The Effectiveness of Internal Control System and Role of Internal Audit on Local Government Performance

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ABSTRACT

This study aims to analyze the effectiveness of control environmental components and monitoring activities as part of the internal control system and examine the effect of partially control environment variables, monitoring activities and the role of internal audit on the performance of local governments in Surakarta. The samples used were 126 employees consisting of a head and a staff in 33 regional organization in Surakarta. The method of analysis using descriptive statistics and linear regression. The results showed that the components of the control environment and monitoring activity on the local government in Surakarta has been done effectively. Research also proves their influence in partial control environment, monitoring activities and the role of internal audit on local government performance.

Keywords: internal control system, control environment, monitoring activities, role of internal audit and local government performance.

Introduction

Strengthening public demands for presenting accountability and transparency by public sector organizations such as central and local governments, government work units, departments and agencies becomes extremely fundamental in improving good governance. It occurs because of regulation development and accounting standards of the public sector in Indonesia.

Implementing the GCG (Good Corporate Governance) process in the private and public sector in revealing cases that happened in the organization over an effective control process will be a fascinating learning and presumably we can avoid it. Overcoming the same situation is certainly not that piece of cake. It requires consistency, commitment, and a clear understanding of all company or organizational stakeholders regard to how the process should be run. However, from the cases occurred in state-owned enterprises (SOEs) locally known as Badan Usaha Milik Negara (BUMN) or Public Companies can be summed up a temporary conclusion that the implementation of the GCG process is not comprehensively understood and applied yet.

The example is the general audit case experienced by PT. Kereta Api Indonesia (PT. KAI). This case highlights how the governance process operated in a company and how the role of each supervisory department ensures the presentation of financial statements correctly and is capable of describing the actual financial condition of the company. In this case, the internal auditor did not play an active role in an auditing process, but the external auditor did, and the checks and balances as substantive functions within the company were failed.

Indonesia is going in a period of recovery from a prolonged economic crisis. All elements such as the government overcome the crisis by reforming various fields. Efforts to restore economic, social and political conditions are by turning back the deepest trustworthiness of societies regarding corrupt practices (corruption, collusion, and nepotism) (Simangunsong, 2014). However, various frauds still exist nowadays such as corruption, collusion, and nepotism. One of its examples is by indicating a case of alleged bribery for job promotion in Klaten in early 2017 and the Corruption Eradication Commission (Komisi Pemberantasan Korupsi, KPK) also found a sign of sources of funds from other sides. It makes the sharp decline of bureaucratic apparatus performance in public trust. This illustrates a low-level management and awareness
of government officials on achieving good governance. After all, the government must provide information on their activities and performance to the public through accountability media periodically.

Local government accompanied by Financial and Development Supervisory Agency (Badan Pengawasan Keuangan dan Pembangunan, BPK) have to manage regional finances appropriately. The financial management system in local government is considered dreadful by Anwar Abubakar (Reuters, 6 December 2012). Conforming to Ministry/Institution Financial Report (Laporan Keuangan Kementrian/Lembaga, LKKL) in 2012, it presented: (1) 56 cases of potential losses amounting to Rp 2,292,815.1 million; (2) 203 deficient cases coming to Rp 1,771,601.09 million; (3) 395 cases of administrative irregularities; and (4) 107 cases of ineffectiveness amounting to Rp 530,182.25 million. (Simangunsong, 2014).

According to Supreme Audit Institution (Badan Pemeriksa Keuangan, BPK) report from 415 Local Government Financial Statement in 2012, they declared 113 Unqualified Opinions (WTP) (including 41 entities of Unqualified Opinion With Explanatory Paragraph (WTP-DPP), 267 Qualified Opinions (WDP), 4 Adverse Opinions (TW), and 31 Disclaimers (TMP)). The development of LKPD from 2008 to 2012 was recognized in the escalating number of ministries/institutions obtained WTP, from 34 ministries/institutions in 2008 to 44 in 2009, 52 in 2010, 66 in 2011 and 68 in 2012. Then, the number of financial statements adequately presented in ministries/institutions was highly increasing and financial information in local government financial reports of relied on users. However, until the first semester in 2013, based on auditor's opinion given to 415 LKPD in 2012, it caused several local governments feeling unprepared to complete financial statement comprehensively and/or submit it to BPK behindhand.

