

# The Influence of The Government Internal Control System, Government Accounting Standards, Role of Internal Auditors And The Completion of The Audit Findings To Good Government Governance (Emprical Study on Inspectorate And Badan Pemeriksa Keuangan (Bpk) In West Nusa Tenggara)

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**Abstract:** This research aimed to analyze and examine the hypotheses on the influence the government's internal control system, government accounting standards, role of internal auditors and the completion of the audit findings to Good Government Governance. Respondents in this research are internal auditors of the inspectorate at the provincial / city / regency government in West Nusa Tenggara and BPK's auditors (Representative of NTB). In this research the sampling method used is purposive sampling method. Data were collected through distributing questionnaires to 250 respondents . Data were analyzed using Partial Least Square (PLS) with SmartPLS 3.0 program. The results of this research indicates that government's internal control system, government accounting standards, role of internal auditors and the completion of the audit findings positif significantly influence to Good Government Governance

**Keywords:** Government internal control system, government accounting standard, internal auditor role, audit findings, good governance, institutional theory

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## I. Introduction

Implementation *Good Government Governance* in public sector organizations is a decisive factor in the success of government activities. This is in line with Article 2 Indonesian Presidential Regulation No. 81 of 2010 concerning the Grand Design Reforms is the reference for the Ministry / Agency / Local Government to reform the bureaucracy in realizing good governance in 2010-2025. With good governance will create transparency and public accountability in response to the demands of a large community in the management of state finances. Good governance requires the government to follow by following good management principles such as transparency, openness, accountability, participation, justice and independence, so that the resources of the state in government management really achieve the goal for the prosperity and progress of the people

Internal Control Systems is one of the key factors in the implementation of *good government* governance. Mardiasmo (2009) states that the successful implementation of *governance, good government* must pay attention to the three main aspects of the control, supervision and inspection in each of governance. The results of the examination conducted by the Supreme Audit Agency representatives of West Nusa Tenggara province on Local Government Finance Report (LKPD) in 11 local government institutions in the province NTB Fiscal Year 2012 to Fiscal Year 2016 showed many findings related to the problems of the Internal Control System (SPI) and Compliance Regulation Legislation.

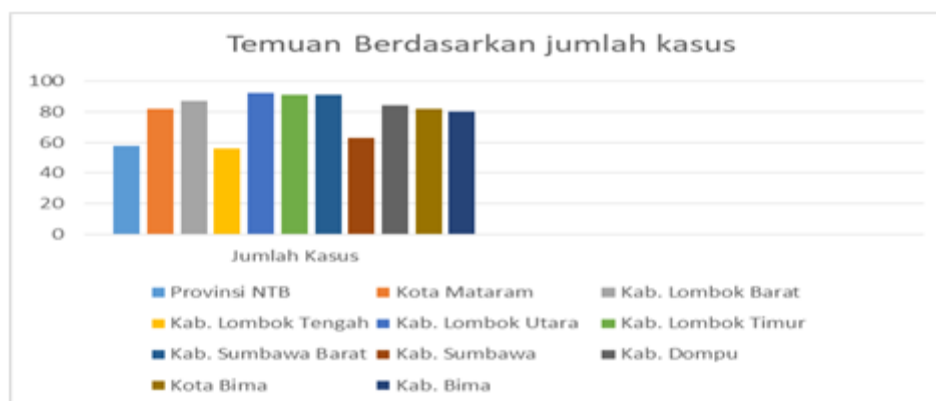
The following table 1.1 is displayed number and type of findings which must be considered and acted upon by the related parties:

**Table 1.1** Summary of Results of BPK RI FY 2012-2016

No	Entitas	Weaknesses of internal control		Non-compliance with the law	
		Cases	of	Cases	Nilai Temuan
1	Provinsi NTB	29		29	Rp207.133.363.554,53
2	Kota Mataram	53		29	Rp12.889.159.096,09
3	Kab. Lombok Barat	47		40	Rp185.911.736.400,38
4	Kab. Lombok Tengah	31		25	Rp28.913.273.305,54
5	Kab. Lombok Utara	43		49	Rp37.545.678.914,97

6	Kab. Lombok Timur	42	49	Rp52.573.054.935,79
7	Kab. Sumbawa Barat	49	42	Rp46.986.879.313,08
8	Kab. Sumbawa	34	29	Rp9.447.367.707,91
9	Kab. Dompu	28	56	Rp51.060.530.119,70
10	Kota Bima	35	47	Rp31.360.060.533,72
11	Kab. Bima	41	39	Rp20.792.804.411,57
<b>TOTAL</b>		<b>432</b>	<b>434</b>	<b>Rp684.613.908.293,28</b>

Source: BPK Representative NTB (2016)



Based on the number and type of findings in the table above, shows that the Internal Control System (SPI) and Compliance with Legislation on local government in the province of Nusa Tenggara west has not run optimally. The total amount of the findings on the state of financial management performance over the last five years some 866 cases. The problems relating to the implementation of SPI maximally yet in the area of financial management will certainly affect the effort to improve the quality of financial statements, which in turn will affect efforts to establish *government good governance*.

Research conducted by Zeyn (2011), states that the implementation of *good governance* and government accounting standards with high organizational commitment influence on accountability. These results are consistent with research conducted by Habibie(2013). Lestari (2013), Sari (2013) stated that internal control positive significant effect on the implementation of the principles of *good corporate governance* and Aditiawarman (2015). The different results shown by Ruspina (2013), in which the government's internal control system (SPIP) significant negative effect on the implementation of *good governance*.

Another factor that may affect *Good Government Governance* is compliance with regulations of local governments. Government Accounting Standards (SAP) is a standard to be followed in the financial statements of central government agencies and local governments. Users will use SAP's financial statements to understand the information presented in the financial statements and serve as guidelines to unify the perception among policy developers, users and auditors. Their records or administrative issues that are not in accordance with government accounting standards is a common problem faced by local governments. This issue will automatically affect the opinion to be given by the BPK.

