

THE PERFORMANCE OF THE INTERNAL AUDITORS OF THE VILLAGE RURAL INSTITUTION

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Abstract:

This study aims to examine the influence of competence variables, coordination and task complexity on the performance of internal regulatory bodies as internal auditors at Village Credit Institutions. Research respondents are managers who understand all the policies and governance of the organization that is the leader of the organization. The number of samples in this study was 63 using purposive sampling technique. Hypothesis testing using statistical analysis of multiple regression or ordinary least square with the result of research is competence, coordination and task complexes have a significant positive effect on the performance of regulatory body as internal auditor of rural institution in Buleleng regency of Bali.

Keywords:

Competence, Complexity, Internal Auditor, Rural Institution, Supervisory Performance



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INTRODUCTION

Regional Regulation Number 2 of 1988 concerning Village Credit Institutions (LPD) which was renewed again with Regional Regulation Number 8 of 2002. This regional regulation stipulates that LPD is a Village Credit Institution which is a village-owned savings and loan business entity in Bali. The purpose of establishing the LPD is to encourage the economic development of rural communities through savings and capital participation, eradicate illegal bonds and pawns, create equity and business opportunities for villagers and increase purchasing power and smooth payments and circulation of money in the village (Saputra, Jayawarsa, & Atmadja, 2019). To achieve this goal, the LPD carries out various efforts, such as accepting savings from community members, providing loans for productive activities, other efforts that involve mobilizing village funds, providing capital and receiving loans from financial institutions (Saputra, Trisnadewi, Anggiriawan, & Kawisana, 2019). The Village Credit Institution (LPD) is one of the microfinance institutions in the province of Bali that has the function of encouraging community economic development through targeted savings and effective distribution of capital (Putra & Latrini, 2018).

The role of the LPD in improving the village economy has even invited appreciation from the President of the Republic of Indonesia. This appreciation can be seen when President Susilo Bambang Yudhoyono praised the LPD in front of the *Alliance for Financial Global Policy Forum* participants. He stated that the LPD is a shock-resistant microfinance institution and can be a good example of how financial services can reach all groups (Saputra, et al., 2019). For this reason, the President hopes that all parties who share the same vision in realizing financial services for all, learn from this LPD success story. What is proposed by the President Susilo Bambang Yudhoyono is not only a tribute to the success of the LPD, but also related to the effort to position LPD as a local asset, namely at the level of the people of Bali, taken at the national level and even global, in the context of the provision of financial services to communities touch down to the grass roots (Jayawarsa, Purnami, & Saputra, 2020; Saputra, Sara, Jayawarsa, & Pratama, 2019).

LPD existence in society has many experienced a rapid increase. The LPD financial institution is able to increase the potential of the community, and help the community in their life in society (Ardana, Dermawan, & Susanti, 2017). LPD role in helping the community also included in giving funds to build the temple and the implementation of the ceremony, which was previously done by funding private community. LPD also provides scholarships in the form of education to outstanding students so that they can continue their education to a higher level. Based on this series of successes, LPD regulation should be returned to the cultural identity of the village, namely its autonomous nature in regulating the conduct of household life (self regulation). LPD, as well as traditional villages in Bali, are regulated by regional regulations (Iqbal, Nawaz, & Ehsan, 2019; Shabrina, Yuliati, & Simanjuntak, 2018; Siti-Nabiha, Azhar, & Ali-Mokhtar, 2018).

Regarding the existence of the LPD in the *Pakraman village*, the LPD has a role as a *Pakraman village* community institution whose ownership is only intended for all *Pakraman village* people. This is in fact different from other microfinance institutions. The passing of Law Number 1 of 2013 concerning Microfinance Institutions deserves positive appreciation. In this law, the existence of the LPD (Village Credit Institution) is recognized as a special financial institution so that its regulation is exempted from the

Law. This is confirmed in Chapter XIII of the Transitional Provisions of article 39 paragraph 3 which reads: " Village Credit Institutions and Lumbung Pitih Nagari and similar institutions that existed before this Law came into effect, are declared to be recognized as being based on customary law and are not subject to this" (Saputra, Anggiriawan, Sanjaya, Jayanti, & Manurung, 2019) .

