

Conference Paper

Internal Control and Accountability of Local Government Performance in Indonesia

ARY Suharyanto¹, Sutaryo¹, Yoshia Mahullete¹, Endah Meiria², and Supriyono²¹Universitas Negeri Sebelas Maret, Jl. Ir. Sutami No.36A, Jebres, Kota Surakarta, Jawa Tengah 57126, Indonesia²Universitas Islam Negeri Syarif Hidayatullah, Jl. Ir. H. Djuanda No. 95, Ciputat, Kota Tangerang Selatan, Banten 15412, Indonesia

Abstract

This study discusses the accountability of local government performance. The purpose of this study is to obtain empirical evidence on the effects of internal control on the accountability of local government performance in Indonesia. The sample used in this study is 910 local governments in Indonesia in 2013 and 2014. The variables used include the dependent variable—the accountability of local government performance; the independent variables—the capability level of APIP, the number of auditor, the education level of auditor and the educational background of the auditor; and the control variables—geographic location, amount of assets and the amount of PAD. This study uses secondary data obtained from Kementerian PAN and RB, BPKP, and BPK RI. The data is formed into panel data, combination of time-series data and cross-section data, processed using a multiple regression model with software STATA 12. The results indicate that independent variables—the capability level of APIP and the educational background of auditor—affect the accountability of local government performance. While the number of auditor and education level of auditor did not affect the accountability of local government performance. Control variables—the geographical location and the amount of assets—affect the accountability of local government performance, while the amount of PAD has no effect.

Keywords: performance, internal control, capability level of APIP, educational background, accountability

Corresponding Author:
Supriyono
supri1101.sy@gmail.com

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1. Introduction

Indonesian Law No. 28 of 1999 regarding the Implementation of Corruption-, Collusion- and Nepotism-free State mentions that one of the state management general principles is the Accountability Principle; all activities and final result of state management should be accountable in front of the community or people as the holder of highest

state sovereignty according to the prevailing regulation. The local autonomy era in Indonesia has started from 1999; thus, the local government's authority to manage and strive for people's welfare is increasing. This process needs continuous evaluation, especially on the result achieved by the local government as the implementation of accountability toward their people.

Currently, we heard of the state agency performance as a result of the evaluation from the Ministry of Administrative and Bureaucratic Reform, which states that there are several ministries with low performance and several other with high performance (www.detik.com). Several parties argue that this assessment has no fundament; the assessors have no authority to perform the assessment, and that the assessment is tendentious, because it is related with cabinet reshuffle (www.tempo.com). Another party argues that the indicators and method used in the assessment need further examination. However, there are some other parties who support it, because it becomes a mean for transparency and accountability of state agencies (www.kompas.com).

Despite of the pro and contra around the assessment, the problem around public sector performance measurement has become a hot issue from 1970s with the widespread of New Public Management (NPM) concept in the Western world. Jones and Pendlebury (2010; 27) explain that there are six main obstacles in the measurement of government performance: cost assessment, reliability of output assessment, causal relationship between input and output, the scope of output measurement, comprehension of assessment reporting and performance control. This means that, unlike private/business sector in which the performance assessment is more certain and definite (mostly profit), in public sector it is more complex.

According to the Presidential Regulation No. 29 of 2014, the substitute for Inpres No. 7 of 1999 that regulates the government agency accountability, performance is the output or result of activities/programs that have been or will be achieved related to the use of budget with measured quantity and quality. The Accountability of Government Agency Performance System (Sistem Akuntabilitas Kinerja Instansi Pemerintah-SAKIP) is a systematic sequence of various activities, tools and procedures designed to determine and assess, collect data, classify, resume and report government agency performance, as an effort of accountability and government agency performance improvement. Performance accountability is the manifestation of government agency responsibility for the success or failure in performing the programs and activities to achieve measureable organizational mission, with the predetermined target stated in periodical performance report. Government Agency Performance Accountability

Report (Laporan Akuntabilitas Kinerja Instansi Pemerintah-LAKIP) is then reviewed and evaluated by the Government Internal Control Apparatur (Aparat Pengawasan Internal Pemerintah-APIP) under the coordination of the Ministry of Administrative and Bureaucratic Reform. The result of this evaluation will be stated with the score in 1 – 100 scale and will be categorized into several ranks: AA (>85 – 100), A (>75 – 85), B (>65 – 75), CC (>50 – 65), C (>30 – 50) and D (0 – 30). Following is the result of Accountability of Government Agency Performance (Akuntabilitas Kinerja Instansi Pemerintah-AKIP) evaluation in 2013–2014 on all local governments (Province, Districts and Municipality):