Financial statements with good quality values also relate to a good role of internal audit. Through the role of internal audit, it is expecting to push efforts of repairing the quality of local government financial reports to be more encouraged, so that, subsequently they can get WTP opinion. Obtaining an unqualified opinion (WTP) means that the report is trusted as a decision-maker by financial statement users. Besides, the role of internal audit can oversee and prevent any deviant activities.

In succeeding in the implementation of the control system to be effective, the internal audit is an internal supervisory unit and supervisor of internal control system implementation in government. Thereby, the role of internal audit is crucial in realizing good and clear governance. Depend on the results of the evaluation of local government reports with a few of Unqualified Opinion (WTP), it triggers a hesitation in Government Internal Control System (Sistem Pengendalian Internal Pemerintah, SPIP) conducted by staff of inspectorate auditor as the internal audit. This was caused by the possibility of several cases found by BPK which were not detected by the inspectorate as an internal auditor.

In agreement with Mardiasmo (2013) role of internal audit becomes exceedingly notable toward Unqualified Opinion (WTP) because it plays a role in the reliability of internal control system, regulatory compliance and applicability of government administration system. The quality of local government financial reports can be improved by the role of internal audit (Bastari, 2013). Internal audit assists in identifying weaknesses, inefficiencies, and failures of various programs launched by the government (Septidiany, 2014).

Internal control is a fundamental aspect of the governance system of organizations and the ability to manage risk. It ensures the achievement of organizational goals and creates, enhances, and protects stakeholder value (IFAC, 2012).

Internal control is a major issue in any organization wishing for success and achieving its goals, otherwise, it can be depicted as actions taken by the organizations to boost the possibility of their goal actualization.

The failure of the internal control system and the circumvention of internal control by executives result in corporate scandals. Organizations have to assure that their internal control system remains relevant in the current organizational model. The organizational model has transformed dramatically including the rising of shared service usages, outsourcing service providers, organizational regulations, technology dependence, stakeholder expectations, etc. All of transformations magnificently increased risk of organization.
Adeniyi, 2004 argues that internal control is designed to produce finances due to operational shortcomings, inability or ineffectiveness of short-term system in performance and debated in public sector which in fact that most public sector organizations have failed due to lack of proper internal control measures. Due to this phenomenon, several steps and procedures have been taken to minimize or eradicate fraud thoroughly and applied appropriate internal controls in public sector development by means to improve efficiency and maximize resources. Therefore, fraud management in the public sector has presented internal control and monitoring designed to prevent and detect fraud.

Several studies examining the relationship between internal control systems and performance are conducted by Angella and Eno (2009) about the evaluation of internal control: a case study in Uganda assessing internal control mechanisms adopted by member countries of African Development Bank for project finance management in public sector. It concludes that some components of control system are unimplemented well.

Other researchers claim that internal control supports resource utilization. It helps management to achieve organizational goals (Krenchel et al., 2007). Doyle et al. (2006) state that organizations are often affected by risks. The risks overcome also constantly change because the control system supports monitoring and controlling risks rather than eliminating them. Corporations experience debt issuance costs declining by improving the quality of the control system (Anderson et al., 2004).

Kanyamond and Sumalee (2011) in their research sign that the effectiveness of internal control affected positively on the reliability of financial information. It is inferred that risk management, compliance quality and adequacy of monitoring greatly affect the effectiveness of internal control.

Fawzi and Atala (2012) examine the relationship between components of internal control and effectiveness of audit programs in Jordan. It is figured out that risk assessment significantly contributing to the performance of audit programs while control environment and control activities do not.

This study will analyze components of the control environment and internal control system monitoring using the principles and attributes of COSO (Commission Committee of Sponsoring Organizations of Treadway Commission) in assessing the effectiveness of internal control system. In 1992 COSO released Internal Control-Integrated Framework (initial framework). They presented an updated integrated internal control framework. They believe that this framework will enable organizations to effectively and efficiently develop and maintain internal control systems that can increase the possibility of achieving entity goals and adjust to changes in the business and operating environment. (COSO, 2013)

Considering the abundant problems of local government performance related to internal control and internal audit, this study was aimed to assess the effectiveness of internal control system and testify the influence of control environment, monitoring activities and role of internal audit variables on the performance of local government organizations.

Literature Review and Hypothesis Development

Ofori in 2011 researches to determine the effectiveness of the internal control system in Ghana Post Company. The research approach is a case study. It assesses control environment, risk assessment, information and communication systems, control and monitoring activities which are considered as internal control components. The result indicates that those five components in the internal control system are not quite intense but satisfying enough. Furthermore, it reveals that no internal audit unit monitored its activities independently.

