

THE INFLUENCE OF THE ROLE OF INTERNAL AUDITORS, INTERNAL CONTROL, GOOD GOVERNMENT GOVERNANCE, FRAUD PREVENTION ON THE PERFORMANCE OF PROVINCIAL GOVERNMENTS NORTH SUMATERA WITH AS ETHICS INTERVENING VARIABLES

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Abstract

The purpose of this study is to find out how much influence the role of Internal Auditor, Internal Control, Good Government Governance, Fraud Prevention Against Local Government Performance of North Sumatra Province With Ethnics as Intervening Variables directly or indirectly and whole simultaneously and partially. This research was conducted at Government office of Inspectorate of North Sumatra Province.

This study uses path analysis techniques to test hypotheses and quantitative approaches, descriptive and associative types. The data used are primary data collected through questionnaires with a total sample of 31 respondents from internal auditors at the Inspectorate Office of North Sumatra Province.

The results showed that (1) The role of Internal Auditor, Internal Control, Fraud Prevention has no direct significant effect on Ethics. Only Good Governance variable has a direct significant effect on Ethics. (2) The role of Internal Auditor, Internal Control, Good Government Governance, Fraud Prevention has no significant effect on Local Government Performance of North Sumatra Province. (3) Ethics has no significant effect on Local Government Performance of North Sumatra Province.

Keywords: *Internal Auditor, Internal Control, Good Government Governance, Fraud Prevention, Ethics, Local Government Performance.*

1. INTRODUCTION

A. Background

The performance of local governments in advancing development in various fields is very important for local governments in achieving government goals to become good governance and free from fraud in the application of Law No.32 of 2004 concerning Regional Government Article 20 concerning Principles. Local Government Administration. The performance of local governments is often a big concern because the government plays an important role in the public and is a driving force and facilitator in the success of development (Handayani, 2007). Local government performance is important for stakeholders to know. Rohman in Primadona (2011) explains that government performance is a description of the level of achievement of the implementation of an activity / program / policy in realizing the goals, objectives, mission and vision of the organization as stated in the formulation of an organization's strategic planning. Local government performance can be measured by several indicators, including Value For Money (VFM) and the Government Agency Performance Accountability Report (LAKIP). Azlim et al. (2012) argue that with the issuance of LAKIP, LAKIP is expected to assist the government in improving performance. The more transparent and accountable LAKIP a local government is, it can be said that the performance of the local government is in accordance with Presidential Instruction No.7 of 1999 concerning Accountability for the Performance of Government Agencies. The administration of government by local governments is closely related to regional financial management. Local governments are responsible for budgeting, implementation, and accountability for regional finances. Based on Government Regulation Number 71 of 2010 concerning Government Accounting Standards, the central government and local governments are required to prepare financial reports as a form of accountability for their financial

performance in a certain period. The administration of government by local governments is closely related to regional financial management. Local governments are responsible for budgeting, implementation, and accountability for regional finances. Based on Government Regulation Number 71 of 2010 concerning Government Accounting Standards, the central government and local governments are required to prepare financial reports as a form of accountability for their financial performance in a certain period. The administration of government by local governments is closely related to regional financial management. Local governments are responsible for budgeting, implementation, and accountability for regional finances. Based on Government Regulation Number 71 of 2010 concerning Government Accounting Standards, the central government and local governments are required to prepare financial reports as a form of accountability for their financial performance in a certain period.

Fraud can occur in the private sector or the public sector such as government agencies, the perpetrators of which are employees of parties within or outside the organization. Fraud occurs more frequently in government agencies because these organizations have a fairly complex structure, a convoluted bureaucratic system, low work environment integrity, ineffective controls, and high pressure. One type of fraud that occurs in government agencies is related to corrupt practices. Corruption has become a phenomenal issue and it is interesting to discuss cases that are currently developing in society. According to Transparency International based on the Corruption Perceptions Index (CPI), the level of corruption in the Indonesian state in 2015 was at 3.6 which in quantity increased by 0, 2 compared to 2014 which was at 3.4. This shows an indication that the use of Indonesian state finances is not economical, efficient, and effective because it has leaks caused by corruption. The usual actions are manipulation of records, deleting documents, and mark-ups that can harm state finances. As with the fraud that occurred in the government of North Sumatra Province regarding corruption Misuse of regional finances in North Sumatra Province in 2010-2014. Which is illustrated in the following table: and mark-ups that can harm state finances. As with the fraud that occurred in the government of North Sumatra Province regarding corruption Misuse of regional finances in North Sumatra Province in 2010-2014. Which is illustrated in the following table: and mark-ups that can harm state finances. As with the fraud that occurred in the government of North Sumatra Province regarding corruption Misuse of regional finances in North Sumatra Province in 2010-2014. Which is illustrated in the following table:

The Supreme Audit Agency (BPK) conducts an audit of certain accounts through an Audit with a specific purpose prior to the financial audit, to support an opinion on the financial statements. Based on the results of the BPK RI examination, it turned out that in general it revealed weaknesses in the internal control system (SPI).