Research on Government Accounting Standards carried out by Sari (2013) showed that the implementation of government accounting standards has positive influence on *good governance*. Solikin research results (2011) also show the same thing, namely the application of accounting standards has positive influence on *good governance*. Research on Government Accounting Standards also conducted by Nugraheni and Subaweh (2008) and Kusuma (2012). Nugraheni and Subaweh (2008) in his research indicates that there is influence of the implementation of SAP, knowledge managers and UAPPB UAPPA EI and the availability of facilities and infrastructure in the Inspectorate General of the Ministry of Education to improve the quality of financial statements. Furthermore, research Kusuma (2012) showed that the application of accounting standards of governance and the quality of the financial statements of SKPD / OPD the City of Tasikmalaya in the category of good and a significant difference between the implementation of SAP on the quality of financial reports

Internal auditors have an important role in achieving *good governance* in in government agencies. One of the activities of internal audit is to evaluate the adequacy and effectiveness of the internal control system and ascertain the extent to which the goals and objectives of the program and activities have been defined and in accordance with the goals and objectives of the organization. Cheung and Qiang (2002) suggested that the internal audit function within the organization is improving good corporate governance. The oversight function performed by the internal auditors of government, known as Government Internal Supervisory Apparatus

(APIP) is one of the pillars that are important in achieving *good governance* as a process of *check and recheck* in organizing government (Indarwati, 2013). Government Internal Supervisory Apparatus (APIP) serves as a consultant that can provide added value to the management and no longer detect the problem, but has been changed to prevent problems (News Supervision, 2013). Based on research conducted by Rahmatika (2014), Saptapradipta (2012), Suyono and Hariyanto (2012) revealed that the role of the internal auditor significant effect on the implementation of *good governance*. This is due to the internal auditor can detect and prevent irregularities and provide quality assurance on adherence, effectiveness, efficiency, and effectiveness of achieving the purpose of the duties and functions of the agency. However, this study does not correspond to that made by Habibie (2013) who found that the internal auditor has no effect on the application of *good government* governance.

Tests done by the BPK would be beneficial if the recommendation of the inspection findings followed up by the party responsible for implementing them and not finding the findings are repeated in the next period. According Arifianti, Payamta, and Sutaryo (2013) follow-up on audit findings based on an ongoing improvement effort the performance of the audited entity. Without follow-up of the parliament, the executive, the agency examined and officers authorized to carry out an investigation, inspection becomes ineffective and accountability is only a distant dream. Performance of local governments in NTB in following up on recommendations made by the BPK on the findings of very diverse cases Based on data collected by the Indonesian Forum for Budget Transparency (FITRA) NTB, said that the number of inspection findings entity performance comparable to the amount received recommendations

**Table 1.2** Recapitulation of Follow-Up on Completion of Recommendations to local government entities in West Nusa Tenggara for 2012-2016

NO	Entity	Recommendation	According to recommendation		Not as recommended and in the process of follow-up amount
			amount	(%) completion	
1	Prov. NTB	1.378	1.216	88,24	103
2	Kota Mataram	836	755	90,31	67
3	Kab. Lombok Barat	833	730	87,64	85
4	Kab. Lombok Tengah	824	758	91,99	57
5	Kab. Lombok Timur	887	734	82,75	130
6	Kota Lombok Utara	425	364	85,65	60
7	Kab. Sumbawa Barat	691	616	89,15	73
8	Kab. Sumbawa	488	451	92,42	36
9	Kab. Bima	528	425	80,49	94
10	Kota Bima	698	591	84,67	104
11	Kab. Dompu	670	540	80,60	94

Source: BPK Representative NTB (2016)

Empirical Research on Follow-up completion of the audit results are still very limited. In China, Huang and Wang (2010) in Lin and Liu (2012) found that efforts *auditee* or other relevant parties implement the recommendations of the examination results is a very important factor for government auditors in performing their duties and to improve the transparency and accountability of government. Lin and Liu (2012) showed that the efforts of *the auditee* and other stakeholders in the follow up on the examination results can reinforce the effectiveness of government auditing. This is indicated by the level of corruption declines with ditindaklanjuti recommendations resulting from a thorough examination. Sari Research (2013) the completion of the audit findings are used as variables associated with *government good governance*, where the research results show that the completion of the audit findings positive effect on the application of the principles of *good governance government*. Astriani (2014) who conducted the research with the title "*The Influence Resolution Of Audit Findings On The Quality Of Local Government Finance*" found that follow-up on audit findings affect the quality of financial reporting and improved *good governance*.

This study is an extension of previous research that has been done by Sari (2013). Differences of this research with the research of Sari (2013) contained in the additional role of internal auditors. According to the Government Auditing Standards (2013) which has been used by Saptapradipta (2012), variable internal audit role projected in 7 sub-variables: independence, objectivity, competence, due professional care, internal audit activities, communications and monitoring the results of the follow-up assignment. According to similar research related to the *Good Government Governance* that have been done before, variable completion of the audit findings into new variables that have not been studied in previous research. The object of research is usually conducted at SKPD in local government, whereas in this research done on auditors and inspectors in the

Environmental Inspectorate of government namely the Office of the City / County NTB representing all internal audit institution, and the Representative Office of the BPK in NTB as external auditors

The purpose of the study this can be formulated as follows: (1). Is the Government Internal Control System positive effect on the implementation of GoodGovernmentGovernance?(2). Is the Government Accounting Standards positive effect on the implementation of GoodGovernment Governance?(3). Is the Role of Internal Audit positive effect on the application of the GoodGovernment Governance?(4). Is Completion of Audit Findings positive effect on the implementation of GoodGovernment Governance?

## **II. Literatur Review**

### **2.1 Institutional Theory**

Institutional theory is a theory that explains the relationship between an organization and its environment and wishes to reveal the reality of inconsistencies in the formal look of the organization (DiMaggio & Powell, 1983). In the new institutional theory, the view that organizations change is not necessarily to achieve efficiency, but for the sake of legitimacy and homogenization in similar groups. This theory is not only interested in the coherence and strength of the existence of an institution within the organization, but also seeks to find a position or place of institution within an organizational tradition (Selznick, 1996). In its organizational analysis, this theory focuses more on describing how the organization's response to conflict develops a sometimes complicated administrative structure (Scott & Meyer, 1991).