Article 39 paragraph 3 of the LKM Law emphasizes two important things in relation to the position of LPDs: (1) LPDs are not LKMs so they do not obey the LKM Law, and (2) LPDs are customary institutions because they are regulated based on customary law. By doing so, should not have no hesitations again for *prajuru* (board) *Pakraman* , administrators LPD, *manners* (residents) *Pakraman* , including governments and stakeholders (*stakeholders*) that LPD does not MFI and LPD as traditional institutions owned (*duwe* *Pakraman* village which is given a special function to manage finance and economy in *Pakraman* village. LPD is also not a cooperative, bank or village-owned enterprise (Saputra, et al., 2019) .

The LPD in Bali responded positively to the LKM law, as evidenced by the increased performance of the LPD. This performance improvement is due to the increasingly positive community support for the existence of LPDs that have a high level of trust in LPD management professionally and support structuring at the internal and external levels so that many LPDs in Bali are growing rapidly, including Buleleng Regency. According to data from the Buleleng Regency Government, there are currently 169 LPDs in the Buleleng area with different scales. The LPD which managed the capital from *the Pakraman* village boarding house until 2017 reached around Rp. 5 billion overall on average. Whereas the existence of LPD is inseparable from providing capital support for remote micro businesses (Saputra, et al., 2019).

Another phenomenon behind the success of the LPD in managing public funds is that the frauds that have occurred indicate the weak performance of the existing internal supervisory agency. Weak performance of the supervisory bodies in supervising the LPD in the area, can not be separated from three factors, namely individual factors, tasks, and environmental Individual factors include the characteristics of individuals who carry out tasks such as motivation, personality, self-confidence, knowledge, and auditor ability. Task factors relate to the task or job itself, such as the complexity and structure of the task, while environmental factors include all conditions, circumstances, and influences surrounding auditors who perform certain tasks, such as time pressure, accountability, assignment objectives, and feedback (Pangeran & Salaunaung, 2017; Shabrina et al., 2018; Thanitcul & Srinopnikom, 2019).

Several research results show that individual factors play an important role in improving individual performance, especially in accounting (Iles-Caven, Golding, Ellis, Gregory, & Nowicki, 2018; Lestari, Tarjo, & Prasetyono, 2017; Merawati & Mahaputra, 2017). These individual factors are competence. Competency improvement can be obtained through continuing education and adequate work experience in the field of internal audit. Duty factor is often a major consideration in the decision-making areas of accounting, banned dingkan with individual factors (Ghani, Jonah, and Bahry, 2016; Oktaviani, Srimindarti, & Hardiningsih, 2018). This is because the assignments in accounting are more varied and have a higher level of difficulty. The third factor is environmental factors, such as the existence of good coordination between the supervisory body and the LPD management (Atmadja & Saputra, 2018; Saputra, et al., 2019). Some research shows that coordination to expedite the implementation of tasks in order to achieve a common goal (López & Fontaine, 2019; Saputra, Anggiriawan, Trisnadewi, Kawisana, & Ekajayanti, 2019; Saputra, et al., 2019). Coordination is carried out for effectiveness, efficiency and productivity in realizing existing programs as well as supervising and controlling the implementation of existing programs. Coordinations intended to synchronize and integrate all actions that directed toward the intended target. Implementation of effective coordination is done to find out what doing, the implementation of all basic tasks, timeliness and the active participation of personnel (De, 2016; Fernandhytia & Muslichah, 2020; López & Fontaine, 2019).

Competency can be defined as membership of a person who acts in a sustainable manner in which its movement through the learning process, of "knowing something" to "know how", like for example: from just the knowledge that depending on the specific rules to a question that is both intuitive (Chang Chen, Cheng, & Chi, 2019). Definition of expertise in auditing was often measured by expertise experience is someone who has the knowledge and skills of comprehensive procedural shown in expertise audit. The size of expertise is not enough just experience but other considerations are needed in making a good decision because basically humans have a number of other elements besides experience (Saputra, Pradnyanitasari, Priliandani, & Putra, 2019).

