

**INTEGRATING AUDIT FUNCTIONS AS EFFORTS FOR INCREASING
EFFICIENCY AND EFFECTIVENESS OF LOCAL GOVERNMENT
INTERNAL CONTROL SYSTEM
(Case Study at Pacitan Regency Government)**

Bandi*

Bhimo Rizky Samudro

Hanung Triatmoko

Santoso Tri Hananto

Halim Dedy Perdana

(Universitas Sebelas Maret, Surakarta)

Long-term goal of this research is to increase the role of Government Internal Control Auditor in carrying out its duties and functions as an internal auditor government unit. Specific targets to be achieved by increasing the efficiency and effectiveness of Government Internal Control System at the local government by means of integration between the audit functions of the Inspectorate with the Supreme Audit Board of the Republic of Indonesia (BPK). Audit function which has been run by the Regional Inspectorate of the City / County does not need to be repeated, resulting in redundant and reduplication, by Main Inspectorate (province), Inspectorate General of the Ministry / Institutions, Financial and Development Supervisory Agency (BPKP), and the BPK. Auditing and monitoring activities to follow-up on audit findings conducted by the Regional Inspectorate of the City / Regency sufficiently reviewed by the Regional Inspectorate (province), Inspector General, BPKP and BPK, unless found to allegations of corruption.

The study was designed as a multi-year during the three (3) years with the following stages: the first year, to study literature and mapping in the field with a target completion of the examination handbook, district or city inspectorate guidance and software design prototypes; The second year, the design of application software, conduct training to the Regional Inspectorate, and assistance to Inspectorate of Pacitan; and the third year: application software development and assistance to the Inspectorate of Government of the City / Regency others.

Fostering the implementation of Government Internal Control System includes the preparation of technical guidelines for the implementation, socialization, education / training, mentoring and consulting Government Internal Control System, as well as improving the competence of auditors as inspectorate. Weak internal control system requires corrective action and cooperation of all authorities, legislators and public institutions to improve the financial management system in the country. Therefore, in order to strengthen and support the effectiveness of the internal control system of internal supervision, coaching and providing Government Internal Control System. Internal control includes institutional, scope of duties, human resource competencies, code of ethics, auditing standards, reporting, and peer review (Abdullah, 2008).

Keywords: Local Government Internal Control System, Government Internal Control Auditor, Efficiency, Effectiveness

A. Background

One indicator of the success of National Bureaucracy Reform is the achievement of an unqualified opinion from the Audit Board of the Republic of Indonesia (BPK-RI) to the examination of the financial statements of the Ministry / Agency or the local government.

Auditor opinion trend shows that the increase in the percentage of unqualified opinion and a decrease in the percentage of qualified opinion and disclaimer opinion. This shows that in general the improvements achieved by local government entities in presenting the financial statements in accordance with the principle of reasonable force. Nevertheless, Inspection Results Summary reveals the second half of 2013 there were as many as 10.996 cases of weakness of internal control systems and non-compliance with statutory provisions with a value Rp13.96 trillion.

Of the number of such cases, as many as 3,452 cases of the findings of the financial impact, the findings of non-compliance with statutory provisions which resulted in losses, potential losses and shortage of receipts worth Rp9,24 trillion. While as many as 3,505 cases a weakness of internal control system, as many as 1,782 cases of administrative weaknesses, as well as the inefficiency and ineffectiveness as many as 2,257 cases worth Rp4.720,99 billion. Recommendation of the Audit Board of the case is the improvement of the Internal Control System and / or administrative action and / or other corrective measures. At Local Government, Internal Control Systems weakness that often occurs is the control system of accounting and reporting, as many as 568 cases. These cases include the recording has not been carried out or is not accurate, the process of preparing the report is not in accordance with provisions, inadequate planning activities, and the entity does not have a formal Standard Operating Procedures for an entire procedure or procedures. The data is reinforced by the statement, Anwar Nasution, Chairman of the Audit Board stating that the qualified opinion is given as one of the findings is the weakness of the state financial control system. According to Anwar Nasution, there are 10 weaknesses of the government's financial control system and after in-depth study of these weaknesses include:

- a. The absence of uniform financial accounting system.
- b. Not to create computer system synchronization.
- c. The persistence of the practice of double treasury system.
- d. No inventory of debt and government assets in a transparent manner.
- e. Less qualified accountants in accordance with the standards in the preparation of financial statements.
- f. The absence of transparency and accountability in the collection and storage of taxation before being transferred to the state treasury.
- g. The absence of transparency and synchronization revenue and expenditure in the oil sector.
- h. The limited authority of the Audit Board in overseeing the receipt of the tax sector.
- i. The discrepancy about the basic rules of collection of Non Tax Revenue.
- j. Reports from the Government and the Ministry or local governments have not been through a review process by an internal watchdog.