Institutional theory suggests that organizations respond to pressures from their intitutional context (DiMaggio and Powel, 1983, Carpenter and Feros, 2001). The response may be the adoption of practices or structures in order to gain legitimacy. Regional Financial Management Practices undertaken by the Regional Government, according to institutional theory, can be viewed as an adoption of socially acceptable practices in order to gain legitimacy from regulators or institutions. As one institution, the Regional Government is required to obey and maintain support for political influence faced as an organization within the government sector. Social order or pattern to achieve certain provisions. Formal rules, compliance procedures and standards of operational procedures within organizations are an absolute requirement to be the institutions governing organizational life.

### **2.2 Good government governance**

The World Bank defines good governance as a solid and responsible management of development that is consistent with democratic and efficient market principles, avoidance of investment fund allocations, and the prevention of corruption both politically and administratively through budget discipline and the creation of legal and political framework for the growth of activities effort (Mardiasmo, 2008). Good governance requires the government to follow by following good management principles such as transparency, openness, accountability, participation, justice and independence, so that the resources of the state in government management really achieve the goal for the prosperity and progress of the people.

International Federation of Accountants (2014) in their research revealed that governance comprises the arrangements which is put in place to ensure that the intended outcomes for stakeholders are defined and achieved. Good governance is characterized by strong oversight, which put significant pressures on the improvement of public sector performance and corruption handling. Good governance can enhance organizational leadership, management, and supervision, can result more effective interventions, and ultimately lead to better outcomes with the improvements of people's lives. (IFAC, 2014). Based on the above explanation, good governance is the application of principles and rules of government policy to ensure the decision-making result of government governance which is solid and responsible, it is suitable to the public interest. (IFAC (2014); UNDP (1997); WORLD BANK (1999); ADB (2011), OECD (2004), LAN (2000), BPKP (2002), KNKG (2006), LAN& BPKP (2000)).

The three basic pillars that are related to each other to achieve Good governance (Osborne and Gaebler, (1992), OECD and World Bank, (2000), LAN and BPKP (2000), Bappenas (2013) are:

1. Transparency, openness in government, environmental, economic and social management.
2. Participation, namely the application of democratic decision-making as well as recognition of human rights, freedom of the press and freedom of expression opinion / aspirations of the community.
3. Accountability, namely the obligation to report and answer from the entrusted mandate to account for the success or failure to safekeepers until those who provide a satisfied mandate and if not there or not satisfied can be subject to sanctions.

### **2.3 Government internal control system (SPIP)**

The Internal Control Integrated Framework, published by the 1994 COSO 1994 Committee of Sponsorship of Organizations of the Treadway Commission (COSO), is defined as a process influenced by boards of

commissioners, directors or top management, other personnel, designed to gain reasonable assurance about tujan achievement in the following matters:

1. Reliability of Financial Reporting
2. Compliance with applicable laws and regulations
3. Effectiveness and Efficiency of Operations

COSO recognizes that there are 5 (five) policies and procedures designed and implemented to provide assurance that internal control objectives can be achieved. The five components of internal control are:

1. Control Environment
2. Management Risk Assessment
3. Accounting Information and Communication System
4. Controlling Activities
5. Monitoring

In the context of local governance, through Government Regulation Number 60 Year 2008, the government stipulates the existence of an Internal Control System (SPI) that must be implemented, both at the central government and local government. SPI is an integral process of continuous actions and activities by the leadership and all employees to provide reasonable assurance of the achievement of organizational objectives through effective and efficient activities, reliability of financial statements, safeguards of state assets, and compliance with legislation .

#### **2.4 Government accounting standards (SAP)**

Accounting standards are general guidelines or principles that govern accounting treatment in the preparation of financial statements for the purpose of reporting to users of financial statements, while accounting procedures are specific practices used to implement the standards. Furthermore, to ensure that the following procedures have been established, the government accounting system must be equipped with an internal control system on the receipt and disbursement of public funds. Accounting standards are necessary to ensure consistency in financial reporting. In the absence of adequate accounting standards will have negative implications of low reliability and objectivity of the information presented, inconsistencies in financial reporting and difficult auditing. Based on Government Regulation No. 71 of 2010, financial reporting by the government has several useful objectives for its users including:

1. Provides information on the adequacy of current receipts to finance all expenditures.
2. Provides information on the appropriateness of obtaining economic resources and its allocations to the established budget and legislation.
3. Provides information on the amount of economic resources used in the activities of reporting entities and the results achieved.
4. Provides information on how the reporting entity is funding all its activities and sufficient for its cash needs.
5. Provides information on the financial position and condition of the reporting entity in relation to its revenue sources, both short-term and long-term, including tax and levies.
6. Provides information on the changes in the financial position of the reporting entity, whether increased or decreased, as a result of activities carried out during the reporting period.

The existence of SAP is expected to be transparency, participation, and accountability of state financial management in order to realize good governance (good governance). The next benefit is the balance between generations which can provide information on the adequacy of government revenue to finance all expenditures and whether future generations will share the burden of spending. SAP Implementation aims to create quality financial reports containing relevant information so that it can be used by stakeholders. With the implementation of SAP uniformity occurs in the preparation of Financial Statements of the Central Government and Local Government.

