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THE EFFECT OF QUALITY OF INTERNAL AUDIT AND EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS ON GOOD CORPORATE GOVERNANCE IN FINANCE COMPANIES

Edwin Theo Mangasih¹, Margani Pinasti², Icuk Rangga Bawono³

^{1,2,3}Economics and Business Faculty, Jenderal Soedirman University, Indonesia

*Email Corresponding Author: cukycutes@yahoo.com

Abstract

The purpose of this research is to analyze the effect of quality of internal audit and the effectiveness of internal control system to corporate governance in finance companies. Quality of internal audit was measured by performance, competency and objectivity. The effectiveness of internal control system was measured by control environment, risk assessment, control activities, information and communication and monitoring. The last variable is good corporate governance was measured by corporate governance framework, protection of shareholders, role of stakeholders, transparency of information and roles and responsibilities of the board of commissioners and board of directors. There were 30 finance companies that become a sample in this research. This study used multiple linear regression as the method of analysis. The result of this research indicated that (1) The quality of internal audit has a positive effect on good corporate governance variable and (2) The effectiveness of internal control system has a positive effect on good corporate governance variable. The result of this research gives implication for internal parties must maintain and improve the existence of the quality of internal audit and the effectiveness of internal control system to achieve a more optimal GCG implementation in company operations. The second implication is for government is expected to be more active in monitoring the activities of finance companies, especially in terms of corporate governance.

Keywords: quality of internal audit, the effectiveness of internal control system, corporate governance, and finance companies

INTRODUCTION

The business world recognizes the existence of the lease which can be used as an alternative financing, especially in the delivery of capital goods or equipment other supplies. The occurrence of lease transactions is motivated due to insufficient corporate funds (commonly called lessee) for the purchase of capital goods that require assistance from financial company (commonly called the lessor). Although bearing the word lease, the lease is different from the tenancy as it is known by the society. This lease industry already has a legal basis that is ruled by Indonesian government namely: (i) *Keputusan Presiden*

No. 61 Tahun 1988 tentang Lembaga Pembiayaan; (ii) Surat Keputusan Menteri Keuangan No. 1251/KMK.013/1988 tentang Ketentuan dan Tata Cara Pelaksanaan Lembaga Pembiayaan. Keputusan Menteri Keuangan Nomor 468 tahun 1995; and (iii) Keputusan Menteri Keuangan Nomor 1169 tahun 1991 tentang Kegiatan sewa guna usaha.

Finance companies or leasing become a priority chosen by the public as a credit to acquire assets, this can be seen from such a dynamic growth experienced by the finance company industry. At the end of 2007, total assets of finance companies nationwide grew to Rp 127.26 trillion from Rp 108.34 trillion, or an increase of 17.5%. Furthermore, based on data from Bank Indonesia (BI) latest up to August 2010, total financing of finance companies amounted to Rp 175.17 trillion. This figure is 27.68% higher than the same period in 2009 amounted to Rp 137.91 trillion (Aulawi, 2010). Another reason why leasing becomes the public choice is that consumers will get the installment credit solutions with competitive financing, easy terms and fast process. However, on the other side, this reason would become a weakness of finance company. With requirements that are easy to make credit flow, finance companies face the risk of bad debts.

One of big case occurred in 2012 ago, when the government issued the Regulation of the Minister of Energy and Mineral Resources Number 7 of 2012 about added value Through Mineral Processing and Refining Mineral Activities (*Peraturan Menteri Energi Sumber Daya Mineral Nomor 7 Tahun 2012*). The regulation requires companies engaged in mineral mining and processing of coal to do more process its mining products before being sold or exported abroad. This leads to losses for most of the mining companies, because the company must build facilities and infrastructure to do processing and/or purification first. On the other hand, the company has already spent a huge of production cost. According to Ain (2013), since the implementation of the Regulation of the Minister of Energy and Mineral Resources Number 7 of 2012 as many as 499 companies in six provinces in Indonesia have been terminating the employment of 235 823 employees. This data is reinforced by the statement of the Chairman of the Standing Committee of the Central Region Investment Division Head Indonesian official, Muhammad Solikin, on socialization on the Regulation of the Minister of Energy and Mineral Resources No. 7 of 2012 in Banjarmasin, Tuesday (04/09/2012), not only terminating the employment but also suffering losses up to Rp 4.7 trillion.

