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# PERFORMANCE APPRAISAL OF GOVERNMENT INTERNAL SUPERVISORY APPARATUS (APIP) IN IMPLEMENTATION OF COMPLIANCE AUDIT AT INSPECTORATE OF MEDAN CITY, INDONESIA

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## ABSTRACT

*The purpose of this research is to assess the performance of APIP in compliance audit and analyze the factors that cause low performance of APIP in Medan City. The method used in this research is descriptive method with qualitative approach. Data collection techniques used was interviews, questionnaires and documentation. Data analysis technique used qualitative descriptive analysis. The result of the research shows that APIP performance of Medan City Government in the implementation of compliance audit is generally good. However, there are some weaknesses that need to be anticipated, namely the ability and knowledge of the internal government supervisor apparatus which is not in accordance with their job field, the work experience is also inadequate, the training implementation for APIP is inadequate, the independence of APIP in the execution of tasks is still not good.*

**Keywords:** Performance, Government Internal Supervisory Apparatus, Audit of Compliance.

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## 1. INTRODUCTION

The demand for public sector accountability towards the realization of good governance and clean governance in Indonesia is increasing. This demand is reasonable, because some research indicates that the economic crisis in Indonesia was caused by bad governance and bad bureaucracy (Sunarsip, 2001, Syahyunan *et al.*, 2017; Sirojuzilam *et al.*, 2018; Tripriyono *et al.*, 2018 & Muda, 2018a; 2018b; 2018c; Kesuma *et al.*, 2018a & 2018b). The number of facts revealed about the government performance that can be considered unsatisfactory,

ranging from the disclosure of corruption cases to budgeting that is beyond reasonable limits, makes the demand for public sector accountability is very high. APIP is a government agency formed with the task of carrying out the internal controls within the central and/or regional governments, comprising the Agency for Financial and Development Supervision (BPKP), Inspectorate General of the Ministry, Inspectorate/Internal Control Unit at the State Ministry, Main Inspectorate/ Inspectorate Institution Non-ministerial government, inspectorate/internal control unit at secretariat of state high institutions and state institutions, provincial/district/city inspectorates, and internal control units of other government legal entities in accordance with laws and regulations. APIP as a government internal supervisor is one of the important elements of government management in order to realize good governance that leads to clean government. Internal controls serve to provide reasonable assurance of compliance, austerity, efficiency and effectiveness. Increased criticism of auditor performance caused by many financial scandals such as corruption and the failure of internal auditors in carrying out its role as a party to do preventive action. Porter (1993) affirms that the audit environment that is full of criticism to the auditor's performance is already a characteristic of the current audit environment.

The current phenomenon is related to APIP in Indonesia with an overview of indicators of implementation of government management sector in Indonesia. Some data that indicate the need to improve performance and improvement on the aspects of good governance, namely: (1) Data Transparency International in 2014 shows that Indonesia Corruption Perception Index (IPK) is still low (34 of 100). (2) The integrity surveys by the KPK in 2014 show that the quality of public services in Indonesia has only reached 7.22 for central institutions (3) BPK's opinion on K /L and local government financial statements is still much to be improved towards Unqualified Opinion (WTP).(4) The World Bank assesses the effectiveness of Indonesian government scores of -0.28 (2009), -0.20 (2010), -0.25 (2011), -0.29 (2012), -0.24 (2013) from a scale of -2.5 to 2.5. (5) The evaluation result on performance report in 2013 shows that the number of government institutions that are accountable reaches 39.67%. In 2010, BPKP has implemented a mapping of APIP capability using Internal Audit Capability Model (IA-CM) approach. From the mapping results, it is known that 93% APIP is still at level 1 (Initial), while the remaining of 7% are at level 2 (Infrastructure). The performance of auditors that have not been good can be seen from the high financial scandal or level of corruption and poor governance at the local level because the internal auditor as the responsible party for internal supervision or audit has not performed well so it has not achieved the function of internal audit. The findings of the BPK of the Republic of Indonesia in 2015 towards the Government of Medan City, found an indication of non-compliance with the legislation in local financial management. The indication of regional losses was found in the procurement of handy talky at the Regional Password Office of Medan City amounting to Rp 1.423.561,400, and the guarantee for the implementation could not be disbursed amounting to Rp.355.890.350.This raises questions from the public regarding the performance of the government internal auditor as the responsible party for conducting internal controls or who undertake preventive actions related to minimizing practices that could harm the public.