#### **2.5 The Role of the Internal Auditor**

According to the Government Internal Audit Standards (SAIP), effective APIP roles are required to achieve good governance that leads to clean governance as follows:

1. Provide adequate confidence in the obedience, efficiency, and effectiveness of the achievement of the purpose of the implementation of tasks and functions of government agencies (assurance activities).
2. Conducting early warning and improving the effectiveness of risk management in the administration of duties and functions of government agencies (anti corruption activities).
3. Provide suggestions and recommendations that can improve the quality of governance of the tasks and functions of government agencies (consulting activities)

With regard to the roles and functions to be performed by internal auditors in order to realize good governance in the public sector, The International Federation of Accountants (IFAC) in 2001 in the Study on Governance in the Public Sector: A Governing Body Perspective formulated that internal audit function

effectively include systematic review, assessment and reporting on the reliability and effectiveness of management system implementation, finance, operational control and budgeting

The supervisory function undertaken by the internal government auditor is one of the important pillars in realizing good governance because of the process of check and recheck in government administration. APIP acts as a consultant that can provide added value to management and no longer detects problems but has changed to prevent problems. APIP provides adequate assurance (quality assurance) of compliance, efficiency, efficiency and effectiveness of the achievement of the tasks and functions of government agencies, APIP serve as an early warning to prevent deviation and abuse of authority so as to help improve the quality of governance of government agencies.

## **2.6 Completion of audit findings**

The indication of audit success is reflected from the acceleration of the follow-up of the audit findings and no findings of recurring findings in the next period. So every leader must understand the steps needed to complete the results of supervision, so that every recommendation of the audit result can be followed up correctly and correctly (Solusi, 2012). The findings of SPI indicate cases of SPI weakness that can be grouped as follows:

1. Weaknesses of accounting and reporting control systems, namely the weakness of the control system related to the activities of accounting and financial reporting.
2. The weakness of the system of controlling the implementation of the budget of income and expenditure is the weakness of control related to the collection and deposit of state / regional revenue as well as the implementation of the program/ activity on the examined entity.
3. The weakness of the internal control structure is the weakness associated with the presence or absence of internal control structures or the effectiveness of existing internal control structures in the examined entity (BPK, 2016)

Findings of non-compliance with statutory provisions in internal control system can be categorized as:

1. Regional losses, namely the loss of regional wealth in the form of money, securities, and goods, which there is and certainly the amount as a result of the act against the law either intentionally or negligently.
2. The potential loss of the region, which is an act against the law, both intentionally and negligently, may result in the risk of future losses in the form of diminished amounts of money, securities, and goods.
3. Lack of acceptance, that is the acceptance that has been the right of state or region but not or not yet entered into the state or regional coffers due to the element of non-compliance with the provisions of legislation.
4. Administration, findings that disclose any deviations from the applicable provisions of either budget execution or asset management, but such deviation does not result in regional losses or potential regional losses, does not reduce regional rights (lack of acceptance), does not hamper entity programs, and does not contain elements indication of a crime.
5. Inefficiency, findings that reveal the use of inputs with a price or quantity / quality higher than standard, quantity or quality that exceeds demand, and a more expensive price compared to similar procurement at the same time.
6. Ineffectiveness, findings that are oriented towards achievement of outcomes that reveal the existence of activities that do not provide benefits or planned results and functions of agencies that are not optimal so that goals are achieved (BPK, 2016)

Audits conducted by BPK will be useful if they can create transparent and accountable financial management in government. This can happen if the government follows up on the BPK audit results. With the follow-up, the financial statements produced by the government are more qualified that reflect the good governance government (Sari, 2013)

## **III. Hypotesis**

### **3.1. The Influence of Government Internal Control System on Implementation of Good Government Governance**

One of the reform agenda in Indonesia is to create good government or better known as Good Government Governance (GGG). However, the current implementation of GGG has not run with the maximum. According to public sector accounting theory there are many causes of GGG not yet well implemented, one of which is the weakness of internal control system. It is experienced by almost all governments in Indonesia. If the internal control system is inadequate, then of course GGG will be difficult to materialize.

As one form of the Institution, local governments are required to obey and maintain support for political influence faced as an organization within the government sector. Social order or pattern to achieve certain provisions. Formal rules, compliance procedures and standards of operational procedures within organizations are an absolute requirement to be the institutions governing organizational life. The implementation of SPI as regulated in PP RI Number 60 Year 2008 regarding Government Internal Control System (SPIP) requires local governments to apply it for the purpose of effective and efficient financial

management can be achieved. The implementation of SPIP was developed with reference to the Auditing Procedure of the American Institute of Certified Public Accountants (AICPA), the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Quality internal control is an effective control and refers to the organization's achievements and objectives for the designed control. Effectiveness is a measure of the success of an activity and a program associated with a defined goal. An internal control is said to be effective when it understands the extent to which an entity's operating objectives are achieved, the published financial statements are prepared reliably and presented fairly in accordance with accounting principles, compliance with applicable laws and regulations.

According to Sari (2013) the implementation of internal control is expected to eliminate corrupt practices because the government process will be done transparently so that it can be supervised by the community and accountable and the state management can be done effectively, efficiently, transparently and accountably and this is a government commitment to build GGG. Aditiawarman (2015) examined the influence of perceptions of internal control, internal auditing, and organizational commitment to good governance of Jakarta Provincial Government employees, the result shows that there is a positive influence of perceptions of internal control, internal auditing, and organizational commitment to perceptions of GGG implementation. According to, Lestari (2013) who conducted research at Padang City General Hospital concluded that internal control has a significant positive effect on the application of the principles of good governance. According to Kresadanti (2013) who conducted the research in UB's Internal Control Unit (SPI), found that internal control has significant effect on accountability, so to establish good governance to be achieved by Universitas Brawijaya must be accompanied by good internal control. According to Saptapradipta (2012) internal control components consisting of a conducive control environment, risk assessment, control activities, adequate information and communication, and the effectiveness of supervision will be able to minimize the risks that may occur and encourage improved implementation of good governance in it. Research conducted by Sari (2013), Habibie (2013), Lestari (2013) Saptapradipta (2012) revealed that internal control significant effect on the implementation of good governance.

