

THE ROLE OF INTERNAL AUDITS ON THE PERFORMANCE OF LOCAL GOVERNMENT ADMINISTRATION: EVIDENCE FROM INDONESIA

Sutaryo

*Faculty of Economics and Business, Universiti Malaysia Sarawak
Jalan Datuk Mohammad Musa 94300, Samarahan, Sarawak, Malaysia
Faculty of Economics and Business, Universitas Sebelas Maret
Jalan Ir. Sutami 36A, Surakarta, Central Java, Indonesia*

Salawati Binti Sahari

*Faculty of Economics and Business, Universiti Malaysia Sarawak
Jalan Datuk Mohammad Musa 94300, Samarahan, Sarawak, Malaysia*

Shaharudin Bin Jakpar

*Faculty of Economics and Business, Universiti Malaysia Sarawak
Jalan Datuk Mohammad Musa 94300, Samarahan, Sarawak, Malaysia*

Sophee Sulong bin Balia

*Faculty of Economics and Business, Universiti Malaysia Sarawak
Jalan Datuk Mohammad Musa 94300, Samarahan, Sarawak, Malaysia*

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Abstract. *This research aims to provide a comprehensive analysis of internal audit function (IAF) characteristics and the administrative performance of local governments (LGs) in Indonesia. We use official secondary data from the Indonesian regulatory bodies that generate unbalanced panel data, with 5,038 observations analyzed with panel data regression. Our analysis reveals that most LGs in Indonesia have achieved high-level administrative performance since 2015. Despite this, several LGs remain at the medium and low levels. LGs located in Java and Bali have the highest overall performance, followed by Borneo, Sumatra, Sulawesi, and East Indonesia. We also reveal that IAF capability, maturity, and expertise positively affect the administrative performance of LGs in Indonesia. Proper internal audit characteristics are essential in optimizing the supervision of local governance for better administration performance. We also suggest that the Financial and Development Supervisory Agency (BPKP), which is in charge of IAF development, implement continuous development programs properly. It is important that proper human*

resource allocation and the use of technology are supervised to realize good administrative performance and enhance public accountability.

Keywords: *Indonesia; local government; administration performance; internal audit function.*

Reikšminiai žodžiai: *Indonezija; vietos valdžia; administracijos veikla; vidaus audito funkcija.*

Introduction

Indonesia has experienced massive changes in public governance since the 1998 reformation after the fall of President Suharto (Bennet 2010), in which a set of regulations has been issued and implemented. Following the example of many countries, Indonesia has implemented decentralization as part of a broader democratization process that delegates many administrative functions to local governments (hereinafter – LGs) (Holzhacker, Wittek, and Woltjer 2016). Therefore, the performance of LGs in carrying out their function in public administration becomes very important (Sutopo et al. 2017). However, like other countries in transition periods, performance accountability is still an issue attracting public attention in LGs (Lewandowski 2019; Pollitt 2018; Van Dooren, Bouckaert, and Halligan 2010). This creates unique institutional settings, underlying the need to provide comprehensive empirical studies in Indonesia.

Being the world's most populous island country, the implementation of LGs in Indonesia has experienced considerable gaps between regions (Shah, Qibthiyah, and Dita 2012), including the public administration aspect. In practice, LGs in Indonesia are obliged to submit accountability reports to the Ministry of Internal Affairs concerning the implementation of public administration (Rahmatunnisa 2018). This report is assessed to evaluate LGs' administrative performance. The Ministry of Internal Affairs expects that all LGs achieve high administrative performance levels at least.¹ However, several LGs remain unable to achieve high, medium or even low administrative performance (Sutopo et al. 2017). Following this issue of performance accomplishment, further study becomes necessary to provide recommendations to the related regulatory bodies for better the accomplishment of LG administrative performance in Indonesia.

One of the crucial factors in the context of LG performance is internal audit. The Indonesian government has given significant attention to LG internal audits over the past decades. Several regulations have been issued for the sake of LG internal audit development.² LG administrative performance has actually been a focus of several studies in the past several years. However, the presence of studies in Indonesia that investigate the

1 *Minister of Internal Affairs Regulation Number 54 of 2015 concerning the Strategic Plan of the Ministry of Internal Affairs 2015–2019*

2 *BPKP Head Regulation Number PER-1633 / JF / 2011 concerning APIP Capability Development; BPKP Head Regulation Number 4 of 2016 concerning Guidelines for Appraisal and Maturity Improvement Strategy of the Government Internal Control System*