The local government in North Sumatra Province in carrying out the role of internal auditors is carried out by the inspectorate to provide control over internal control activities aimed at making good governance implementation, so that fraud can be prevented and local government performance can be carried out adequately. In fact, the above conditions illustrate that it is not in accordance with the conditions that should be, namely the achievement of LKPD performance should obtain a WTP or Unqualified Opinion. This is in accordance with the mandate of Law no. 15 of 2004 concerning Audit of Management and Accountability of State Finances. Elucidation of Article 16 paragraph (1), An opinion is an examiner's professional statement regarding the fairness of financial information presented in financial statements based on the criteria (a) conformance with government accounting standards, (b) adequate disclosures, (c) compliance with laws and regulations, and (d) effectiveness of internal control (SPI). This shows that the functions of the internal auditors and internal control have not been implemented adequately to prevent fraud and improve the performance of local governments.

Peterson & Gibson (2003) quoted by Rae & Subramaniam (2008), revealed that poor internal control procedures are seen as a factor that allows fraud to occur. This means that when internal control is ineffective, fraud is very easy to occur so that it has a negative impact on the company or organization.

B. Research purposes

This research has the following objectives:

- a. Test and analyze the role of internal auditors, internal control and good government governance, fraud prevention has an effect on the performance of local governments in the Regional Government of North Sumatra Province simultaneously and partially.
- b. Test and analyze the influence of the role of internal auditors, internal control, good government governance, fraud prevention on ethics in the Regional Government of North Sumatra Province simultaneously and partially.
- c. Test and analyze the influence through ethics as an intervening variable on the performance of the North Sumatra Provincial Government.
- d. Test and analyze the influence of the role of internal auditors, internal control, good government governance, fraud prevention on the performance of the Regional Government of Sumatra Province through ethics as an intervening variable.

II. LITERATURE REVIEW

A. Local Government Performance

According to Rohman in Primadona (2011), government performance is a description of the level of achievement of the implementation of an activity / program / policy in realizing the goals, objectives, mission and vision of the organization as stated in the formulation of an organization's strategic planning.

According to Government Regulation no. 8 of 2006 article 1 paragraph 2 the definition of local government performance is as follows:

"Outputs or results from activities or programs that are to be or have been achieved in connection with the use of the budget with measurable quantity and quality."

B. Local Government Performance Assessment

According to Permendagri No.13 of 2006, the indicators for measuring the performance of local governments include six indicators in performance measurement, namely inputs, processes, outputs, results, benefits and impacts. Where the three indicators of the six indicators, namely input, output, result are the implementation of Value for money which is the concept of management of government organizations based on three elements, namely economy, efficiency and effectiveness.

C. Internal Audit

According to Hiro Tugiman (2006: 11), internal audit is an independent assessment function within an organization to test and evaluate the activities of an organization that is carried out.

The professional abilities that an internal auditor must have as disclosed by Hiro Tugiman (1997:17), include:

1. Conformity with professional standards and ethical values.
2. Knowledge and skills.
3. Human relations and communication.
4. Continuous education.
5. Professional precision.

D. Internal Control

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013: 3) the definition of internal control is as follows:

"Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance."

E. Purpose and Objectives of Internal Control.

The purpose of internal control according to COSO quoted by Sawyer et al. (2005: 61) are as follows:

"Internal control is designed to provide adequate assurance about achievements in terms of operational effectiveness and efficiency, reliability of financial information, and compliance with applicable laws and regulations."

F. Internal Control Components.

In strengthening internal control in organizations or government agencies, COSO (The Committee of Sponsoring Organizations of The Treadway Commission) in September 1992 introduced a control framework that is broader than the traditional accounting control model and includes risk management, namely internal control consisting of 5 (five) interrelated components, namely:

(1) The control environment determines the style of an organization, influencing the control consciousness of its people. The control environment is the basis for all components of internal control, providing discipline and structure.