Based on the above explanation, the research hypothesis stated as follows:

**H1: The Government Internal Control System has a positive and significant effect of the implementation of Good Government Governance**

### **3.2. The Influence of Government Accounting Standards on the Implementation of Good Government Governance**

The principle of good governance is a fundamental principle that must be enforced in all countries of the world. In the public sector the term good governance is known as Good Government Governance (GGG) or good governance. To create GGG, system and institutional reinforcement is required based on prevailing laws and regulations. The adoption of accrual-based SAP is a global order of universal uniform standards of universality around the world. This is disclosed in Appendix III of Government Regulation No. 71 of 2010 stating that SAP was developed from Government Regulation Number 24 Year 2005 by referring to International Public Sector Accounting Standards (IPSAS) and taking into account other legislation. Such conditions can be categorized in the theory of institutional understanding, namely the fact that the structure of an organization is influenced by the social environment in which it resides (Carruthers, 1995)

Accounting standards are the guidelines and foundations for the government, both the central government and local governments in preparing and presenting the government's financial statements. The correct application of SAP and a good understanding of local financial accounting by the financial manager of SKPD will certainly improve the quality of financial statements and support the successful implementation of GGG especially in the aspect of accountability.

Research on SAP conducted by Sari (2013) shows that the implementation of SAP has a positive effect on good governance. Solikin (2011) also showed the same thing that the application of SAP has a positive effect on good governance. Research on SAP is also done by Nugraheni and Subaweh (2008) and Kusumah (2012). Nugraheni and Subaweh (2008) in his research indicate that there is influence of SAP implementation, knowledge of UAPPA EI and UAPPB managers and availability of facilities and infrastructure in Inspectorate General of Ministry of National Education to improve quality of financial report. Furthermore, Kusumah's research (2012) shows that the application of SAP and the quality of financial statements on SKPD / OPD of Tasikmalaya City Government are categorized well and there is a significant influence between SAP implementation on the quality of financial statements.

Based on the explanation, the research hypothesis stated as follows:

**H2: Government Accounting Standards have a positive and significant effect on the implementation of Good Government Governance**

### **3.3 The Influence of the Role of Internal Audit to the Implementation of Good Government Governance**

Internal Audit is one of the other important elements that influence the creation of good governance and this is in accordance with Mardiasmo (2009), which states that good governance will be achieved if the supervisory and inspection bodies function well. In supporting the implementation of good governance there are three main aspects that need to be considered namely control, supervision and inspection in every governance (Mardiasmo, 2009).

APIP as an institution of the Government's Internal Supervisory Apparatus, is mandated under the laws and regulations, and performs its duties subject to the standards, codes of conduct and laws and regulations relating to its supervisory activities. Implementation of the provisions of legislation and other provisions related to the application of APIP professionalism can be a socially acceptable adoption practice in order to gain legitimacy from the institutional context.

The internal auditor of the government is one of the important pillars in realizing good governance because of the process of check and recheck in government administration. APIP acts as a consultant that can provide added value to management and no longer detects problems but has changed to prevent problems. APIP provides adequate assurance (quality assurance) of compliance, efficiency, efficiency and effectiveness of the achievement of the tasks and functions of government agencies, APIP serve as an early warning to prevent irregularities and misuse of authority so as to help improve the quality of governance of government agencies. Based on research conducted by Adelia (2015), Rahmatika (2014), Saptapradipta (2012), Suyono and Hariyanto (2012) revealed that the role of internal auditors significantly influences the implementation of good governance. This is due to internal auditors can detect and prevent the occurrence of irregularities and provide quality assurance of compliance, efficiency, efficiency, and the effectiveness of achieving the goal of organizing tasks and functions of agencies. However, this study is not in accordance with that of Habibie (2013) who found that internal auditors have no influence on the implementation of good governance.

Based on the explanation, the research hypothesis stated as follows:

**H3: The role of Internal Audit have a positive and significant effect of the implementation of Good Government Governance**

### **3.4.The Influence of Completion of Audit Findings on the Implementation of Good Government Governance**

Follow-up recommendations of inspection results are activities and / or decisions made by the head of the inspected entity and / or other competent parties to implement the recommendations of the BPK audit results. The inspected official shall provide the BPK with an answer or explanation of the follow-up on the recommendation of the examination result no later than 60 days after the LHP has been received. Without the follow-up of parliament, executives, agencies being examined and authorities authorized to investigate, the examination becomes ineffective and accountability is a mere dream.

BPK as a government institution, has a mandate under the laws and regulations, and performs its duties subject to the standards, codes of conduct and legislation relating to its inspection activities. The implementation of the provisions of legislation and other provisions related to the application of the professionalism of the BPK can be a socially acceptable adoption practice in order to gain legitimacy from the institutional context.

Efforts to follow up on audit findings can result in better quality financial reports that reflect good governance. Sari (2013), Huang and Wang (2010) in Lin and Liu (2012) found that the auditee or other stakeholder effort in following up on the recommendation of inspection results is a very important factor for government auditors in performing their duties and can increase government transparency and accountability good governance). Lin and Liu (2012) indicate that the efforts of auditors and other stakeholders in following up the recommendations of the examination results can strengthen the effectiveness of government audits. This is indicated by the declining level of corruption in line with the follow-up recommendations of the results of the examination as a whole. The results of research conducted by Sari (2013) and Astriani (2014) found that follow-up audit findings affect the quality of financial statements and improvements to good governance.

Based on the explanation, the research hypothesis stated as follows:

**H4: Completion of Audit Findings have a positive and significant effect of implementation of Good Government Governance**

## **IV. Research Method**

### **4.1.Data and Sample Research**

This study uses primary data obtained from interviews and questionnaires. The study sample consisted of 150 people from all provincial government inspectorate staff of West Nusa Tenggara and BPK of NTB. The method of collecting samples in this study using the method of Purposive Sampling. Criteria of respondents in this study are supervisors and examiners of local government financial statements. In the Conceptual Framework of Governance Accounting mentioned some major groups of users of government financial reports



other than the community, is supervisory agencies and examiner institutions. The Inspectorate Auditor and Supervisor of the Implementation of Government Affairs in the Region (P2PUD) represent the internal oversight body and the BPK auditor of the NTB Province representing the external examining agency.