## **2. LITERATURE REVIEW**

### **2.1. Performance of the Government Internal Supervisory Apparatus (APIP)**

Pressure on government organizations both central and local is to improve its performance in organizing local government. It is intended that the government can run the government effectively and efficiently in order to prosper the community. Wibowo (2008) states that the

performance comes from the definition of performance that is as a result of work or work performance. In addition, according to Armstrong and Baron in (Wibowo 2008), performance is the result of work that has strong relationships with organizational strategic goals, customer satisfaction and contributes to the economy. According to Mahsun (2006); Dalimunthe *et al.*, (2017); Erlina (2017); Hasan *et al.*, (2017); Erlina *et al.*, (2017a & 2017b); Lubis *et al.*, (2017); Lubis *et al.*, (2018) and Muda & Hutapea (2018) 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 contained in strategic planning of an organization.

## 2.2. The Role of APIP in Compliance Audit

For management, APIP is a requirement. The more complex the tasks and functions carried by government agencies, it is difficult for the unit management to carry out direct supervision of all organizational activities, so that an internal monitoring unit is required to be carried out by APIP. The role and contribution of APIP to management expressed in the Government Regulation (PP) Number 60 Year 2008, in which the elements of SPIP include: Control Environment, Risk Assessment, Control Activities, Information and Communication & Internal Control Monitoring.

## 3. RESEARCH METHOD

This research uses descriptive research method with qualitative approach, that is giving description about the problem studied, concerning how APIP Performance in conducting compliance audit in Medan City Government. The population in this research is the Functional Auditor Official (PFA) and the Supervisory Officer of Local Government Affairs (P2UPD) as the Government Internal Supervisory Apparatus Government. The sample in this research is called informant (Achmad *et al.*, 2017; Badaruddin *et al.*, 2017; Handoko *et al.*, 2017; Ferine *et al.*, 2017 & Hutagalung *et al.*, 2017). The implementation of data interpretation is conducted by giving explanation in the form of narrative and descriptive sentence. Data which have meaning then the data analyzed based on interview result from study documentation (Nasir *et al.*, 2017; Nurlina & Muda, 2017; Sadalia *et al.*, 2017; Muda *et al.*, 2018a; 2018b; 2018c & 2018d). Data analysis used in this research is qualitative, by entering data from informant or interview which then analyzed and concluded.

## 4. RESULT & DISCUSSION

### 4.1. Result

The questionnaires returned and accepted by the researcher are 71 respondents (91.02%), whereas the only questionnaire to be processed is 67 respondents (86.90%). The criteria for validity test are as follows (Azlina *et al.*, 2017; Muda *et al.*, 2017a; 2017b; Nasution *et al.*, 2018 & Pohan *et al.*, 2018):

- Data is valid, if value of pearson correlation is positive, and Sig. (2-tailed) <  $\alpha = 0.05$ .
- The data is invalid, if the pearson correlation value is negative, or positive but the value of Sig. (2-tailed) >  $\alpha = 0,05$
- The criteria for reliability test are as follows (Agustina *et al.*, 2018):
- Data is reliable if the value of cronbach alpha > 0,60.
- Data is not reliable if the value of cronbach alpha > 0,60.

Performance Appraisal of Government Internal Supervisory Apparatus (APIP) in Implementation of Compliance Audit at Inspectorate of Medan City, Indonesia