Coordination. In an organization, each individual or group in work units has their respective duties and functions, but in practice they cannot be separated from each other. Therefore, effective coordination is needed in order to create a harmonious work atmosphere in achieving goals. Coordination as a cooperative venture arrangements on a regular basis a group of people to create a unity of action in the effort to achieve a common goal (Anggiriawan, Saputra & S Anjaya, 2018; Atmadja & Saputra, 2018).

Task complexity. Complexity from ambiguity and weak structures, both in the main tasks and other tasks. In *ambiguous* and unstructured tasks, alternatives cannot be identified, so data cannot be obtained and the output cannot be predicted. In addition, according to him, increasing complexity in a task or system will reduce the success rate of that task (Coe, Antonelis, & Moy, 2019). The task becomes more complex when there is inconsistency in the information obtained and decision makers are unable to integrate congruent cues. Task complexity in this study is defined as a complex task, consisting of many parts, different and related to one another. In carrying out its complex tasks, the village administrator of *Pakraman* as the supervisory body requires expertise, ability and a high level of patience to deal with the complexity of the tasks at hand (Zhou, Hou, Yang, Chong, & Moon, 2019).

Supervisory Performance. There are three variables that can affect performance, namely: person variables, task variables, and environmental variables. Person variables include attributes that a person has before performing tasks such as knowledge content, organizational knowledge, abilities, self-confidence, cognitive style, intrinsic motivation, cultural values (Lutfillah, Sukoharsono, Mulawarman, & Prihatiningtias, 2015). Task variables include factors that vary both on and off the task, such as complexity, presentation format, processing and standby mode response. Meanwhile, environmental variables include all conditions, circumstances, and influences around people who perform certain tasks, such as time pressure, accountability, predetermined goals and feedback (Atmadja & Saputra, 2018; Saputra, 2012).

The supervisory agency is the internal auditor in providing credit, to prevent and reduce the occurrence of bad debts and excess credit limits. The role of the internal supervisory body actively oversees the policies, operations and practices of accounting and financial reporting and acts as a liaison between managers and internal auditors when necessary (Sunani, Subroto, & Prihatiningtias, 2015). The role of the internal supervisory body as an internal supervisor is very strategic, in addition to being an internal auditor as well as a synergistic partner to advance the LPD. In accordance with Article 1 paragraph (11) of Regulator No.3 of 2007, what is meant by internal supervisors is a supervisory body established by the village and is tasked with supervising the management of the LPD. The chairperson of the supervisory body which is held by the customary bendesa is intended to create a conducive and effective control environment. The traditional bendesa is believed to have a strong charisma and influence in the Pakraman village environment so that it will affect the control environment. The customary village treasurer is also required to fully know the LPD's operations and the level of progress achieved, for example the customary bendesa also participates in signing the credit agreement. Approaches that can be taken in carrying out supervision include auditing (Atmadja & Kurniawan Saputra, 2018; Mohd-Sanus, Khalid, & Mahir, 2015).

Internal auditors are *auditors* who work at a company and therefore have the status of employees at that company. Their main task is to help the management of the company where they work. *Internal auditors* are people or bodies that carry out internal auditing activities. Therefore, the *internal auditor* always strives to perfect and complement every activity with a direct assessment of every form of supervision in order to keep up with the increasingly complex developments of the business world (Lukman & Harun, 2018).

The responsibilities of *internal auditors* in various companies vary widely depending on the company concerned. In general, *internal auditors* are required to report directly to the highest management of the company (managing director), or some report to certain other high-ranking officials in the company (for example to the controller), or some are even obliged to report to the audit committee formed by the board of commissioners. So the internal inspection carried out by the *internal auditor* is an important monitoring tool to measure and assess the effectiveness of the existing controls in the company (Adiputra, Atmadja, & Saputra, 2014; Sunani et al., 2015).

Based on the background description above, this study examines the effect of competence, coordination and task complexity on the performance of the supervisory body as an *internal auditor* at the village credit institution (LPD) in Buleleng Regency, Bali Province.