The control environment includes:

- a. Integrity and ethical values
- b. Commitment to competence
- c. Participation of the board of commissioners or the audit committee
- d. Management's philosophy and operating style
- e. Organizational structure
- f. Granting of authority and responsibility
- g. Human resource policies and practices

(2) A risk assessment is the identification of an entity and an analysis of the risks relevant to achieving its objectives, forming a basis for determining how risk should be managed.

Risks can arise or change due to the following circumstances:

- a. Changes in the operating environment
- b. New personnel
- c. A new or improved information system
- d. New technology
- e. New product lines, products or activities
- f. Overseas operations
- g. New accounting standards

(3) Standard control (control activities) are policies and procedures that help ensure that management directives are implemented.

The policies and procedures in question are related to:

- a. Performance review
- b. Information processing
- c. Physical control
- d. Separation of duties

(4) Information and communication (information and communication) is the identification, capture, and exchange of information in a form of time that enables people to carry out their responsibilities. The information system includes an accounting system, consisting of methods and records that are developed to record, process, summarize, and report entity transactions and to maintain accountability for assets, debt and equity.

Communication includes providing an understanding of individual roles and responsibilities with regard to internal control over financial reporting.

- (5) Monitoring is the process of determining the quality of internal control performance at all times. Monitoring includes determining the design and operation of the controls in a timely manner and taking corrective action.

G. Good Government Governance.

According to the Institute for State Administration (2001) in Widilestariningtyas (2012), good governance is the implementation of solid and responsible state government, as well as efficient and effective, by keeping constructive interactions between the dominant government, the private sector, and society which are interconnected and carry out their respective functions.

H. Fraud Prevention.

According to Zabihollah Rezaee, Richard Riley (2005: 7) regarding the prevention of fraud are:

"Activities carried out by management in terms of establishing policies, systems and procedures that help ensure that the necessary actions have been taken by the board of commissioners, management and other company personnel to provide adequate confidence in achieving the 3 (three) main objectives, namely; reliability of financial reporting, effectiveness and efficiency of operations as well as compliance with applicable laws & regulations.

I. Fraud prevention indicators

Meanwhile, according to Zabihollah Rezaee and Richard Riley (2005: 7), there are three elements that must be considered by the management of the organization if they want to prevent fraud, namely:

1. "1. Creating and restoring a culture that values honesty and high ethical values.
2. Implementation and evaluation of anti-fraud control processes.
3. Oversight Process Development. "

These three things will explain the meaning and meaning of each, as below:

1. Creating and restoring a culture that values honesty and high ethical values.

One of the organizational responsibilities is to foster a culture that values honesty and high ethical values and explains the expected behavior and awareness of each employee, creating a culture that values honesty and high ethical values that should cover the following:

- a. *Setting the at the top*
- b. Recruit and promote the right employees
- c. Training
- d. Discipline.

2. Implement and evaluate anti-fraud control processes

Fraud will not happen without the perception of opportunity and hide its actions the organization should proactively reduce opportunities by:

- a. identify and measure the risk of fraud
- b. reduction of fraud risk
- c. implementation and monitoring of internal control.

3. Oversight Process Development.

In order to prevent and ward off fraud effectively, the entity should have a proper supervisory function, supervision in various types and forms can be carried out by various parties, including the internal auditor.

J. Ethics

Ethics according to Griffin & Ebert (2003) is a belief about right and wrong actions and good and bad actions that affect other things, because it is based on social concepts and individual beliefs, so ethics can vary from one person to another. one situation to another, and from one culture to another.

According to Dion (2008) preventing crime in companies can be done through the implementation and strengthening of ethical leadership through good ethics among top management.

Glover & Aono (1995) in Dion (2008) state that fraud detection implies a corporate culture (organizational ethics) that affects the self-behavior of every employee.

Ethical Benchmarks.

According to Priantara (2011), ethical benchmarks are based on variable indicators, namely opportunity, need, and exposure as follows:

1. Behavior
Behavior, namely reflecting individual beliefs and generally accepted social norms regarding right and good actions.
2. Habit
Habits, namely the procedures, beliefs, behaviors, customs inherent in human nature and organizations that are closely tied to culture, good and bad, are human behavior, behavior or actions that shape the attitudes and behavior of organizational members and individuals with clear goals.
3. Score
Value is a measure that distinguishes or determines whether a certain behavior is considered good and bad behavior or as ethical and unethical behavior.