Douglas (2011) determines the level of failure caused by humans on the internal control system and its effectiveness in managing risk in the bank. This study considers control environment, risk assessment, information and communication systems, control activity and monitoring to evaluate the effectiveness of internal control in Ghana’s state banks. The study points out that there is the internal control system at banks in Ghana but the monitoring is ineffective.

Salehi, Shiri (2013) conduct a study to analyze the effectiveness of internal control in the Iranian banking sector. The study displays that internal control is tremendously efficient in the banking sector to prevent and detect fraud and error incidents.
Simangunsong’s research (2014) is purposed to find out the effects of the effectiveness of internal control and the role of internal audit on the performance of local governments. This research is conducted by census. The data analysis method to test the hypothesis is regression analysis using SPSS. The data is primary data collected through the questionnaires. The results of the research sums up that there is a positive influence on the effectiveness of internal control and the role of internal audit on local government performance either simultaneously or partially.

Kanyamon and Sumalee (2011) in their research figure out that the effectiveness of internal control affects positively on the reliability of financial information and it is concluded that risk management, compliance quality and adequacy of monitoring greatly affect the effectiveness of internal control.

Based on several empirical findings, the hypotheses put forward in the study are:

H1a : The effectiveness of the control environment in the internal control system influences performance
H1b : The effectiveness of monitoring in internal control system affects performance

The research conducted by Safrida Yuliyani, et al (2010) with its results designates that role of internal audit simultaneously has a positive effect on the quality of financial statements on Banda Aceh municipal government. In line with research by Fikri, et al (2015) conducted in NTB province, it states that the role of internal audit affects positively on the quality of financial statement information. The hypothesis proposed in this study is:

H2 : Role of internal audit impacts on performance

Research Method
This research used quantitative methods. Quantitative research method is a research method based on philosophy of positivism, used to examine populations or specific samples, collecting data with research instruments, quantitative/statistical data analysis, purposed to test the hypotheses set. The philosophy of positivism beholds that reality/symptoms/phenomena can be classified, relatively permanent, concrete, observable, measurable, and causal symptoms (Sugiyono, 2011: 8).

The sample of this research was several employees (heads and staff) from 33 Regional Organizations (Organisasi Perangkat Daerah, OPD) in Surakarta. To make all OPD represented, the samples taken from each OPD were 5 employees with simple random sampling method, so that the number of samples used in this study was 165 employees. According to Sugiyono (2012: 133), a proper size of sample in research is from 30 to 500. Consequently, the number of samples in this study can be used.

The definition of operational variables in this research was:

1. Independent Variable
   a. Internal Control System
      This study used an internal control system focused on control environment and monitoring activities. The indicators of each component were:
      1. Factors affecting control environment include management philosophy and operating style, integrity and ethical values, commitment to competence, board of directors or audit committee, organizational structure, authority and responsibility decree as well as policies and practices of each human resource. (Millichamp, 2002).
      2. Monitoring is a process that evaluates the quality of internal control from time to time. Monitoring is a process that evaluates organizational events and transactions to measure the quality of performance during the period and to decide whether the control is effective or not. Simmons (1995) said monitoring can be conducted through ongoing activities or separated evaluation.
   b. Role of internal audit
      Role of internal audit is an independent appraisal function within an organization to inspect and evaluate organizational activities run. Internal audit variables consist of dimensions: independence, professional ability, scope of assignment, and implementation of audit activities. (Simangunsong, 2014 and Sawyers, 2013)
2. Dependent Variable

Local government performance is the level of achievement of the implementation of activities/programs/policies in achieving goals, objectives, mission and vision of organizations as stated in the formulation of an organization's strategic planning. Whittaker (1995). In general, it can be said that performance is the achievement of organization which can be reached within a certain period.

In this case, there are four key elements in performance measurement system by Simangunsong (2014), they are: (1) planning and goal setting, (2) developing relevant measures, (3) formal reporting of results, and (4) using information.

The instrument used in this study was a questionnaire containing questions to be answered by respondents. The questionnaire was divided into two main sections representing the two control components (environmental control and monitoring) of the COSO model chosen for this study. These questions require a good understanding of the internal control system. Responses received from respondents were based on 5 points of Likert scale (Sujoko, et al, 2008), starting from strongly disagree to strongly agree, from 1 for strongly disagree to 5 for strongly agree. So were for the role of internal audit and local government performance.