**Table 1** Instrument Validity

No	Question	Value	Total
1	Compose an audit program	Pearson Correlation	,905**
		Sig. (2-tailed)	,000
		N	67
2	Propose the budget allocation of inspection time for each type of activity in the audit process	Pearson Correlation	,885**
		Sig. (2-tailed)	,000
		N	67
3	Schedule of inspection in accordance with the Annual Work Plan	Pearson Correlation	,863**
		Sig. (2-tailed)	,000
		N	67
4	The start time of audit implementation is in accordance with the planned audit entry schedule in the Audit Work Program	Pearson Correlation	,798**
		Sig. (2-tailed)	,000
		N	67
5	The realization of time for inspection exceeds the time budget allocation for inspection.	Pearson Correlation	,801**
		Sig. (2-tailed)	,000
		N	67
6	Realization of time for inspection in accordance with the budget allocation of time for inspection.	Pearson Correlation	,876**
		Sig. (2-tailed)	,000
		N	67
7	For audit services, the concept of Audit Result Report has been prepared and submitted to the supervisor in a timely manner.	Pearson Correlation	,807**
		Sig. (2-tailed)	,000
		N	67
8	For consultation services, the concept of the Activity Report has been prepared and submitted to the supervisor in a timely manner	Pearson Correlation	,857**
		Sig. (2-tailed)	,000
		N	67
9	The audit program has been standardized	Pearson Correlation	,764**
		Sig. (2-tailed)	,000
		N	67
10	The audit program is prepared for each inspection activity	Pearson Correlation	,772**
		Sig. (2-tailed)	,000
		N	67
11	The audit program implemented has been previously approved by the supervisor	Pearson Correlation	,874**
		Sig. (2-tailed)	,000
		N	67
12	The implementation of the audit program is in accordance with a predetermined schedule.	Pearson Correlation	,637**
		Sig. (2-tailed)	,000
		N	67
13	The implementation of the audit program is extended from the previously accepted schedule.	Pearson Correlation	,711**
		Sig. (2-tailed)	,000
		N	67
14	The audit program has been implemented and set forth in the Inspection Result Paper.	Pearson Correlation	,598**
		Sig. (2-tailed)	,000
		N	67
15	Every discovery is communicated with the auditee	Pearson Correlation	,658**
		Sig. (2-tailed)	,000
		N	67
16	The Inspection Result Paper contains comments / conclusions	Pearson Correlation	,596**
		Sig. (2-tailed)	,000
		N	67
17	The Inspection Result Paper has been reviewed by the supervisor	Pearson Correlation	,628**
		Sig. (2-tailed)	,000
		N	67
18	Review the Inspection Result Paper created by team members	Pearson Correlation	,655**
		Sig. (2-tailed)	,000
		N	67
19	Output realization (draft of Audit Result Report approved by the supervisor for Audit Service or Activity Report for Consultation Service) in accordance with the target set.	Pearson Correlation	,788**
		Sig. (2-tailed)	,000
		N	67

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Source : SPSS Result (2018).

The Table shows that the answer data for all questions is valid Pearson Correlation positive and Sig. (2-tailed) <  $\alpha$  0,05 (Burhan *et al.*, 2015a; 2015b; Muda & Naibaho, 2018; Muda *et al.*, 2018e, 2018f & 2018g).

**Table 2** Reliability

Cronbach's Alpha	N of Items
,960	19

Source : SPSS Result (2018).

The Table shows the answer data for all questions is reliable [*Cronbach Alpha*>0,60].

**4.1.1. Analysis of APIP Performance on the Preparation of Audit Plans and Programs**

APIP performance data on the preparation of plans and audit programs include:

**Table 3** APIP Performance from the Side of Preparation of Audit Plans and Programs

No	Preparation of Audit Plans and Programs	1		2		3		4		5		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
1	Prepare an audit program	3	4,48	9	13,43	2	2,99	26	38,81	27	40,30	67	100
2	Propose the budget allocation of inspection time for each type of activity in the audit process	5	7,46	4	5,97	6	8,96	25	37,31	27	40,30	67	100
3	Schedule of inspection in accordance with the Annual Work Plan	4	5,97	2	2,99	9	13,43	29	43,28	23	34,33	67	100
4	The start time of audit implementation is in accordance with the planned audit entry schedule in the Audit Work Program	0	-	4	5,97	9	13,43	36	53,73	18	26,87	67	100
Average		4,48		7,09		9,70		43,28		35,45			

Source : SPSS Result (2018).

Based on the Table, it shows that APIP performance in “preparation of plan and audit program”, majority distributed on scale 4 (good) with average of 43.28% and scale 5 (very good) equal to 35.45%. The lowest answer distribution is on a scale of 1 (very bad) with an average of 4.48%.

**4.1.2. Descriptive Analysis of APIP Performance on the Implementation of Audit**

APIP's performance data on the implementation of audit consists of 4 questions and 5 answers, among others very bad (1), bad (2), less (3), good (4), and very good (5) (see table).

**Table 4** APIP Performance of the Audit Implementation Side

No	Audit Implementation	1		2		3		4		5		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
5	The realization of time for inspection exceeds the time budget allocation for inspection.		5,97	1	1,49	8	11,94	30	44,78	24	35,82	67	100,00
		4											

Performance Appraisal of Government Internal Supervisory Apparatus (APIP) in Implementation of Compliance Audit at Inspectorate of Medan City, Indonesia

No	Audit Implementation	1		2		3		4		5		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
6	Realization of time for inspection in accordance with the budget allocation of time for inspection.	5											
		7,46	2	2,99	6	8,96	27	40,30	27	40,30	67	100,00	
7	For audit services, the concept of Audit Result Report has been prepared and submitted to the supervisor in a timely manner.	2											
		2,99	3	4,48	9	13,43	29	43,28	24	35,82	67	100,00	
8	For consultation services, the concept of the Activity Report has been prepared and submitted to the supervisor in a timely manner	1											
		1,49	7	10,45	5	7,46	25	37,31	29	43,28	67	100,00	
Average			4,48		4,85		10,45		41,42		38,81		

Source : SPSS Result (2018).