III. RESEARCH METHOD

A. Hypothesis

The hypothesis is a temporary conclusion that must be tested or verified, Sekaran (2003). Based on research problems and a framework that has been developed previously, a provisional hypothesis can be formulated as follows:

1. The role of internal auditors, internal control and good government governance, fraud prevention simultaneously affects the performance of local governments in North Sumatra Province.
2. the role of internal auditors, internal control and good government governance, prevention of fraud affects the performance of local governments in the Provincial Government of North Sumatra simultaneously and partially.
3. Ethics affect the performance of the Regional Government in North Sumatra Province.
4. the role of internal auditors, internal control and good government governance, fraud prevention affects the performance of local governments in the North Sumatra Provincial Government through ethics as an intervening variable.

IV. RESULTS AND ANALYSIS

A. The Influence of the Role of Internal Auditors, Internal Control, Good Government Governance, Fraud Prevention on Ethics as Intervening Variables.

The first hypothesis in this study concludes that the Role of Internal Auditors, Internal Control, Fraud Prevention has no effect on Ethics. Only Good Government Governance has an effect on Ethics. Based on this first hypothesis, proving testing was carried out using the t test for the Internal Auditor's Role variable with a sig value of 0.788 and a beta of 0.037. This means that the probability value 0.05 is smaller than the sig value ($0.05 < 0.788$). This means that the Role of the Internal Auditor has no effect on Ethics by 0.037 or 03.7% and is significant. The t test for the Internal Control variable with a sig value of 0.658 and a beta of 0.063. This means that the probability value 0.05 is smaller than the sig value ($0.05 < 0.658$). This means that Internal Control has no effect on Ethics by 0.063 or 6.3% and it is significant. The t test for the Good Government Governance variable with a sig value of 0.000 and a beta of 0.811. This means that the probability value 0.05 is greater than the sig value ($0.05 > 0.000$). This means that Good Government Governance has an effect on Ethics by 0.811 or 81.1% and it is significant. Fraud Prevention variable t test with a sig value of 0.388 and beta - 0.118. This means that the probability value 0.05 is smaller than the sig value ($0.05 < 0.388$). This means that Fraud Prevention has no effect on Ethics by -0.118 or -11.8% and it is significant.

In general, the results of this research on variables of the Role of Internal Auditors, Internal Control, Good Government Governance, Fraud Prevention and Ethics show good results. These results are shown in the results of the data quality test which was tested using the validity test and the

instrument reliability test, the results of the data quality test showed that the research instrument was declared valid and reliable. From the classical assumption test results seen from normality, and heteroscedasticity get normal results.

Based on the test results that have explained that the Role of the Internal Auditor, Internal Control, Fraud Prevention does not have a significant effect on Ethics. Only Good Government Governance (GGG) has a significant influence on Ethics. This shows, among other variables, that the principles of Good Government Governance, which are divided into participation, rule of law, transparency, responsiveness, consensus orientation, equity, effectiveness and efficiency, accountability, vision strategy greatly influence ethics in organizations or government agencies. . This shows that the Role of Internal Auditors, Internal Control, Fraud Prevention does not significantly affect Ethics, and shows that the success of the GGG in government agencies all affects Ethics.

B. The Influence of the Role of Internal Auditors, Internal Control and Good Government Governance, Fraud Prevention on Local Government Performance.

The second hypothesis in this study concludes that the Role of Internal Auditors, Internal Control, Good Government Governance, Fraud Prevention has no effect on Local Government Performance. Based on this second hypothesis, proving testing is carried out using the t test of the Internal Auditor's Role with a sig value of 0.322 and beta -0.188. This means that the probability value of 0.05 is smaller than the sig value ($0.05 < 0.322$), which means that the role of the Internal Auditor does not have a significant effect on the Performance of Local Government by -0.188 or 18.8%. Internal Control t test with a sig value of 0.060 and beta -0.380. This means that the probability value of 0.05 is smaller than the sig value ($0.05 < 0.060$), which means that Internal Control does not have a significant effect on Local Government Performance by -0.380 or -38.0%. Good Government Governance t test with a sig value of 0.433 and a beta of 0.238. This means that the probability value 0.05 is smaller than the sig value ($0.05 < 0.433$), which means that Good Government Governance does not have a significant effect on Local Government Performance by 0.238 or 23.8%. Fraud Prevention t test with a sig value of 0.638 and beta -0.088. This means that the probability value of 0.05 is smaller than the sig value ($0.05 < 0.638$), it means that fraud prevention does not have a significant effect on local government performance of -0.088 or 08.8%. 433) it means that Good Government Governance does not have a significant effect on Local Government Performance of 0.238 or 23.8%. Fraud Prevention t test with a sig value of 0.638 and beta -0.088. This means that the probability value of 0.05 is smaller than the sig value ($0.05 < 0.638$), it means that fraud prevention does not have a significant effect on local government performance of -0.088 or 08.8%. 433) it means that Good Government Governance does not have a significant effect on Local Government Performance of 0.238 or 23.8%. Fraud Prevention t test with a sig value of 0.638 and beta -0.088. This means that the probability value of 0.05 is smaller than the sig value ($0.05 < 0.638$), it means that fraud prevention does not have a significant effect on local government performance of -0.088 or 08.8%.