The research instrument used in this study needs to be tested for its validity and reliability through validity and reliability testing. To assure that the instruments used are the exact measurement and to determine the validity of the data in this study, the researchers tested the quality of the data.

Data analysis methods used in this study to answer the formulation of problem and aim was descriptive statistical analysis and multiple linear regression analysis (multiple regression). The analysis used in this study was assisted by IBM SPSS (Statistical Package for Social Sciences) 20 program for windows.

Descriptive statistical analysis is used to test the effectiveness of control environment and monitoring activities as indicated by mean (average) and standard deviation. If the Mean is 0.00 - 1.49 = very ineffective; 1.50 - 2.49 = ineffective; 2.50 - 3.49 = moderate; 3.50 - 4.49 = effective; 4.50 - 5.00 = very effective. (Ayagre, et all: 2014).

Multiple linear regression analysis is described by the following equation model:

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \]

Information:
- \(Y\): Local Government Performance
- \(\alpha\): Constant
- \(\beta_1, \beta_2, \beta_3\): Regression coefficient
- \(X_1\): Control Environment
- \(X_2\): Monitoring Activities
- \(X_3\): Role of internal audit
- \(e\): Standard Error

Research Results and Discussion

Based on the results of validity and reliability test, it can be obtained that the questions in the component of environmental control, monitoring activities, role of internal audit and local government performance shows the value of validity is greater than \(r\) table (0.176) and the reliability value designated that all variables got Cronbach's Alpha values which were greater than 0.60 so that it can be concluded that the statement items of all variables are valid and reliable, so that they can be used to process further data.

Descriptive statistical analysis is used to test the effectiveness of the control environment and monitoring activities signed by mean (average) and standard deviation. The table below presents the results of statistical descriptive analysis as follows:

<table>
<thead>
<tr>
<th>No</th>
<th>Control Environment</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The organization indicates a commitment to integrity and ethical values.</td>
<td>4,36</td>
<td>0,638</td>
</tr>
</tbody>
</table>
2. The leader supports integrity and ethical values. 4.17 0.518
3. The behavior standard is codified to guide behavior, activity, and decision. 4.20 0.633
4. The leader shows independence. 4.06 0.832
5. The roles and responsibilities are clearly stated for all employees. 4.19 0.517
6. The organization decides with the supervision of leaders, structure, reporting lines and appropriate authority and responsibilities in pursuing goals. 4.29 0.538
7. Your organization has an organization chart with clear reporting lines and authority. 4.34 0.595
8. The demonstration of a commitment to attract, develop and maintain competent individuals in line with the goals. 4.02 0.726
9. The human resource function has helped to determine the level of competence and staffing based on job roles, and facilitate training and development. 4.20 0.506
10. The individuals are demanded accountable for their internal control responsibilities in achieving their goals 4.14 0.766

Average 4.20 0.627

Resource: Primary Data Processed (2017)

Stand on table 1, it can be disclosed that control environment stated in the statement about the organization highlighted a commitment to integrity and ethical values had the highest mean value of 4.36. That was followed by a statement that the organization had an organizational chart with clear reporting lines and authority as part of the control environment with a mean value of 4.34, the second-highest value. Furthermore, there was a statement said that the organization determines, under the leaders' supervision, structure, reporting lines and appropriate authority and responsibility in pursuing goals had a mean value of 4.29 in the third.

The results of the table pointed out the lowest mean value for the statement was 4.02 and overall the mean value for the component of the control environment was 4.20 exceeding the mean value of 3.50. It defines that the control environment in the internal control system is effective.

Table 2
Monitoring Activities
<table>
<thead>
<tr>
<th>No</th>
<th>Monitoring Activities</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Continual and/or separated performance evaluations to ascertain whether internal control components are presented and functioned or not.</td>
<td>4.14</td>
<td>0.562</td>
</tr>
<tr>
<td>2.</td>
<td>The independent internal audit work unit objectively evaluates the organizational control system and feedback to management on control system function.</td>
<td>4.09</td>
<td>0.633</td>
</tr>
<tr>
<td>3.</td>
<td>The involvement of external evaluator objectively evaluates control system and reports to the manager of the organization regarding the function of other components of the control system.</td>
<td>4.21</td>
<td>0.570</td>
</tr>
<tr>
<td>4.</td>
<td>Evaluating and communicating internal control deficiencies precisely to those who are responsible to take corrective action.</td>
<td>4.15</td>
<td>0.567</td>
</tr>
</tbody>
</table>
5. Evaluating and communicating regard to lack of internal control accurately to the appropriate leader. 4.02 0.606