Based on the Table, it shows that APIP performance in “audit implementation”, majority distributed on scale 4 with average of 41.42% and scale 5 (very good) equal to 38.81%. The lowest answer distribution is on a scale of 1 (very bad) with an average of 4.48%.

#### 4.1.3. Analysis of APIP Performance on Conformity Inspection with Audit Standards

APIP performance on compliance inspection with audit standards consist of 4 questions and 5 answers, among others very bad (1), bad (2), less (3), good (4) and very good (5).

**Table 5** APIP Performance of Compliance Side Inspection with Audit Standards

No	Conformity inspection with APIP audit standards	1		2		3		4		5		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
9	The audit program has been standardized	10	14,93	23	34,33	23	34,33	11	16,42	0	-	67	100
10	The audit program is prepared for each inspection activity	0	-	3	4,48	8	11,94	34	50,75	22	32,84	67	100
11	The audit program implemented has been previously approved by the supervisor	4	5,97	4	5,97	6	8,96	28	41,79	25	37,31	67	100
12	Implementation of the audit program is in accordance with a predetermined schedule.	0	-	0	-	7	10,45	31	46,27	29	43,28	67	100
13	The implementation of the audit program is extended from the previously accepted schedule.	0	-	0	-	7	10,45	29	43,28	31	46,27	67	100
14	The audit program has been implemented and set forth in the Inspection Result Paper.	0	-	0	-	6	8,96	38	56,72	23	34,33	67	100
15	Every discovery is communicated with the auditee	0	-	0	-	8	11,94	36	53,73	23	34,33	67	100

No	Conformity inspection with APIP audit standards	1		2		3		4		5		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
16	The Inspection Result Paper contains comments/ conclusions	0	-	0	-	8	11,94	38	56,72	21	31,34	67	100
17	The Inspection Result Paper has been reviewed by the supervisor	0	-	0	-	5	7,46	33	49,25	29	43,28	67	100
18	Review the Inspection Working Paper created by team members	0	-	0	-	7	10,45	35	52,24	25	37,31	67	100
Average		2,09		4,48		10,45		52,99		36,57			

Source : SPSS Result (2018).

Based on the Table, it shows that APIP performance in terms of “compliance inspection with audit standards”, the majority distributed on a scale of 4 (good) with an average of 52.99% and scale 5 (very good) of 36.57%. The lowest answer distribution is on a scale of 1 (very bad) with an average of 2.09%.

#### 4.1.4. Descriptive Analysis of APIP Performance on Quantity of Works

APIP performance on the quantity of number of output consists of 4 questions and 5 answer, among others very bad (1), bad (2), less (3), good (4), and very good (5) (see table).

**Table 6** APIP Performance from the Side of Quantity of Works/Number of outputs

No	Quantity of Works/Number of output	1		2		3		4		5		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
19	Output realization (draft of Audit Result Report approved by the supervisor for Audit Service or Activity Report for Consultation Service) in accordance with the target set.	0	-	3	4,48	11	16,42	27	40,30	26	38,81	67	100
Average		-		4,48		16,42		40,30		38,81			

Source : SPSS Result (2018).

Based on the Table, it shows that APIP performance in the side of “quantity of work/number of output”, majority distributed on scale 4 (good) with average 40.30% and scale 5 (very good) equal to 38.81%. The lowest answer distribution is on a scale of 4 (bad) with an average of 4.48%.

## 4.2. Discussion

APIP is a government apparatus authorized to perform internal control system functions. Internal supervision is the whole process of audit, review, evaluation, monitoring activities and other control activities on the organization duties and functions in order to provide reasonable assurance that the activities have been performed in accordance with the benchmarks that have been established effectively and efficiently in order to realize the good governance. The performance of APIP is a description of the work result or the level of APIP achievement in performing its duties as an internal supervisor overseeing each Regional Device Work Unit. The performance of APIP in Medan City is seen from several indicators such as preparation of audit plan and program, audit implementation, compliance of inspection with audit standards, and the quantity of work/the number of output is declared good. The supervision assignment planning is made by APIP through several stages. First, develop communication with auditee through letter of assignment. Second, identify the