#### 4.2. Operational Definition of Variables

Endogenous Variables Good Government Governance is an organization that involves various parties to achieve a conducive environment which is reflected in the existence of transparency, community participation and accountability (accountability) to the community from an economic perspective. Indicators in this variable are transparency, participation and accountability.

Exogenous variables consist of government internal control systems, government accounting standards, the role of internal auditors, and completion of audit findings. Each variable is defined as follows:

1. The Government Internal Control System is an integral process of actions and activities perpetuated by the leadership and all employees to provide reasonable assurance of the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with statutory regulations -invitation. Indicators in this variable consist of: control environment, risk assessment, control activities, information and communication, and monitoring.
2. Government Accounting Standards is the application of accounting principles in presenting all types of financial statements Local Government and disclose matters relating to the contents of financial statements both the way of recognition and recording financial statements. Indicators in this variable is the presentation of financial statements, recording and recognition.
3. The role of Internal Auditors is that internal auditors engage and actively monitor or supervise business activities and provide consultative roles in the implementation of government operational processes. Internal auditors are not only limited to detectors but rather to early warning to encourage the realization of good governance (Saptapradipta, 2012). Indicators in this variable are: independence, objectivity, competence, professional accuracy, internal audit activities, communication of assignment results and monitoring.
4. Completion of Audit Findings is an activity undertaken by the Regional Government in following up the findings of inspection or recommendation of BPK/ Inspektorat. Indicators in this variable are internal control, compliance with the law.

#### 4.3.Data analysis method

Explanatory research is intended to analyze the relationships between one variable with other variables or how a variable affects other variables through hypothesis testing. These variables are the latent variable (latent variable) formed by several indicators (observed variable). To test the hypothesis used Partial Least Square (PLS) technique. According to Latan and Ghozali (2012), the stages of analysis using PLS-SEM at least through five stages, where each stage will affect the next stage. Stages of the stages include: Model conceptualization, Determining method of algorithm analysis, Determining resampling method, Drawing path diagram and Evaluation model

### V. Research Result

#### 5.1 Stage Phase in PLS Smart PLS 3.0

##### 1. Conceptualization of structural models



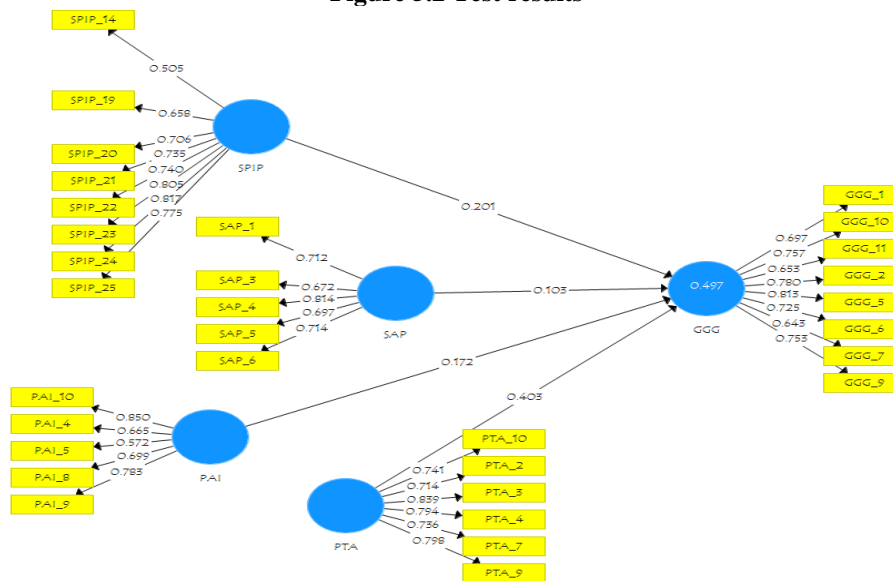
Figure 5.1 Structural Models

Figure 5.1 shows that the construct of the Government Internal Control System (SPIP) is measured by 26 indicators, the Government Accounting Standards (SAP) standard is measured by 6 indicators, internal audit role constructs (PAI) measured by 11 indicators, the audit completion findings (PTA ) is measured by 10 indicators and constructs of Good Governance is measured by 12 indicators. This research uses reflective indicators that are relatively appropriate to measure perceptions

2. Convergen Validity

The validity test of convergent reflective indicator can be seen from loading factor value for each constructor indicator. Expected value > 0.7. However, for early stage research the loading value of 0.5 to 0.6 is considered sufficient (Chin, 1998 in Ghazali 2008). Based on Figure 5.1 it appears that there are some indicators that have outer loading less than 0.6, the indicator does not meet the convergent validity that must be removed from the model. Then after the invalid indicator is removed from the model, then the analysis of PLS Algorithm for the second stage of test phase 2 testing is presented in Figure 5.2 below:

Figure 5.2 Test results



3. Discriminat Validity

Discriminant Validty test can be seen based on cross loading where a variable is valid if crossload correlation value with latent variable must be greater than correlation of other latent variable. The results can be seen in table 5.1

Table 5.1 Cross Loading

I/K	GGG	PAI	PTA	SAP	SPIP
GGG_1	<b>0,697</b>	0,185	0,406	0,152	0,442
GGG_10	<b>0,757</b>	0,429	0,498	0,343	0,471
GGG_11	<b>0,653</b>	0,389	0,529	0,229	0,376
GGG_2	<b>0,780</b>	0,260	0,447	0,250	0,514
GGG_5	<b>0,813</b>	0,444	0,515	0,234	0,459
GGG_6	<b>0,725</b>	0,491	0,467	0,400	0,404
GGG_7	<b>0,643</b>	0,325	0,404	0,298	0,350
GGG_9	<b>0,753</b>	0,285	0,421	0,237	0,366
PAI_10	0,438	<b>0,850</b>	0,414	0,357	0,429
PAI_4	0,315	<b>0,665</b>	0,267	0,478	0,327
PAI_5	0,164	<b>0,572</b>	0,139	0,318	0,142
PAI_8	0,416	<b>0,699</b>	0,352	0,282	0,370
PAI_9	0,347	<b>0,783</b>	0,317	0,218	0,397
PTA_10	0,483	0,352	<b>0,741</b>	0,251	0,519
PTA_2	0,405	0,293	<b>0,714</b>	0,205	0,451
PTA_3	0,526	0,355	<b>0,839</b>	0,226	0,512
PTA_4	0,477	0,351	<b>0,794</b>	0,254	0,445
PTA_7	0,466	0,258	<b>0,736</b>	0,160	0,405
PTA_9	0,570	0,409	<b>0,798</b>	0,244	0,604
SAP_1	0,349	0,276	0,245	<b>0,712</b>	0,363
SAP_3	0,174	0,182	0,177	<b>0,672</b>	0,121