6. Tracking by manager of organizations whether deficiencies are addressed specifically or not. 4.04 0.674

7. Internal audit reports to organization managers and leaders on unresolved deficiencies. 4.00 0.769

Average 4.09 0.626

Resource: Primary Data Processed (2017)

Coming from table 2, it can be designated that monitoring activities drawn in the statement referring to the involvement of external evaluators objectively checked out the control system and reported to the manager of the organization about functions of other components of control system obtained the highest mean value of 4.21. Followed by a statement that evaluating and communicating the lack of internal control accurately to those who are responsible to take corrective action achieved a mean value of 4.15, the second-highest value. Afterward, the statement mentioned that continual and/or separated performance evaluation to ascertain whether the internal control component is presented and functioned or not had a mean value of 4.14 in the third.

The results of the table figured out that the lowest mean value for the statement was 4.00 and overall the mean value for components of monitoring activities was 4.09 exceeding the mean value of 3.50. It signs that monitoring activities in the internal control system were effective.

On top of that, to find out the relationship between independent and dependent variable, multiple linear regression analysis is required, with the following steps:

a. Determination Coefficient Test ($R^2$)

The determination coefficient test is used to measure the proportion or percentage of contributions of all independent variables (X) contained in the regression model on the dependent variable (Y). The results of calculations for $R^2$ value with the help of IBM SPSS 20 for windows program in multiple regression analysis are as follows.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.764*</td>
<td>.584</td>
<td>.574</td>
<td>1.86043</td>
<td>584</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>57.152</td>
<td>3 122 .000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), PAI, LP, AM
b. Dependent Variable: KPD

From the results of the determination coefficient test in the table above, it was acquired determination coefficient value or $R^2$ of 0.574. It indicates that independent variables (control environment, monitoring activities and role of internal audit) are capable of explaining the dependent variable (local government performance) of 57.4%. For the rest, that was 42.6% is influenced or elaborated by other variables not included in the model of this research.

b. F-Test (Model Accuracy)

F-test is used to testify the significance of the regression coefficient simultaneously whether there is an influence among control environment, monitoring activities, and role of internal audit (independent variable) on local government performance (dependent variable) using a degree of confidence of 5%. As regard to the result of F-test, that is as follows:
Table 4  
F-Test Result  

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>593.446</td>
<td>3</td>
<td>197.815</td>
<td>57.152</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>422.268</td>
<td>122</td>
<td>3.461</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1015.714</td>
<td>125</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: KPD  
b. Predictors: (Constant), PAI, LP, AM  
Resource: Data Processed (2017)

From the calculation results obtained that the F value of 57.152 with a significance of 0.000 was smaller than 5%. Then, comparing F<sub>count</sub> to F<sub>table</sub> that if F<sub>count</sub> > F<sub>table</sub>, simultaneously the independent variables significantly affected the dependent variable. Using α = 0.05, df1 (number of variables-1) or 4-1 = 3 and df2 (nk-1) or 126-3-1 = 122 (n is the number of data and k is the number of independent variables) gained F<sub>table</sub> of 3.92.

So, F<sub>count</sub> value was 57.152 and F<sub>table</sub> was 3.92. It signed F<sub>count</sub> > F<sub>table</sub>. Therefore, Ho was rejected while Ha was accepted or that also can be visualized following the significance value of the F test table result of 0.000 < 0.05. In consequence, the independent variables (X) which were control environment, monitoring activities and role of internal audit simultaneously affect local government performance (Y). Thereby, it can be summarized that the regression model used is already appropriate.

c. Multiple Linear Regression Test  
Multiple regression analysis aims to determine the effects of control environment, monitoring activities and role of internal audit on local government performance. Based on the results of data analysis calculation obtained under IBM SPSS 20 software assistance are as follows:

Table 5  
Multiple Linear Regression Test Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>Correlations</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Zero-order</td>
<td>Partial</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>8.942</td>
<td>1.953</td>
<td>4.578</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LP</td>
<td>.217</td>
<td>.056</td>
<td>.296</td>
<td>3.856</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>AM</td>
<td>.388</td>
<td>.080</td>
<td>.413</td>
<td>4.840</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>PAI</td>
<td>.216</td>
<td>.096</td>
<td>.172</td>
<td>2.253</td>
<td>.026</td>
</tr>
</tbody>
</table>

a. Dependent Variable: KPD  
Resource: Data Processed (2017)

Confirming to the table above, the regression equation model can be formed as follows:

\[ Y = 8.942 + 0.217X_1 + 0.388X_2 + 0.216X_3 + e \]

Based on the regression equation, it is known that regression coefficient value for control environment, monitoring activities and role of internal audit variables contribute positively to local government performance.

d. Hypothesis Test (T-Test)  
T-test is conducted to test the effect of independent variables on the dependent variable in individual research as stated in the hypothesis of this study. A criterion to
conclude from test results is by looking at $t_{count}$ and $p$-value. If $t_{count} > t_{label}$ then $H_0$ is rejected, it means that there is an influence between independent and dependent variable. Whereas if the $p$-value is less than 0.05, it can be pointed out that the independent variable significantly influences the dependent variable and the hypothesis proposed in this study can be accepted or supported by research data. T-test results in this study can be seen in the following table.

Table 6

<table>
<thead>
<tr>
<th>No</th>
<th>Variable</th>
<th>$P$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Control Environment</td>
<td>0.000</td>
</tr>
<tr>
<td>2</td>
<td>Monitoring Activities</td>
<td>0.000</td>
</tr>
<tr>
<td>3</td>
<td>Role of internal audit</td>
<td>0.026</td>
</tr>
</tbody>
</table>

Resource: Data processed (2016)

From the results of t-test used to examine the significance of regression coefficients individually can be described as follows:

1. Control Environment
   T-test results of Control Environment variable obtained a $P$-value of 0.000. Because the $P$-value was smaller than the significance value (0.000 <0.05); so that $H_1$ was accepted. It signifies that the control environment influences local government performance.

2. Monitoring Activities
   T-test results of monitoring activity variables acquired $P$-value of 0.000. Because the $P$-value was smaller than the significance value (0,000 <0.05); then $H_2$ was accepted. It denotes that monitoring activities affect local government performance.

3. Role of internal audit
   T-test results of the role of internal audit variable was got a $P$-value of 0.026. Therefore, the $P$-value was smaller than the significance value (0.026 <0.05); so $H_3$ was accepted. It conveys that the role of internal audit impacts on local government performance.

Conclusion and Recommendation

Control environment and monitoring activities work together to strengthen the whole control system in an organization. The control environment is a foundation of all control components. Senior management must provide direction to other parts of the organization regarding the importance of effective internal control. The effectiveness of risk assessment, control, information and communication, and monitoring component will work according to the effectiveness level of the control environment. The monitoring component of the internal control system determines whether the control exists and functions as it should and if it does not, the deficiencies are reported to the appropriate personnel responsible for that.

Based on data analysis results, conclusions can be drawn as follows: a) the control environment in the internal control system has been implemented effectively in the local government of Surakarta. It was indicated by the average value of all components of the control environment amounting to 4.20. Considering a notation remarked that an average value from 3.50 to 4.49 is effective b) the monitoring activities in the internal control system were conducted effectively in the local government of Surakarta. It is signified by the average value of all monitoring activity components of 4.09. Considering a notation declared that an average value from 3.50 to 4.49 is effective, c) the effectiveness of the control environment influenced local government performance in Surakarta. It is pointed out by a significance value of 0,000 < 0.05, so that $H_1a$ is accepted, d) the effectiveness of monitoring activities affected local government performance in Surakarta. It is designated by the significance value of 0,000 < 0.05, so that $H_1b$ is accepted, and e) the role of internal audit affected local government performance in Surakarta. It is specified by the significance value of 0.026 <0.05, so $H_2$ is accepted.

Some advice to give in this study are: 1) for local governments, that is to consistently improve the effectiveness of internal control system through control environment and monitoring activities in achieving a better local government performance, 2) local governments are
expecting to always support internal audit function in organizations as a sort of commitment to present a good corporate governance, 3) for the next, researchers can use other components of internal control system such as risk assessment and information and communication, and 4) research can be equipped with interview methods to improve attitudes of respondents concern and seriousness in answering all questions delivered and to reduce respondent's subjectivity coming to research results that are vulnerable to be bias of respondents answers.

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