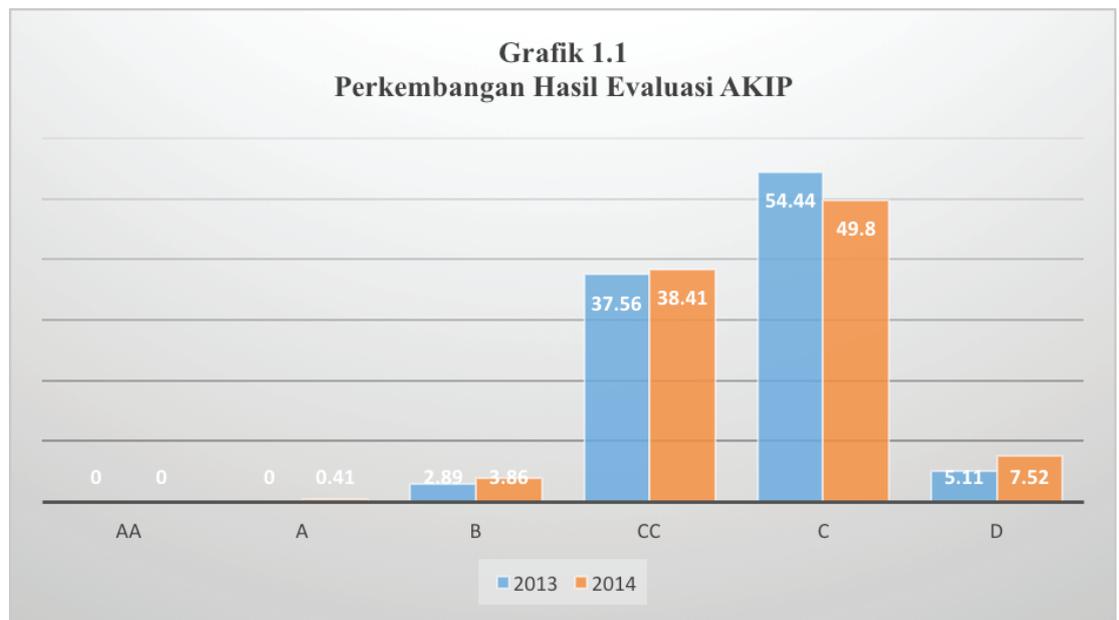


Figure 1: Source: Processed data from the Ministry of Administrative and Bureaucratic Reform.

From the graphic given in Figure 1, we can see that even though there is an increase in the average performance; 0.41 percent of local governments got A, 2.89 to 3.86 percent got B and 37.56 to 38.41 percent got CC, however, a lot of local governments still got C (54.44% in 2013 and 49.8% in 2014) and D (5.11% in 2013 and 7.52% in 2014). There is an increase in local governments that got D, for around 2.41 percent. further, from 23 local governments that got D in 2013, 9 of it got the same category in 2014. From 37 local governments that got D in 2014, 5 local governments got D after getting CC and C in 2013, or in other words, experienced a decrease, while the other 23 is a new evaluation that were not evaluated in 2013. This shows that the performance accountability has not got full attention from the local government. Thus, the performance accountability becomes a topic that is interesting to be studied.

Presidential Regulation No. 29 of 2014 also provides a further authority for APIP to take a role in achieving the targeted local government performance. APIP performs a review on performance report in order to confirm the reliability of the information presented by the local government (Article 28). APIP also evaluates the implementation of SAKIP and/or performance evaluation based on the needs according to their authority (Article 29). According to PP No. 60 of 2008 regarding the Government Internal Control System, the definition of internal control is all process of audit, review, evaluation, supervision and other supervision on the implementation of organizational duties and function in order to assure that the government activities have been performed effectively and efficiently according to the predetermined standard, with the final aims to achieve good governance. Thus, the review and evaluation of performance report in a form of internal control.