SAP_4	0,325	0,354	0,216	<b>0,814</b>	0,329
SAP_5	0,158	0,416	0,160	<b>0,697</b>	0,206
SAP_6	0,239	0,406	0,221	<b>0,714</b>	0,238
SPIP_14	0,274	0,351	0,224	0,290	<b>0,505</b>
SPIP_19	0,350	0,319	0,433	0,153	<b>0,658</b>
SPIP_20	0,281	0,327	0,434	0,186	<b>0,706</b>
SPIP_21	0,385	0,293	0,462	0,210	<b>0,735</b>
SPIP_22	0,364	0,432	0,485	0,217	<b>0,740</b>
SPIP_23	0,537	0,378	0,563	0,379	<b>0,805</b>
SPIP_24	0,516	0,361	0,508	0,342	<b>0,817</b>
SPIP_25	0,521	0,391	0,511	0,333	<b>0,775</b>

#### 4. Reliability

Reliability testing is done by looking at the Composite reliability and Cronbachs Alpha values. The indicator is reliable if the value of composite reliability > 0.70 and Cronbachs Alpha > 0.70. Results in Table 5.2

**Table 5.2** Composite Reliability and Cronbachs Alpha

	<i>Cronbach's Alpha</i>	<i>Composite Reliability</i>
GGG	<b>0,874</b>	<b>0,901</b>
PAI	<b>0,773</b>	<b>0,841</b>
PTA	<b>0,863</b>	<b>0,898</b>
SAP	<b>0,781</b>	<b>0,845</b>
SPIP	<b>0,870</b>	<b>0,896</b>

#### 5.Inner Model

Inner model testing is used to predict the causality relationship between the latent variables through the bootstrapping test. The structural model is evaluated by looking at the variant presentation described by looking at the R-square for the latent variables (Ghozali and Latan, 2012). Changes in R-square values can be used to assess the effect of certain exogenous latent variables on endogenous latent variables whether they have substantive effects. R-Square results can be seen in Table 5.3

**Table 5.3** R-square

	<i>R Square</i>
GGG	<b>0,497</b>

Based on Table 5.3 shows that the R-square value for the variable of Good Governance Implementation is 0,497. This result shows 49,7 percent of variables of Good Governance implementation can be explained by internal control system variables, Government Accounting Standards, Internal Auditor Roles and Settlement findings of the audit, while 50.3 % is explained by other factors outside of the studied.

#### 5.Test Hypothesis

Hypothesis testing is done by comparing T-table value with T-statistics value resulting from bootstrapping process in PLS. The hypothesis is accepted (supported) if the T-Statistics value is higher than T-table (1.64) with the significance of the 5% (one tailed) or p-value <0,05 level. Bootstrapping results PLS can be seen in table 5.4

**Table 5.4** Path Coefisient

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation (STDEV)</i>	<i>T Statistics ((O/STDEV))</i>	<i>P Values</i>
PAI -> GGG	0,172	0,177	0,060	2,868	0,002
PTA -> GGG	0,403	0,403	0,067	6,059	0,000
SAP -> GGG	0,103	0,108	0,050	2,047	0,020
SPIP -> GGG	0,201	0,202	0,076	2,651	0,004

From table 5.4 it can be seen that the original value of the sample (parameter coefficient) for the relationship between variables in this study is then converted into the following inner model equation :

$$GGG = 0,201SPI + 0,103SAP + 0,177 PAI + 0,403 PTA + \epsilon_1$$

Based on the inner model equation, it can be seen that the relationship between Government Internal Control System (SPIP), Government Accounting Standards (SAP), Internal Audit Role (PAI), Completion of Audit Findings (PTA) to the implementation of Good Government Governance (GGG). In the equation it can be

seen that PTA gives a greater positive influence compared to PA1, SAP, and SPIP that is equal to 0.403. This means that PTA has a direct relationship with GGG, where the increasing completion of audit findings (PTA) will increase the application of GGG. Similarly, the coefficient SPIP, SAP and PAI which has a positive value of 0.201, 0,103 and 0.172. This means that increasing SPIP, SAP, and PAI will increase the application of Good Government Governance. In addition to the inner model equations, table 5.4 can be explained by the relationship between the already-dihopteticized variable as shown in tabel 5.5 the following:

**Table 5.5** Conclusion of hypothesis test result

	Hipotesis	Koef. jalur	t-statistik	p-value	Conclusion
H1	The government internal control system have a positive and significant effect of <i>Good Government Governance</i>	0,201	2,651	0,004	Accepted
H2	Government accounting standards have a positive and significant effect of <i>Good Government Governance</i>	0,103	2,047	0,020	Accepted
H3	Role of internal audit have a positife and significant effect of <i>Good Government Governance</i>	0,172	2,868	0,002	Accepted
H4	The completion of audit findings have a positive and significant effect of <i>Good Government Governance</i>	0,403	6,059	0,000	Accepted