Besides contributor qualified opinion and disclaimer opinion on the financial statements of Local Government, the weakness of the state financial control system is shown by the still breeding corruption in the government. Corruption in the reform era is increasingly spreading to the area and involve more and more actors are certainly illustrates an irony of decentralization. Alarming is that most corruption in the region

actually carried out by the regional heads and members of the legislature (DPRD) which clearly chosen by the people. The latest case is a corruption of the Governor of Bengkulu, Tomohon mayor and mayor of the East Lampung Regent corrupting local funds.

Besides the examination of the Financial Statements, the Auditor Boards also conduct an examination of the performance. In the second half year of 2013, the Audit Board has carried out an examination of the object 662 with priority on examination performance. Based on the type of examination, a total of 117 objects financial audit, performance audit objects 158, and 387 other objects. Test results showed that the performance of the functions of Government Internal Monitoring Staff (APIP) is not optimal. Governance monitoring systems that include standards, codes and guidelines is a fundamental precondition functioning of the government agency's internal monitoring.

The test results showed that the existing governance does not yet support the management audit and review financial statements by internal auditors of local government (APIP). Management audit and review financial statements did not reflect the careful audit planning, audit and review the implementation of appropriate and reliable reporting and improvement of the quality of audit and review financial statements are ongoing. Weaknesses in the governance of local government internal auditors include weaknesses in the independence, operating guidelines, code of ethics and human resources. The independence of the APIP may be influenced by its position in the organizational structure of government. To help create organizational independence, APIP should be responsible to the highest officials in the agency / entity without any political pressure or influence. APIP in the organizational structure of the entity is still diverse, which APIP position there is a unit level I, II and III.

In addition, the organizational structure of the APIP the entity has not fitted the job description and function APIP. At the APIP in local government, functional status and functional supervisory auditor organizers of local government affairs is not supported by clear job descriptions. In addition, operational guidelines in the form of technical and operational guidelines as the elaboration of auditing standards or guidelines of supervision by APIP has not been optimally developed to support the implementation of the audit in the field. In the implementation of the code of conduct, most of APIP has not implemented a code of conduct in the work environment. Fulfillment and development of human resources APIP is inadequate both in quantity and competence. Number of auditors no less than their needs. The main activity of internal audit carried out by APIP is the audit and review financial statements. Planning the audit and review financial statements have not been taking into consideration the risks in the selection of the objects of supervision and did not consider the previous examination including a follow-up recommendation. In addition, the acquisition and selection of audit evidence and review the Financial Statements in the form of documentation of audit evidence is not complete or does not exist. Furthermore, the audit report and the report of the Review of Financial Statements are prepared is not complete and systematic.

From the above, it can be concluded that the problems that the demands of both the examination of financial statements which have improved although it still leaves a problem in terms of Internal Control Systems and performance checks. This inspection demands will require optimization of the internal auditor APIP function of local government.

B. Literature Review

Government Internal Control System (SPIP) is the Internal Control System as a whole is held in the central government and local governments. Internal Audit is the whole process of audit activities, the Review, evaluation, monitoring and supervisory activities other towards the implementation of the tasks and functions of the organization in order to provide reasonable assurance that the activities have been carried out in accordance with the benchmarks that have been established to effectively and efficiently for the benefit of the leadership in realizing good governance. SPIP aims to provide reasonable assurance for the achievement of the effectiveness and efficiency of achievement of the objectives of the state government, the reliability of financial reporting, security of state assets, and compliance with laws and regulations.