Internal control on the implementation of duties and government agency functions is conducted by APIP (PP No. 60 of 2008, article 48, clause 1). Internal control is conducted by professionals who own auditor certificate with deep understanding on organizational business culture, system and process. In implementing the supervisory duties, internal auditor is expected to follow the auditing standard, both the international standard and the audit standard for APIP; they are also required to fulfill the profession code of ethics. Thus, the quality and capability of APIP is needed in the process of achieving organizational objectives and target, which in turn will achieve maximum performance.

The study on internal control and public-sector performance has been widely performed, among others, by Mihret and Yismaw (2007) who study the effectiveness of internal audit on public sector. Arena and Azzone (2009) study the factors that improve the effectiveness of internal audit, Aikins (2011) relates the internal audit with the government's financial performance, Ye, Cheng and Gao (2014) study the effect of auditor characteristics on audit failure. Sumarjo (2010), Suhardjanto and Yulianingtias (2011) and Marfiana and Kurniasih (2013) study the financial performance of local government. Mustikarini and Fitriyani (2012), Sudarsana and Rahardjo (2013), Arifianti, Payamta and Sutaryo (2013), Widyastuty (2014), Saktiawaty (2014), Sedyaningsih and Zaky (2014), Kusumaningrum and Sutaryo (2015) and Harumiaty (2015) study government's performance using EKPPD as a performance indicator. While Anjarwati (2012) and Nurdin (2013) study the relationship between the area characteristics with performance using the result of AKIP evaluation as the indicator.

This study uses the result of AKIP evaluation as a more comprehensive indicator of local government performance than EKPPD because AKIP assesses the overall performance system, starting from planning, measurement, data processing, reporting and evaluation; not only the performance report as EKPPD does. Besides that, this study also uses internal auditor attributes including education level and background.

2. Theoretical Review and Hypothesis Development

2.1. Theoretical review

Jensen and Meckling (1976) define agency relationship as a contract in which one or more principals pay agent to perform several services for their interest by delegating several authorities to take decision to the agent. A conflict of interest will arise and the delegation of duty will be given to the agent in which the agent does not pursue the attempt to maximize principal welfare.

According to Halim and Abdullah (2010), in the agency relationship, there are two parties who make agreement or contract, the one who provides authority or power (principal) and the one who receive the authority (agent). Agency relationship in the government can be showed in the relationship between the people (as the principal) and the government (as the agent). The relationship is a result of contract between the people who utilize the government to provide services needed by the people. Halim and Abdullah (2010) mention that in the government, law is the implicit form of contract among the executive, legislative and public.

According to Arifah (2012), there is a conflict of interest or clash of interest between principal and agent. The conflict often time poses financial loss for many parties, thus, both internal and external mechanism are needed to fix it. The main problem in the relationship between agent and principal is the existence of information asymmetry. To solve this problem, a good accountability is needed. According to Mardiasmo (2006), public accountability is the responsibility of agent to provide the accountability, present report and disclose all activities under their responsibility to the principal who has a right to ask for the accountability.

2.2. The accountability of local government

According to the Presidential Regulation No. 29 of 2014 regarding Government Agency Performance Accountability System, performance is the output or result of activities/programs that have been or will be achieved related to the use of budget with measurable quantity and quality. Performance accountability is the manifestation of government agency responsibility for the success or failure in performing the programs and activities to achieve measurable organizational mission, with the predetermined target stated in periodical performance report.

Governance improvement and management system is an important agenda in the governmental reform that is currently performed by the government. Government management system that focused on the improvement of accountability and outcome-oriented performance is known as SAKIP. SAKIP is implemented through a 'self-assessment' by each government agency, this means that government agencies independently plan, implement, measure and supervise their performance as well as report it to the higher agency. The implementation of a system with such mechanism needs an evaluation from an independent party to receive objective feedback in order to improve the accountability and performance of the government agency (Regulation of the Ministry of Administrative and Bureaucratic Reform No. 20 of 2013). According to the Presidential Regulation No. 29 of 2014 regarding Government Agency Performance Accountability System, APIP performs a review on the performance report in order to confirm the reliability of information presented to the local government. The result is presented in the statement of review signed by APIP. Then, APIP will evaluate the performance report under the coordination of the Ministry of Administrative and Bureaucratic Reform. APIP in provincial level will evaluate the performance report from district/municipality, while performance report from province, ministry and agency will be evaluated by the Ministry of Administrative and Bureaucratic Reform. According to the Regulation of Ministry of Administrative and Bureaucratic Reform No. 20 of 2013, evaluation is conducted on all aspects of accountability system, including planning, measuring, reporting, evaluating and performance achievement performed by the government agency with the following allocation.

