3	80.998	14.084	.000 <sup>a</sup>
	Residual	172.536	30	5.751		
	Total	415.529	33			

a. Predictors: (Constant), MLTHK, THK, *LoC*

b. Dependent Variable: AIP

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	-160.574	47.394		-3.388	.002
	<i>LoC</i>	17.611	4.223		4.171	.000
	THK	4.111	.842		4.881	.000
	MLTHK	.306	.075		-4.064	.000

a. Dependent Variable: AIP

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