### 5.2.Effect of Government Internal Control System of the Implementation of Good Government Governance

The first hypothesis ( $H_1$ ) states that the government's system of internal control positive and significant effect on the implementation of *Good Government* Governance. Testing the hypothesis through PLS, shows that the degree of alpha 5% path coefficient values obtained by (0,201), the value of t-statistic of 2,651 and the value of p Value-at 0,004 smaller than alpha of 0.05 (<0.05). This means that ( $H_1$ ) shall be accepted. Quality internal control is an effective control and refers to the organization's achievements and objectives for the designed control. Effectiveness is a measure of the success of an activity and a program associated with a defined goal. An internal control is said to be effective when it understands the extent to which an entity's operating objectives are achieved, the published financial statements are prepared reliably and presented fairly in accordance with accounting principles, compliance with applicable laws and regulations. When the internal control system does not work well in an organization, there will be risks for fraud, misuse of authority and misuse of the budget causing the implementation of good governance. The internal control system of the government is expected to encourage transparent and accountable governance processes, and local financial management can be done effectively, efficiently, transparently and accountably as a form of good governance governance (Sari, 2012). Based on the results of these tests show the better implementation of government internal control system will encourage increased adoption of *Good Government* Governance. This research are consistent with previous research conducted by Zeyn (2011), Habibie (2013), Kresiadanti (2013), Sari (2013), and Aditiawarman (2015).

### 5.3.The influence of the Government Accounting Standards on Implementation of Good Government Governance

The second hypothesis ( $H_2$ ) states that government accounting standards has positive influence on the implementation of *Good Government* Governance. Testing the hypothesis through PLS, shows that the degree of 5% alpha coefficient values obtained for 0,103 lines, the value of t-statistic of 2,047 is greater than t-table value by 1.64 (t-statistic > t-table) and the value of p Value-at 0,020 smaller than alpha of 0.05 (<0.05). This means that ( $H_2$ ) shall be accepted. Based on the results of these tests show the better implementation of government accounting standards will encourage increased adoption of *Good Government* Governance.

With the fulfillment of accounting principles in the financial statements such as the presentation of financial statements in full, their recording and recognition of assets or liabilities, the financial statements produced useful in decision making and are presented fairly in all material respects in accordance with Government Accounting Standards (SAP). With the implementation of the Government Accounting Standards (SAP) it will create a government that is accountable and transparent in financial management area in accordance with the principles of *Good Government* Governance. The results are consistent with previous studies conducted by Nugraheni and Subaweh (2008), Kusuma (2012), Solikin (2011), and Sari (2013)

### 5.4.Influence of Role of Internal Audit of the Implementation of Good Government Governance.

The third hypothesis ( $H_3$ ) states that the role of internal audit positive effect on the application of the *Good Government* Governance. Testing the hypothesis through PLS, shows that the degree of alpha 5% path coefficient values obtained for 0.172, t-statistic values of 2,868 is greater than t-table value by 1.64 (t-statistic >

t-table) and the value of p Value 0,002 less than the alpha of 0.05 (<0.05). This means that (H<sub>3</sub>) shall be accepted. Based on the results of these tests show better the role of the internal auditor will encourage increased adoption of *Good Government* Governance. Through internal audit systematic and objective assessment conducted by the internal auditor on the operation and control are different, so that through the optimization of the internal audit process will be informed in decision policy. Optimizing role of the internal auditor, the quality of the government's financial statements for the better because it has conducted supervision and monitoring on a regular basis so as to achieve the principle of accountability. The results of this study are consistent with previous studies conducted by Adelia (2015), Rahmatika (2014), Saptapradipta (2012), and Hariyanto (2012)

### **5.5 Effect of Completion Audit Findings on the Implementation of Good Government Governance**

Hypothesis to four (H<sub>4</sub>) states that the completion of the findings audit positive effect on the implementation of *Good Government* Governance. Testing the hypothesis through PLS, shows that the degree obtained 5% alpha coefficient of 0,403 lines, the value of t-statistic of 6,059 is greater than t-table value by 1.64 (t-statistic > t-table) and the p-value 0,000 less than the alpha of 0.05 (<0.05). This means that (H<sub>4</sub>) shall be accepted. Based on the results of these tests show better follow-up to the completion of the audit findings, it will encourage increased adoption of *Good Government Governance*. An improvement over the findings of the audit findings should be balanced with the settlement in accordance with the recommendation that the authorities Inspectorate and the BPK. The completion of the audit findings may create financial statements more transparent, accountable, efficient, and economical so as to improve the application of Good Government Governance. The results are consistent with previous studies conducted by Sari (2013) and Adelia (2015).

## **VI. Conclusions, Implications, Limitations And Recommendations**

Based on the analysis we concluded that the internal control system, government accounting standards, the role of internal audit, and the completion of the audit findings positive and significant impact on the implementation of *Good Government Governance*. The test results showed that 49,7% implementation of *good government governance* is influenced by the internal control system of government, government accounting standards, the role of internal audit, and the completion of the audit findings, while 50.3% is explained by other factors beyond the studied

### **Limitations**

This study has a number of limitations to note are:

- a. the possibility of biased responses from respondents, for their lack of seriousness of respondents in answering all the questions are real, thus causing the variable is not measured perfectly
- b. research scope only internal auditors in government the Province of West Nusa Tenggara and the external auditors on BPK RI Representative West Nusa thus less able to represent the government's internal auditor and the external auditor throughout Indonesia and here are still other independent variables that affect the variation in the application of *Good government Governance*

### **Recommendation**

- a. Enlarge sample size research and expanding the research locations in the government throughout Indonesia so that the conclusions obtained can be generalized in general
- b. Perform further testing of the variables that affect the application of the *Good Government Governance* Roles include Information Technology Oversight Council and the performance of government officials.
- c.

### **Implications research**

This has implications for the *Good Government* Governance. Governance based on the principles of *good governance* is the basis for the formulation and implementation of policies of a democratic state. Where the *Good Government Governance* is closely related to contributions, empowerment and balance between the role of government, the private sector and the public. The influence of internal control system, government accounting standards, the role of the internal auditor and the completion of the audit findings to the implementation of good government governance in local governments throughout the West Nusa Tenggara indicate that the financial management has been implemented in an orderly, controlled, efficient and effective.

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