To find the extent of government agency implement and present their performance, and to encourage the improvement in government agency performance, a ranking on the result of the performance accountability is needed (The Regulation of Ministry of Administrative and Bureaucratic Reform No. 20 of 2013). To make the rank, the

TABLE 1: The aspect and allocation of AKIP score weight.

No.	Aspect	Weight	Component and Sub-component
1	Planning	35%	Strategic planning 12.5%; annual performance planning 22.5%
2	Performance measurement	20%	Fulfillment of measurement 4%; measurement quality 10%; measurement implementation 6%
3	Performance reporting	15%	Fulfillment of reporting 3%; presentation of performance information 8%; utilization of performance information 4%
4	Performance evaluation	10%	Fulfillment of evaluation 2%; quality of evaluation 5%; utilization of evaluation information 3%
5	Performance achievement	20%	Current performance (benchmark) 5%; other performance 5%
	Total	100%	

Source: The Regulation of Ministry of Administrative and Bureaucratic Reform No. 20 of 2013

evaluation result in the form of score in 1–100 scale is classified into several categories with the following criteria.

TABLE 2: Classification of AKIP evaluation result and its interpretation.

No.	Category	Score	Interpretation
1	AA	>85–100	Satisfactory
2	A	>75–85	Excellent
3	B	>65–75	Good, need minor correction
4	CC	>50–65	Sufficient, need non-fundamental correction
5	C	>30–50	Deficient, need large correction, including fundamental correction
6	D	0–30	Very deficient, need large correction and change in very fundamental aspects

Source: The Regulation of Ministry of Administrative and Bureaucratic Reform No. 20 of 2013

2.3. Internal control of Indonesia’s local government

Local inspectorate in Indonesia is regulated in Government Regulation No. 60 of 2008 regarding SPIP in the second part regarding Internal Control on the Implementation of Government Agency Duty. Local inspectorate is the internal auditor for local government. As an internal auditor, the existence of inspectorate is very important, especially viewed from its basic function to perform supervision in all activities related with the

duties and functions of local government agencies according to the Local Government Budget (Anggaran Pendapatan dan Belanja Daerah-APBD). Government control will improve financial accountability through evaluation and improvement in internal control, risk management and government management process [1].

2.4. The level of APIP capability

The Institute of Internal Auditors (IIA) has developed a model of internal audit capability known as Internal Audit Capability Model (IACM) to improve the accountability and role of internal auditor in public sector. According to the regulation of Bureau of Financial and Developmental Control (Badan Pengawasan Keuangan dan Pembangunan-BPKP) Head No. 1633 of 2011 regarding the Technical Guideline for Government Internal Control Agency Capability Improvement, IACM is: (a) a communication vehicles, a basis to effectively communicate the role of APIP and its role in organization and for stakeholder, as well as to show the importance of internal control in making decision; (b) a framework for assessment, a framework to assess the ability of APIP in fulfilling the professional standard and internal control practice, both through self-assessment and external assessment; and (c) a road map for orderly improvement, a road map in building capability by determining organizational steps that can be implemented in order to build and strengthen internal control activities.

IACM classifies APIP capability level into five levels: Level 1 (Initial), Level 2 (Infrastructure), Level 3 (Integrated), Level 4 (Managed) and Level 5 (Optimized). Each level consists of six elements, the role and service of APIP, human resource management, professional practice, accountability and performance management, organizational culture and relationship and the management structure.

2.5. Hypothesis development

In all governmental level, internal audit is an important part in achieving a good, economical, efficient and effective governance. IACM classifies the level of APIP capability into five levels, each level describes the characteristic and capability of APIP in the level which is known as Key Process Area (KPA). APIP capability level shows that the higher the level achieved by local inspectorate, the better is the capability and quality that they have. According to Kusumaningrum and Sutaryo (2015), APIP capability does not affect the implementation of local government activities that might be caused by the less varies achievement of APIP level until 2012.

The higher the level of APIP capability, it will be more capable to oversee and help local government in achieving better performance.