Article 58 paragraphs (1) and (2) of Law No. 1 of 2004 on State Treasury ordered the setting further provisions regarding the internal control system of government as a whole in order to improve performance, transparency and accountability of public finance management. President as Head of Government to regulate and organize the internal control system within the government as a whole. Later in its articles stated that the Minister of Finance as State General Treasury organizes internal control systems in the field of treasury. Minister / Head of the institution as Budget User / Goods organize internal control systems in their respective fields. Governor and Regent / Mayor arrange more organized system of internal control within their respective local governments. Shape control system made in consultation with the Audit Board (BPK-RI).

BPK-RI as external auditors continue to test the strength of this internal control system in every examination were done to determine the scope of testing to be implemented. Some watchdog also criticized the weakness of internal control system implemented in the government, thus opening up enormous opportunities for the occurrence of irregularities in the implementation of the budget (APBN / APBD). To test the strength of the Internal Control System, BPK-RI examination called performance audit. Performance audit is an examination of financial management consists of the examination of economic aspects and efficiency, as well as aspects of the examination of effectiveness. BPK-RI implement performance audit of state financial management with a view to identifying the existing problems in the management of the audited entity, so that the BPK-RI can provide useful recommendations to improve the performance of the entity. In the examination of performance, in addition to assessing the aspects of economy, efficiency and effectiveness (3E) inspectors also examine the internal control systems and compliance with laws and regulations.

The purpose of the examination is to assess the economic aspects of performance, efficiency and / or effectiveness of the program / activity. The purpose of the examination that assesses the results and effectiveness of a program / activity is to measure the extent to which a program / activity to achieve its objectives. The purpose of the examinations that assess the economy and efficiency, which relates to whether an entity has used its resources in the most productive and efficient in achieving program objectives / activities. The second purpose of this examination can relate to each other and can be executed simultaneously in an examination performance. A 3E aspect of the examination performance is as follows.

1. Economics deals with the acquisition of resources to be used in the process with the cost, time, place, quality, and quantity is right. Economic means minimizing the cost of acquisition of inputs for use in the process, while maintaining the quality in line with the principles and practices of sound administration and policy management.

Emphasis on economic aspects related to the acquisition of goods or services before it is used for process.

2. Efficiency is the optimal relationship between input and output. An entity is said to be efficient if it is capable of producing a maximum output with a certain number of inputs or able to produce a specific output by using minimal input.
3. Effectiveness is essentially a goal attainment. Effectiveness relates to the relationship between the output of the goals or objectives to be achieved (outcome). Effectively means the resulting output has fulfilled its intended purpose.

In principle, the concept of 3E is the basis of the examination performance is closely related to the concept of input, output, process, and outcome. The fourth concept is defined as follows.

1. Input is a resource in the form of funds, human resources, equipment, and materials used to produce the output.
2. The process was operational activities that use inputs to produce outputs.
3. Output is produced goods, services rendered / provided, or other results of the processing of the input.
4. Outcome is the purpose or goal to be achieved through output.

Performance inspection conducted objectively and systematically against a wide range of evidence, to be able to conduct an independent assessment on the performance of the entity or program / activities examined. Examination of the performance of useful information to improve the performance of a program and facilitate decision making for the party responsible for monitoring and taking corrective action. Examination is also useful to improve the performance of public accountability. Performance inspection can use different methodologies, different levels of analysis, research or evaluation, and will ultimately result in the findings, conclusions, and recommendations.

Previous studies on SPIP and performance audits conducted by Mulyani and Suryawati (2011) and Suhayati (2011). Mulyani and Suryawati (2011) examine the role of SPIP in minimizing misstatement in the financial statements of Local Government. The results show that the Internal Control System is proven to lower misstated accounting records. While Suhayati (2011) examined the area pemerintah performance optimization through performance audits. The results show that the performance audit grow more slowly than the financial audit. The problems that exist in the application of performance audit are: 1) the independence of the auditor because in general the performance audit was conducted by the internal auditor, 2) costs because information is always related to the price, so that a report on the performance must be obtained at a reasonable price, and 3) determination of the criteria size, it is one of the difficulties for talking about the economical, efficient and effective function is not as easy as calculating profit.

In addition, an agreement on the exact definition of an efficient, economical and effectiveness must be achieved so that it can achieve an appropriate standard of audit performance reports that can be published to the public just as with conventional audit results. Performance audit performance can be done either in the private sector or the public sector and government agencies because of all the public interest objectives is a major priority.