METHOD

The research design used in this study was a survey method. Survey research design is a research design with the aim of conducting careful and thorough testing of a research object based on a certain situation or condition by looking at its suitability with certain statements or values which are followed and observed carefully and thoroughly. Research on the effect of competence, coordination and task complexity on the performance of the supervisory body as an *internal auditor* at the village credit institution (LPD) in Buleleng Regency, Bali Province. conducted by giving a questionnaire to the LPD manager which was carried out by the sampling method. This research is a research conducted quantitatively or using positivistic methods. Selection of the samples was determined by *purposive sampling*, the sampling technique with consideration particular, respondents were selected in this study is one of se the manager of the LPD who know the duties and authority of the internal audit work unit under the supervision of lending, having regard to the qualifications of respondents can be seen from the identity respondents.

The independent variables (in dependent variables) in this study are competence, coordination and task complexity. Internal Auditor competence is the level of knowledge of internal supervisors in conducting inspection and supervision supported by work experience, skills, and accuracy (Saputra, 2012). Coordination is the arrangement of regular collaboration of a group of people to create a unity of action in trying to achieve a common goal (Saputra, et al., 2019). Meanwhile, task complexity is the difficulty of a task faced by auditors with different levels of difficulty arising from the variety of outcomes expected by clients (Atmadja & Saputra, 2018). The dependent variable in this study is the performance of the supervisory body as an internal auditor at the Village Credit Institution (LPD). The performance of the supervisory body as an internal auditor at the Village Credit Institution (LPD), is the achievements of a person who is pleased with the task assigned to him (Muttaqin & Dharmayanti, 2017). Work results that can be achieved by a person or group of people in an organization in accordance with their respective authorities and responsibilities, in an effort to achieve the goals of the organization concerned legally, does not violate the law and is in accordance with ethical morals.

The tool that can be used in testing the validity of a questionnaire is the correlation number between the statement score and the overall score of the respondent's statement on the information in the

questionnaire. Type of correlation used here is the correlation *product moment* between the scores of each statement with a total score of items to significance value is 0.05. An item is said to be valid if the probability of the correlation coefficient is smaller than 0.05.

Reliability test aims to determine the consistency or regularity of the measurement results of an instrument if the instrument is used again as a measuring tool for an object or respondent. A questionnaire is declared reliable or reliable, that is, if someone's answer to a question is consistent from time to time. The reliability test was carried out with the help of SPSS (*Statistical Product and Service Solution*) which provides facilities to measure reliability with the *alpha cronbach* (α) statistical test. A variable is said to be reliable if it meets $\alpha \geq 0.60$.

Multicollinearity Test

The multicollinearity test aims to test whether there is a correlation between the independent variables in the regression model. A good regression model so that there is no current correlation between the independent variables. To detect the presence or absence of multicollinearity are as follows:

- The value of R^2 is generated by a very high estimation of the empirical model, but individually many independent variables were not significantly influence the dependent variable.
- Analyze the correlation matrix of independent variables. If there is a high correlation between independent variables (generally 0.90), then this is an indication of multicollinearity.
- Multicollinearity can also be seen from (1) the *tolerance* value and its counterpart (2) *variance inflation factor* (VIF). The limit of the *tolerance value* is 0.10 and the limit of the VIF is 10. If the *tolerance value* is below 0.10 or the VIF value is above 10, multicollinearity occurs.

Heteroscedasticity Test

A good regression model is homocedasticity, that is, the residuals have the same variants from one observation to another. If the variants are not the same, it is said to be heteroscedasticity. Heteroscedasticity does not damage the consistency of the estimator but the estimator does not have a minimum variant or is inefficient, so that statistical testing is biased. One way to detect heteroscedasticity is to use a glacier test. Glejser proposes to regress the absolute residual (U_t) value on the independent variable with the equation:

$$|U_t| = \alpha + \beta X_t + V_i \dots\dots\dots (1)$$

If the independent variable statistically significantly affects the dependent variable (U_t), then there is an indication that heteroscedasticity occurs.

Normality Test

The normality test aims to test whether the dependent and independent variables in the regression model are normally distributed or not. The assumption of normality is considered fulfilled if the data used is large enough ($n > 30$). To test the normality of the data used graph analysis and the *Kolmogorov-Smirnov Test* statistical test.