H₁ = The level of APIP capability has a positive effect on the accountability of local government performance

In the local government, internal auditor is a position that has an important contribution such as their duties, authorities and responsibilities to perform supervisory role on the local government internal affairs. The effectiveness of internal auditor increases when the ratio of internal auditor increases [3]. According to Kusumaningrum and Sutaryo (2015), the number of internal auditor has a positive effect on the local government performance.

The larger the number of internal auditor, the more effective the implementation of their duties because they will have a good member rotation, which in turn will make the control of local government performance better.

H₂ = The number of APIP auditor has a positive effect on the accountability of local government performance

According to Koh et al. (2009) in Ye et al. (2014), education helps auditor to perform a more efficient audit. According to Bamber et al. (2010) in Kusumaningrum and Sutaryo (2015), high education level, especially MBA title for managers, has a positive effect on the company performance. This is due to the large knowledge owned by manager may affect his/her decision. Based on the study result, the level of someone's education background will affect their performance.

The higher the internal auditor's education level, the more effective the control they perform on local government.

H₃ = Internal auditor education level has a positive effect on the accountability of local government performance

Education background is believed to affect their way of thinking and behaviors. According to Bonner and Walker (1994) and Libby (1995) in Ye et al. (2014), education may facilitate individual acquisition of knowledge needed to make audit decision. Accounting or auditing graduates will be able to reduce audit failure [30]. According to Carolina and Sutaryo (2014), one's education background affects one's performance in performing a duty and activity.

The larger the numbers of APIP auditors who have educational background in economy, the more effective the internal control.

H₄ = APIP auditor education background has a positive effect on the accountability of local government performance

3. Research Method

This study is a quantitative study performed using scientific method to build hypothesis and proved it. The data analyzed in this study is secondary data. In this study, we want to explore the relationship between internal control represented by the level of APIP capability, the number of APIP auditor, the education level of APIP auditor and the APIP auditor's education background on the accountability of local government performance measured using the score of AKIP evaluation result in two years, 2013 and 2014, in all local governments (province, district, municipality) in Indonesia.

The data is collected in panel data form; a combination of cross section and time series data, in which similar cross section unit is measured in the different period. Thus, in other words, panel data is data from similar individual observed in certain time period. The excellence of panel data is, it will enrich the empirical analysis with the method that cannot be implemented on time series data or cross section data.

4. Population and Sample

In this study we determine the research object on all local government including province, district, and municipality in 2013 (529 local governments) and in 2014 (542 local governments), thus resulting in the total of 1.071 local governments. The sampling is performed using purposive sampling technique by taking sample based on certain criteria determined by researcher [22].

TABLE 3: Result of Data Sampling.

No	Explanation	2013	2014	Total
1	Local governments in Indonesia	539	541	1.070
2	Local government that do not perform AKIP evaluation	-83	-47	-130
3	Local governments that only evaluated in 2013 or 2014	-2	-38	-40
	Total	454	456	910

5. Data and Source of Data

The data of AKIP evaluation score is gathered from The Ministry of Administrative and Bureaucratic Reform. The internal control data in the form of APIP capability level, the number of internal auditor, education level of auditor, and education background of auditor are gathered from BPKP, while the data on total assets and local income (Pendapatan Asli Daerah-PAD) is gathered from the Audit Board of the Republic of Indonesia (Badan Pemeriksa Keuangan-BPK RI).

6. Operational Definition and Variable Measurement

Variable is anything that may cause variation in value [22]. This study employs these following variables:

TABLE 4: Variables and Operational Definition.

Name	Acronym	Measurement
Dependent variable		
Accountability of local government performance	LAKIP	The score of local government performance accountability evaluation result for 2013 and 2014, in the range of 0 – 100
Independent variables		
The level of APIP capability	IACM	The result of internal control assessment by BPKP: Level 1 (Initial) = 1, Level 2 (Infrastructure) = 2, Level 3 (Integrated) = 3, Level 4 (Managed) = 4 dan Level 5 (Optimized) = 5
Total number of APIP auditor	SIZE	Total number of auditor in APIP
Education level of APIP auditor	STUDY	$\frac{[(\sum D3 \times 1) + (\sum S1 \times 2) + (\sum S2 \times 3)]}{(\sum \text{Auditor Internal})}$
Education background of APIP auditor	BACGK	$\frac{[(\sum \text{Non Ekonomi} \times 1) + (\sum \text{Ekonomi} \times 2)]}{(\sum \text{Auditor Internal})}$
Control variables		
Geographical location	GEO	Dummy Variable, Java = 2, outside java = 1
Local government assets	ASET	$\frac{[\sum \text{Aset dalam Neraca}]}{100.000.000}$
Local government income (PAD)	PAD	$\frac{[\sum \text{Realisasi PAD dalam LRA}]}{100.000.000}$