In general, the results of the research on the variables of the Role of Internal Auditors, Internal Control, Good Government Governance, and Fraud Prevention showed good results. These results are shown in the results of the data quality test which was tested using the validity test and the instrument reliability test. From the results of the data quality test, it was found that the research instrument was declared valid and reliable. From the classical assumption test results seen from normality, and heteroscedasticity get normal results.

Based on the test results, it has been described that the Role of Internal Auditors, Internal Control, Good Government Governance, Fraud Prevention does not have a significant effect on Local Government Performance. Where this is contrary to the results of previous research conducted by Ony Widilestariningtyas (2012). This shows that the Role of Internal Auditors, Internal Control, Good Government Governance, Fraud Prevention does not significantly affect Local Government Performance, and shows that the increase in local government performance is not entirely determined by the Role of Internal Auditors, Internal Control, Good Government Governance, Fraud Prevention.

C. The Influence of Ethics as an Intervening Variable on Local Government Performance.

The third hypothesis in this study concludes that ethics has no effect on local government performance. Based on this third hypothesis, proving testing is carried out using the t test with a sig value of 0.452 and beta -0.204. This means that the probability value of 0.05 is smaller than the sig value ($0.05 < 0.452$), which means that ethics does not have a significant influence on local government performance of -0.204 or -20.4%. Based on the F test, the Anova table shows an F value of 1.544 with a probability value (sig) = 0.212. Because $0.05 < 0.212$, it means that ethics does not have a simultaneous and significant effect on local government performance.

In general, the results of this study of the Ethics variable show good results. These results are shown in the results of the data quality test which was tested using the validity test and the instrument reliability test. From the results of the data quality test, it was found that the research instrument was declared valid and reliable. From the classical assumption test results seen from normality and heteroscedasticity get normal results.

Based on the test results that have been described, simultaneously ethics does not have a significant effect on increasing local government performance. This contrasts with the results of previous research conducted by Mario Mc. A. Salideho (2013).

Based on the table the value of Adjusted R Square is 0.083, which means that the influence of the Role of Internal Auditors, Internal Control, Good Government Governance and Fraud Prevention on Local Government Performance with Ethics as an intervening variable is 8% while the remaining 92% is influenced by other factors.

This shows that the implementation of ethics does not affect in increasing the performance of local governments. Not entirely determined by Ethics, but largely influenced by other factors.

V. CONCLUSION

A. Conclusion

1. This research concludes that the Role of Internal Auditors, Internal Control, Fraud Prevention does not have a direct effect on Ethics. Only the Good Government Governance variable has a direct effect on Ethics.
2. In this study, it is concluded that the Role of Internal Auditors, Internal Control, Good Government Governance, Fraud Prevention has no effect on the Performance of the Regional Government of North Sumatra Province.
3. This study concludes that ethics has no effect on the performance of the North Sumatra Provincial Government.

B. Suggestion

1. In order to improve the performance of local government, both government agencies or organizations do not only depend on Internal Auditors, Internal Control, Good Government Governance, Fraud Prevention, Ethics only but all elements in government agencies jointly support each other to carry it out.
2. For the community to further increase participation, both providing support and criticism of the performance of the regional government of North Sumatra Province as a forum for monitoring and developing the programs being run.
3. For future researchers, it is hoped that they will not be fixated on the variables of the Role of Internal Auditors, Internal Control, Good Government Governance, Fraud Prevention and Ethics as in this study, but can add other factors that may affect government performance.

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