Hypothesis Testing Techniques

To analyze the data, used multiple linear regression method with OLS (*Ordinary Least Square*) model using SPSS for Windows Released 23.0 Program software. This method is one way of calculating the statistical regression coefficient that is unbiased, efficiency and consistency. This method can be formulated in the multiple linear regression formula as follows:

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + e \dots\dots\dots (2)$$

Information:

Y : LPD Supervisory Agency Performance

a : Constants

X_1 : Competence

X_2 : Coordination

X_3 : Task Complexity

e : Error factor (*error*)

To test the regression coefficient partially between the independent variables and the dependent variable with a significance level of 5% ($\alpha = 0.05$), the t test was used with the following hypothesis formulations:

H_0 : $b_0 = 0$ means that partially the independent variable does not have a significant effect on the dependent variable

H_1 : $b_1 \neq 0$ means that the independent variable partially has a significant influence on the dependent variable

Results and Discussion

In this study, data collection was carried out by distributing a total of 63 questionnaires to Village Credit Institutions (LPD) throughout Buleleng Regency with 63 respondents. The questionnaire was returned within 4 weeks as many as 38 questionnaires. Details of respondents who participated in filling out the questionnaire were based on gender: 20 men and 18 women. Based on position; chairman as many as 16 people, village treasurer as many as 8 people, and employees or administration as many as 14 people. The results of testing the validity and reliability of the instrument indicate that the instrument used in this study is valid and reliable, which is indicated by the item-total variable correlation coefficient value greater than 0.3 and the significance less than 0.05. The reliability test results showed that the *Cronbach alpha* value for all variables used in this study was greater than 0.70.

The results of normality testing with the *One Sample Kolmogorov Smirnov Test* show the Asymp.Sig (2-tailed) result of 0.139 which is higher than 0.05, so it is said that the data is normally distributed. The

result of the tolerance value calculation shows that all independent variables have a *tolerance* value greater than 0.10. The results of the calculation of the VIF value also show that all independent variables have a VIF value <10, so it can be concluded that there are no symptoms of multicollinearity between the independent variables. Meanwhile, the results of the heteroscedasticity test showed that all variables were not significant at 0.01 so it could be concluded that heteroscedasticity did not occur.

The result of regression studies suggest that of *the model summary* shows the amount of *adjusted R²* of 0.802, meaning 80.2% variation of the variable performance of the regulatory body could be explained by the variation of the three independent variables are competence, coordination and complexity of the task and the rest (100 % -80.2% = 19.8%) explained by causes other than the model.

Table 1 Coefficient of Determination

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.928 ^a	.862	.849	.66756	

a. Predictors: (Constant), competence, coordination, task complexity

Based on the ANOVA test table or F test, it is obtained that F count is 70,552 with a probability of 0.000. because the probability is much smaller than 0.05, it can be concluded that the regression coefficient of competence, coordination, and task complexity is not equal to zero or the three independent variables simultaneously affect the performance of the supervisory body as the *internal auditor of the LPD*. It also means that the coefficient of determination *R²* is not equal to zero or can mean significantly.

Table 2 Simultaneous Significance Test (Test Statistic F)

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	94,322	3	31,441	70,552	.000 ^a
	Residual	15,152	34	.446		
	Total	109,474	37			

a. Predictors: (Constant), competence, coordination, task complexity

b. Dependent Variable: the performance of the regulatory body

From the results obtained regression test also significance with T test results stating that of the three independent variables included in the model turns out everything is significant, it is seen from the probability of significance three. Variable competency have a significance value of 0.010, variable coordination 0.000, and the complexity of the task 0.013. So it can be concluded that the performance variable of the supervisory body as an internal auditor is influenced by competence, coordination and task complexity.

Table 3 Significance Test of Individual Parameters (t Statistical Test)

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-4,904	3,652		-1,343	.188
	Competence	.020	.035	.037	.574	.010
	Coordination	.758	.053	.929	14,327	.000
	Task Complexity	.166	.124	.319	3,169	.013

a. Dependent Variable: Performance of the supervisory agency

Based on the statistical results above, it can be concluded that the three hypotheses are accepted, namely competence, coordination and task complexity have a significant positive effect on the performance of the LPD supervisory body as an internal auditor. This suggests that the competence of personnel from the LPD supervisory body plays a very important role in their credibility as supervisors who also act as LPD internal auditors. The supervisor's competence determines the accountability of the LPD's financial management which can determine the financial health of the LPD and provides input for internal control (Mailoor, Sondakh, & Gamaliel, 2003). Acting as an internal auditor is a fairly central role in determining the health of the LPD and personal capabilities are needed to be able to prevent the LPD from all forms of fraud (Saputra, et al., 2019).