7. Data Analysis

We employ multiple linear regression to test the effect of independent variable on the dependent variable. The data is processed using STATA Version 12. Unlike the usual regression, panel data regression has to select the proper estimation model, which consists of selecting estimation method, estimation model, and result interpretation.

This study uses Fixed Effect Model (FEM) and Random Effect Model (REM) estimation. Further to determine the best estimation method between FEM and REM, we use Hausman test. While for the interpretation of the results we perform simultaneous significance test, partial significance test, Goodness of Fit test, and the following regression formula:

$$\text{LAKIP} = \alpha + \beta_1 \text{IACM} + \beta_2 \text{SIZE} + \beta_3 \text{STUDY} + \beta_4 \text{BACGK} + \beta_5 \text{GEO} + \beta_6 \text{ASET} + \beta_7 \text{PAD} + e$$

Notes:

LAKIP = Accountability of Local Government Performance

IACM = Level of APIP Capability

SIZE = Total Number of APIP Auditor

STUDY = Education Level of APIP Auditor

BACGK = Education Background of APIP Auditor

GEO = Geographical Location of Local Government

ASET = Total Local Government's Assets

PAD = Total Local Government Income

α = Constant

$\beta_1, \beta_2, \dots, \beta_7$ = Correlation Coefficient

e = Error Coefficient

8. Result

8.1. Descriptive statistics

The description value of each variable in this study is presented in the following table:

Based on table 5 above, we can see that the accountability of local government performance (LAKIP) of 910 local governments in Indonesia has the average value of 46.01 or in C group (deficient), thus we can say that it needs large correction, including fundamental correction. Based on the data gathered during this study, local

TABLE 5: Descriptive Statistic.

Variable	Mean	Std. Dev.	Min	Max
LAKIP	46.01836	10.29184	15.72	76.36
IACM	1.09681	0.29591	1	2
SIZE	10.90581	9.39309	1	89
STUDY	2.11356	0.31296	1	3
BACKG	1.46513	0.23990	1	2
GEO	1.25054	0.43356	1	2
ASET	3675.85	4572.33	189.61	38605.94
PAD	1344.15	20019.86	2.68	425353.6

(n = 910)

Explanation: IACM = Level of APIP capability; SIZE: Total Number of Auditor;
 STUDY; Education Level of Auditor;
 BACKG: Education Background in Economy/Non Economy; GEO: Java/outside Java;
 ASET: Total Local Government Assets; PAD: Total PAD

government that got highest score in 2013 and 2014 is DI Yogyakarta province with 72.12 and 76.36, respectively. While the lowest score in 2013 is Jayapura district with 20.31 and in 2014 is Mamasa district with 15.72. The local governments that get A (excellent) are two local governments or only 0.22%, B (Good) are 32 local governments or 3.49%, CC (Sufficient) are 358 local governments or 39.00%, C (Deficient) are 481 local governments or 52.40%, and D (Very Deficient) are 45 local governments or 4.90%. Until 2014 there is no local government that gets AA (satisfactory).

Level of APIP capability (IACM), the average result is still in level 1 or in initial category. Until 2014, there are 7.63% or 70 local governments in level 2 (Infrastructure), while the rest 92.37% or 830 local governments still in level 1. The total number of internal auditors (SIZE) is 11.93 people in average. The largest number of internal auditor is in DKI Jakarta province with 89 auditors. The education level of internal auditor (STUDY) has the average value of 2.05, which means most of internal auditor has undergraduate degree. The education background of internal auditor (BACGK) has average value of 1.46, which means that most of internal auditor has education background in non-economy field than economy field.

8.2. Hypothesis testing

The data testing for hypothesis is performed using panel data regression. The testing is performed with Fixed Effect Model and Random Effect Model, and then tested using Hausman Test to find the exact assumption.

TABLE 6: Panel Data Regression - Dependent LAKIP (Fixed Effect Model).

