

Original article

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INTERNAL AUDIT FUNCTION AND PUBLIC SERVICE QUALITY: EVIDENCE FROM INDONESIAN LOCAL GOVERNMENTS

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Abstract. This study investigates the role of local government internal audit function maturity and expertise in supervising local government public service quality. We use secondary data from all local governments in Indonesia for the 2016–2019 fiscal year that generates panel data with 1934 observations, analyzed with panel data regression. Local governments in Indonesia have a good average quality of public services. In most tests, we evidence the positive effect of local government internal audit function maturity and expertise on public service quality. Internal audit function maturity is the strongest contributor, while expertise supports the audit process to achieve higher public service quality. Our study provides implications for local government supervision that should be maximized through internal audit function to achieve good quality public services, by developing proper internal auditor programs of the Financial and Development Supervisory Agency (BPKP). The local government should also have a proper budget allocation for public service. The adoption of information technology should also be optimized in public service implementation and supervision. Finally, our study brings significant novelty to public service and internal audit literature in Indonesia by providing one of the first comprehensive studies covering all Indonesian local governments.

Keywords: local government, public service quality, internal audit function, maturity, expertise.

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Introduction

Many countries around the world have implemented decentralization, aiming at maximizing the potential of local governments following the concept of New Public Management (NPM) and New Public Service (NPS) (McLeod and Harun, 2014). In practice, most public services are delegated to local governments to deliver the best possible service to the public as a whole. This phenomenon is also typical to Indonesia that has experienced a set of fundamental changes in local governance since the 1998 reformation (Danar, Kusumasari and Muluk, 2020) with increasing democracy, reforming state financial management, and even implementing decentralization through regional autonomy (Furqan, Wardhani, Martani, and Setyaningrum, 2020). It is expected to create an accountable local government (Rakhman, 2019) and maximize public welfare. However, up until now, the quality of public service is still a significant issue (Furqan et al., 2020).

Public service in Indonesia still often invites public dissatisfaction, especially in local government (Dewi, 2020). Recent statistics from the Ombudsman of the Republic of Indonesia in 2020 show 11,087 complaints about public services organized by the government in 2019. The number of complaints is higher than in 2018, when there were 10,985 complaints. The main problem is that local governments become the highest subject contributing to low quality public services accounting for 41.03% of all cases. Furthermore, the compliance of local governments with the minimum standards of public services has not shown good statistics. According to the survey conducted by the Ombudsman of the Republic of Indonesia in 2019, there were 26.51% of district/city governments with low compliance, 40.47% with moderate compliance, and only 33.02% with high compliance scores. This can be seen as a severe issue, especially considering that regional autonomy has been implemented for almost two decades.

In addition to public service quality implementation issues in Indonesia, there is also a significant need for further research in literature. In fact, there is still a limited number of studies examining public service quality in the Indonesian context. Previous studies in the literature also have significant limitations that potentially reduce the generalizability of their findings (Furqan et al., 2020; Hadian, 2017; Hadiyati, 2014). The majority of previous studies are still limited in research data and observations (Hadiyati, 2014). Consequently, the results cannot be generalized because the specific characteristics of local governments may differ from one another. The issue of subjectivity still occurs due to the use of survey methods