Coordination is referred to in this research is the coordination between the manager of the LPD with a ba and supervisors and other agencies that play a role. Coordination needs to be done because LPD problems are very complex to deal with people who have various interests (Saputra, et al., 2019). Coordination has a strong influence on the performance of the supervisory body as the *internal auditor of the LPD*, meaning that the supervisory body should not be left behind from developments or problems that befall the LPDs it supervises. Coordination between the supervisory agency and the LPD needs to be carried out not only when there are problems, but also at any time and on a schedule so as to minimize

the occurrence of deviant behavior, both by the manager and by other individuals. This is called a *proactive audit* (Atmadja, Saputra, & Manurung, 2019) by conducting structured supervision of LPDs, especially those which are indicated to need assistance (Atmadja & Saputra, 2014), the supervisory body needs to provide assistance so that it is avoided from bankruptcy (Saputra & Kurniawan, 2017). So the conclusion is that coordination needs to be done to lead to good LPD governance and transparent and accountable accounting management, and to prevent LPD managers from various fraudulent tendencies. With coordination, it can also improve the performance of the LPD supervisory body and prove that good relations exist between LPD financial institutions and their supervisory bodies to create institutional openness for the realization of improved service quality that leads to an increase in LPD assets and the ability to manage funds for the welfare of rural communities with various LPD programs that pro-village community (Saputra & Kurniawan, 2017).

The complexity of the task also has a significant effect on the performance of the regulatory body as an *internal auditor for the* LPD. The complexity referred to here is the workload of the supervisory agency that oversees so many LPDs with various characteristics and various organizational scopes (Othman, Abdul, Mardziyah, & Zainan, 2015; Saidin, 2014). In addition, the complexity of the supervisory body can be seen from the many problems that occur in the LPD, ranging from embezzlement of customer funds, fictitious credit, bad credit to non-transparent financial governance. With the complexity of the roles and duties of the supervisory body plus its function as an *internal auditor*, it makes the performance of the supervisory body always be good and have integrity (Adiputra et al., 2014). The complexity of the task is very influential in the duties of the LPD supervisory body, where the more complex the LPD problems are, the heavier the workload of the supervisory body will be. It is in this context that the LPD supervisory body also functions as an *internal auditor* by providing evaluations and helping to fix all the problems that have occurred in the LPDs so far (Saputra, et al., 2019).

CONCLUSIONS

Based on the results of the above research, it can be concluded that the competence of the LPD supervisory body personnel greatly influences their performance as an internal auditor. The effect in question is that the quality of LPD supervisors must have integrity because they face various problems in the community related to LPD management, qualified LPD human resources are still not competent and are required to be given various inputs, counseling, training by the supervisory agency so that there are no losses or administrative irregularities and are prosecuted. professionalism in working to create good LPD governance. Apart from competence, coordination also has a significant effect on the performance of the supervisory body in relation to the number of LPDs being supervised and requiring companions to always create conducive management of LPD customer funds. And lastly, the complexity of the task has an effect on the performance of the LPD supervisory body because the more LPD workloads, in general it is certain that the supervisory agency will lack personnel and on the one hand many LPDs in Buleleng Regency need assistance so that it will always affect the performance of the supervisory body both positively and negatively.

The limitation of this study is that it uses a questionnaire survey method to answer the hypothesis so it is difficult to confirm the respondent's answer personally. Another limitation is that the research was carried out in the Buleleng Regency environment so that it needs to be developed in the Provincial context or into other forms of financial institutions.

Suggestions for further research are to increase the participation of respondents both in the district or throughout the Province of Bali, besides that, other variables can also be used in research such as organizational culture or local culture which currently attracts attention to be linked to research in the field of accounting or accounting such as tri hita karena locus of control or other variables related to fraud.

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