	SIGN	COEFFICIENT	PROBABILITY
IACM	+	2.620666	0.024 ^b
SIZE	+	-0.019394	0.730 ^c
STUDY	+	0.8149567	0.604 ^c
BACKG	+	2.446837	0.337 ^c
GEO	+	0.00	--
ASET	+	0.0008047	0.005 ^a
PAD	+	-0.0000208	0.946 ^c
F		2,81	
SIG.			0.00
R-SQUARE:			
WITHIN		0.0582	
BETWEEN		0.1444	
OVERALL		0.1391	
Explanation: IACM=Level of APIP capability; SIZE: Total Number of Auditor;			
STUDY: Education Level of Auditor; BACKG: Education Background in Economy/Non-Economy Field;			
GEO: Java/Outside Java; ASET: Total Assets;			
PAD: Total PAD, significance level: ^a = 1%; ^b = 5%; ^c = 10%			

The result of Random Effect Model (REM) testing is presented at table below:

After we get the result of fixed effect model and random effect model assumption, we determine the most precise estimation method with Hausman Test. Hausman Test shows the result Prob>chiz = 0.3459. Thus, because the value is greater than 0.05 or 5%, then the most precise estimation model is Random Effect Model.

Based on the result of regression testing using Random Effect Model assumption presented in Table 7, the wald chi value is 90.80 with significance of 0.00, lower than 1%. This result indicates that the regression model proposed in this study is fit to be used in hypothesis testing. The result in Table 7 also shows adjusted R² of 0.1728.

TABLE 7: Panel Regression - Dependent LAKIP (Random Effect Model).

	SIGN	COEFFICIENT	PROBABILITY
IACM	+	2.6081	0.006 ^a
SIZE	+	0.066976	0.107 ^c
STUDY	+	-0.3345398	0.763 ^c
BACKG	+	2.926655	0.062 ^c
GEO	+	3.03107	0.003 ^a
ASET	+	0.0006334	0.000439 ^a
PAD	+	0.0000284	0.196 ^c
WALD CHI		90,80	
SIG.			0.00
R-SQUARE:			
WITHIN		0.0485	
BETWEEN		0.1879	
OVERALL		0.1728	
Explanation: IACM=Level of APIP capability; SIZE: Total Number of Auditor;			
STUDY: Education Level of Auditor;			
BACKG: Education Background in Economy/Non-Economy Field;			
GEO: Java/Outside Java; ASET: Total Assets; PAD: Total PAD, significance level: ^a = 1%; ^b = 5%; ^c = 10%			

This result shows that independent variables in this study only explain 17.28% of the variation in dependent variable, while the 82.72% is explained by other variables outside this study.

Table 7 above shows that IACM or the level of APIP capability has a p-value of 0.006 and positive coefficient or in line with the hypothesis, thus H₁ is supported. It means that the level of APIP capability has a positive effect on the accountability of local government performance with the significance level of 1%. The level of APIP capability in Indonesia in 2013 and 2014 is 1.096 in average, which means that there are larger number of local governments in level 1 (Initial) but it has move to level 2 (Infrastructure). One of the characteristics of APIP in level 1 is only perform audit or document review and transaction for accuracy and obedience, which means APIP is not proactive in assisting in improving local government performance because they only focused in obeying the regulation. While on the higher level, APIP is required to shift their basic duty in traditional internal control by integrating itself as an integrated

organization and provide advice on the performance and risk management. Capability assessment is implemented on the identified elements of control that consist of human resource management, performance management and APIP accountability, and relationship and organizational culture. It means that APIP capability shows the overall description of the strength and weaknesses in internal control. The result support Anjarwati (2012) who states that the clear determination of budget target, accounting control, and reporting system simultaneously affect the accountability of government agency performance. However, it contradicts Kusumaningrum and Sutaryo (2015) who state that APIP capability does not affect local government performance. This might be caused by the different performance assessment method between EKPPD and LAKIP. AKIP evaluation is performed on all performance process starting from planning until reporting, while in EKPPD the assessment only focused on the final report. In this case, APIP is involved in achieving organizational objectives.