Performance Appraisal of Government Internal Supervisory Apparatus (APIP) in Implementation of Compliance Audit at Inspectorate of Medan City, Indonesia

relevant criteria. Third, obtain the management approval of the audit criteria. Fourth, document the evaluation results of the internal control system. Fifth, identify the objectives, scope, and methodology of the audit, including the sampling methodology. Sixth, develop a detailed plan of supervision assignment. APIP performs supervisory assignment activities. The schedule for the execution of the inspection is made in accordance with the Annual Work Plan. Therefore, there are several activities that can be conducted by APIP, among others: First, apply specific audit procedures. Second, documenting the implementation of work procedures and outcomes. Third, evaluating the information obtained, and fourth, compiling the conclusions and recommendations. The last, the APIP reports and communicates the audit result and its supervision by preparing the report of the assignment result and conducting the monitoring system of the follow-up of supervision result. Competence or skill is the ability or skill possessed by someone in doing the job, Auditors increasingly have the ability and expertise then can complete the work properly. Knowledge is the knowledge of the work. This means that knowing the knowledge about the job will facilitate an auditor to do his job, and vice versa if the auditor does not have knowledge about his work, it will certainly reduce the results or quality of work that ultimately will affect the performance both individually and organization. Activities that can be conducted are as follows:

- Identify all work units within the organization and document in the audit universe/list of potential oversight objects.
- Cooperate with the organization leader and/or other stakeholders to determine the time period covered by the monitoring plan and area/issue considered as a priority.
- Identify supervisory assignments including those that are cyclical to be part of the plan.
- Determine the supervisory objectives and scope of each assignment.
- Determine the resources (human, financial and material) needed to perform the supervisory tasks and additional resources that may be required if other unit leaders/stakeholder require other supervisory services.
- Obtain approval from the leader of the Regional Government of the supervisory plan.

Professional work practices and processes aim to encourage the enhancement of the performance of internal control assignments by realizing independence, objectivity and ‘due professional care’, as required in the internal audit charter and audit standards. To achieve these objectives, APIP performs the following main activities:

- Understand the nature of internal controls, ethics codes, and standards contained in the internal audit charter.
- Develop resource management policies including human resources, information, and finance (Erwin *et al.*, 2018).
- Develop general guidelines for the preparation of supervisory work programs
- Documenting the process of working programming preparation.
- Document the process in planning, implementing, and reporting each supervisory assignment, including communication with management
- Develop methodologies, procedures and tools to be used by APIP in planning, implementing and reporting the monitoring results, including guidelines for the preparation of working papers.

The purpose of APIP planning activities is to draw up an annual monitoring plan, including details of resource support and the expected outcomes to achieve those objectives.



## 5. CONCLUSION AND SUGGESTION

### 5.1. Conclusion

- The performance of APIP in “preparation of plans and audit programs” is good. This means that APIP has prepared the planning and audit program that will be conducted well. Each team conducting supervisory assignments has prepared audit work plans and programs at the audit team level in accordance with the Regulation of the State Minister for the Utilization of State Apparatus and Bureaucracy Reform Number 19 of 2009 on Guidelines for Quality Control of the Government Institution Supervisory Apparatus.
- The performance of APIP in “audit implementation” is good. APIP Government has carried out supervisory assignments covering the application of specific monitoring procedures, the preparation of the Audit Working Paper (KKA) on the procedures undertaken and the results, evaluating the obtained information, making specific conclusions and developing recommendations. APIP's performance in terms of “compliance inspection with APIP audit standards” is good. APIP has conducted supervisory activities in the form of audit on certain transactions and/or documents to assess the calculation accuracy. The auditor has performed standard auditing procedures to assess the calculation accuracy & APIP's performance in terms of “quantity of work/output quantities”, is good. APIP work competence is still less seen from the number of apparatus that has not been eligible so that it directly affects the performance of APIP in carrying out its duties. In addition, the work experience of the inspecting apparatus that still lacks make a case is sometimes hampered in its handling. Training is already often followed, but minimal funds make not all members of APIP can follow.

### 5.2. Suggestion

- There should be a leadership commitment to ensure that the Government Internal Supervisory Authority can perform its functions and duties in accordance with applicable laws and regulations.
- It is necessary to improve communication and coordination between APIP and the auditee in this case the Regional Device Work Unit in following up and finalizing the recommendation of the findings.
- The importance of increasing the capability of APIP. This increase can be achieved with the recruitment of competent inspectorate apparatus as auditor. If it happens, it will obtain the people who are more competent because they master in the performance and financial audit.
- APIP needs to improve its capability by conducting and engaging its employees in some of the available training both conducted internally and by other parties such as BPKP.

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Performance Appraisal of Government Internal Supervisory Apparatus (APIP) in Implementation of Compliance Audit at Inspectorate of Medan City, Indonesia

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