C. Methods

As described above, weak internal control systems due to the lack of awareness of the internal examiner (Inspectorate of District / City) and each unit. To overcome these

problems, the appropriate method is to conduct training and mentoring on an ongoing basis. The method used in this study is described as follows.

1. Literature review and field mapping.
2. Prototype design.
3. Guidelines, Standard, Operating and Procedures.
4. Training and socialization.
5. Focus group discussion.

The training is expected to provide insight. The understanding is the stage to build awareness and perception. This activity is intended for any individual to understand and have the same perception of SPIP. The material will be provided by this method include:

1. SPIP importance as a means of continuous control and safety devices in the process of achieving goals.
2. The development of internal control system in Indonesia.
3. Understanding SPIP.
4. Description of elements and sub-elements of SPIP.
5. Explaining the difference supervision attached to SPIP terms of factors: definition, properties, framework, responsibilities, the existence of, and emphasis.

The training will be done by three methods including socialization of Government Regulation No. 60/2008 on SPIP, panel discussions, and Focus group discussion (FGD). Socialization is given as an initial discourse that gives an overview of SPIP. The panel discussion is used when the understanding of the participants had relatively high because it requires a higher interaction. While Focus group discussions (FGD) to build a common perception among all employees after receiving the socialization SPIP. Training will invite the inspectorate and local government.

Once the training phase is completed, the study will continue to provide assistance. Assistance will be made to the Regional Inspectorate selected areas and focused on solving the findings primarily internal control issues. The analysis was performed based on the source of the problem by referring to the procedure of SPIP. Once the root cause is found, will be given a solution that is in accordance with existing regulations, laws, government regulation, and regulation of Regent / Mayor applicable. Mentoring is done with the collaboration of the inspection approach between the research team and the Regional Inspectorate of Government of Pacitan. Examination carried out together, from the planning stage to the monitoring of audit findings to the settlement completely.

D. Findings

This research is applied to the Inspectorate of Pacitan as the main object of research. The implementations of this study include:

1. The initial coordination, the meeting with the Inspectorate of Pacitan in the Office of the Inspectorate with the aim to obtain as much information related to the implementation of the checks that had been done. Results from this initial coordination showed that as a quality control inspector cannot perform full control of the assignment given to the auditors who audit the work unit in this case the regional work units (SKPD) in the working area Pacitan. This coupled with the lack of standard operating procedures (SOP) examination of SKPD both in terms of planning, program audit, implementation and reporting resulting work only auditor in accordance with the assignment by the lack of control of quality and technical controllers. In addition, auditors cannot determine what work will be done in advance that due to the lack of planning an audit or investigation mature.

2. Internal coordination, which is conducted by a team of UNS researchers to coordinate and review the results of the initial coordination with the Inspectorate of Pacitan. This coordination is carried out several times to make the draft SOP customized and refers to predetermined rules (Regulation of the Minister of Internal Affairs No. 64/2007 on Technical Guidelines on the Organization and Work Procedure of the Provincial Inspectorate and district / city). Under the regulation, the draft was made by focusing on the preparation of SOP examination of public administration employees, especially local government, local finance and goods / assets. These three things are considered very important due to consider the findings of the Audit Board of the Republic of Indonesia (BPK-RI) with an emphasis on three issues.
3. Implementation of the focus group discussion aimed at elaborating the findings that have been obtained in the initial coordination including in-depth interviews. Results of the focus group discussion are then used to create a prototype system of internal controls and standard operating procedures of inspectorates Pacitan.
4. Making the prototype of the internal control system of local government is one of the pioneers in the development of good governance. It is expected to be one pilot and input to policy makers, especially related to strengthening the internal control of local governments.

E. Conclusions

From the results of this applied research it can be concluded, among others:

1. The need for guidelines and standard operating procedures for internal control system carried out by each local government. It is aimed at the formation of the technical guidelines for the implementation of internal control both financial and performance.
2. It should be made an integrated internal control system that helps improve the performance of the internal auditors of local government in order to perform its core functions as a watchdog of local government performance.
3. The increase in mutually beneficial synergy between local governments and universities in terms of assistance, training and socialization.

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