The variable SIZE shows positive coefficient in line with the hypothesis, however, the p-value is 0.107 or larger than $\alpha = 0.1$. Thus, H₂ is not supported. This means that SIZE measured using the total number of internal auditor has no positive effect on the accountability of local government performance. This might be caused by, based on the data that shows the average number of APIP auditor is 11 people, thus it is hard to perform deeper control and further involved in achieving local government performance. In other word, with limited number of auditor, APIP will only focused on post audit activities or general audit activities. This result does not support the result of study conducted by Kusumaningrum and Sutaryo (2015), which find that local government with large number of auditor has better supervision because the larger the number of internal auditor the more varies the view on the internal control which makes the controlling function of local government performance better. This result also does not support Arena and Azone (2009) in which internal auditor effectiveness increases when the ratio of total number of internal auditor increases. This result also does not support Aikins (2011) who states that the larger the number of internal auditor the more varies the view on internal audit which will improve the activity of government performance control.

The variable STUDY shows p-value of 0.763 with negative coefficient or not contradicts the hypothesis, thus H₃ is not supported. This means that STUDY which represents the level of internal auditor's education has no positive effect on the accountability of local government performance. This might be caused by the internal control performed through audit, review, or other activities are affected by practical factor from field experience rather than auditor's academic ability. Sometimes, the practice in the field

faced by local government is different from the concept or theory in academic field. This is caused by practical measure develops faster than theory. This result supports Kusumaningrum and Sutaryo (2015) which states that with their ability and experience, internal auditor with expertise will have greater effect on government performance. Besides that, the result is also in line with Ye et al. (2014) in which experience has greater effect in determining audit failure than the level of auditor education.

The variable BACKG shows p-value of 0.062 with positive coefficient in line with the hypothesis. Thus, H_4 is supported with significance level of 10%. This means that BACKG which represents education background of local government auditor, whether they have education background in economy or not, has a positive effect on the accountability of local government performance. Auditor with education background in finance or accounting works more thoroughly and put more attention to detail, which shows that auditor with such education background will have higher performance. This result supports the study conducted by Bamber et al. (2010) and Carolina and Sutaryo (2015), but contradicts Setyaningrum and Syafitri (2012) who state that education background does not affect the disclosure of performance in financial statement.

The control variable tested in this study show that GEO has p-value of 0.003 with positive coefficient. This means that geographic location of local government (in Java or outside Java) affects the accountability of local government performance. The variable ASET has p-value of 0.000 and positive coefficient. This shows that ASET, measured using total assets reported in balance sheet, affects the accountability of local government performance. The variable PAD has a positive coefficient and p-value of 0.196, which means, total PAD as reported in the Report of Budget Realization (Laporan Realisasi Anggaran-LRA), does not affect the accountability of local government performance.

9. Conclusion

This study aims to test the effect of internal control on the accountability of local government performance in Indonesia. The result of hypothesis testing shows that the level of APIP capability and education background of APIP auditor has positive effect on the accountability of local government performance. Further, total numbers of APIP auditor and education level of APIP auditor do not affect the accountability of local government performance. The control variable tested shows that geographic location of local government and total assets affect the accountability of local government

performance, while total PAD has no effect on the accountability of local government performance.

The results of this study show that the level of APIP capability has positive effect on the accountability of local government performance, thus this factor should get more attention from related parties. Local government should increase their effort to accelerate the improvement of their APIP capability. Regulator, in this case the central government has to encourage local government to accelerate their effort in improving APIP capability, for example by providing socialization and intense assistance, as well as providing assistance in related regulation. The total number of APIP auditor has no effect on the accountability of local government performance may be caused by the limitation in the number of auditor, thus they are unable to perform another activities beside post audit and traditional audit. Besides that, the limitation in the activities of competence development and weak human resource management in APIP, especially in recruitment process and career pattern (BPKP: 2010). Education background in economy and non-economy is proved to have more effect on the accountability of local government performance than the level of auditor education. This finding also needs more attention from the authority in order to improve the quality of internal control, for example by fixing the system of auditor recruitment and by recruiting auditor with economy or accounting education background.

This study contains limitations that can be improved by future research, such as we do not analyze all score of AKIP evaluation because there are local governments that are not evaluated in 2013 and 2014; the limitedness of capability level score and APIP auditor because not all local government are assessed for their APIP capability by BPKP; and the data on total assets and PAD because not all LKPD data in 2013 and 2014 is provided by BPK RI. These limitations cause the difference in the analysis result, especially if the data needed is not complete.

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