These losses would bring harm to the finance company, because almost all the mining companies use leasing to finance the operations of their heavy equipment. This condition is supported in the growth of finance company assets in 2013 which grew by 17.22% of assets in 2012, which was still below the

average rate of growth of assets over the last five years (2009-2013) amounted to 19.32% (OJK, 2014). The same thing is also expressed by the director of finance Adira Finance, I Dewa Made Susila, that the rise of potential bad debts led to a financing company which had to spend a larger reserve fund. Adira itself spent Rp 88.9 billion for credit losses in the first quarter of 2012. This is more than 100% of its prior period, which reached Rp 44.7 billion (www.kontan.co.id, 2011).

One of the efforts to strengthen the finance company industry. in particular, is by improving the quality of corporate governance for finance companies. The OJK (*Otoritas Jasa Keuangan*) as financial services supervisory agency in Indonesia issued Regulation Number 30/pojk.05/2014 on good corporate governance for the financing companies article no. 29 obliges the companies with total assets up Rp200.000.000.000,00 (two hundred billion rupiah) have a function to help commissioners in monitoring and ensuring the effectiveness of internal control systems and the implementation of the tasks of internal auditors. This is to monitor and evaluate the planning and conduct of audits in order to assess the adequacy of internal controls.

Good Corporate governance (GCG) itself has become an issue in the business world and the problems that occur during this time in Asia. According to a study that conducted by the World Bank, the weak implementation of the Good corporate governance is one of the determinants of the severity of the crisis in Southeast Asia (Oktapiyani, 2009). The weakness is seen from the lack of reporting of financial performance, lack of supervision over the activities of management by the Board of Commissioners and the auditor, as well as the lack of external intensively to encourage efficiency in the company through fair competition. Meanwhile the aim of the implementation of GCG is to create added value for the stakeholders. This is because GCG can encourage the formation of management work patterns to be clean, transparent and professional.

Internal control system is a system of business or social system of the company consisting of the organizational structure, methods and measures for maintaining and directing the company to move in accordance with the objectives and programs of companies and encouraging efficiency and compliance with management policies. Bastian (2011) revealed that the purpose of the internal control system is to improve the performance of the organization, the internal control system done to protect the property/assets organisai and recording of accounting, internal control system is used to check the accuracy and reliability of accounting data, and to improve efficiency and encourage compliance management policy which has been set.

To assure the achievement of harmony between the internal control with good corporate governance, it requires evaluation and adequate control. One of the forms of evaluation and control is through the implementation of internal audit. The audit internal has a responsibility to provide constructive advice and counsel to management. Internal auditing becomes very important to businesses world, since industrial revolution resulted in factory systems that were financed by stockholders. This situation needs internal auditing to protect shareholders's best interest. The major factors which assist in emergence of internal auditing is the extend span of control system faced by management in businesses (Institute of Internal Auditing, 2004). Three monitoring mechanisms have been highlighted in the CG literature, namely, external auditing, internal auditing, and directorship (Al Matarneh, 2011; IIA, 2003)

There are a lot of previous research related to the influence of internal audit and/or internal control system to good corporate governance. The fundamental difference between this study and several previous studies is its research sample. This research just found one previous research that examines variables used in this research in the finance company, and it just used one company as the sample. This condition automatically will make different assesment, especially on variable of good corporate governance. Based on the background of the problem, and previous studies, the researchers felt it is important to conduct research to test multiple variables which are factors that affect good corporate governance. Variables that would be examined in this research is the element of internal audit, the effectiveness of internal controls and good corporate governance. This study focuses only on finance companies. In accordance with the background research that has been previously described, it can be formulated research problem as follows: (1) Wheather the internal audit affect the good corporate governance at the finance companies? And (2) Wheather the effectiveness of the internal control system influence the good corporate governance at the finance companies?

LITERATURE REVIEW AND RESEARCH MODEL FORMULATION

Agency Theory

Agency theory, as an economic theory, was developed by Jensen and Meckling in 1976. Jensen and Meckling define agency relationship as "a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent." Under this agency relationship, both the agents and the principals are assumed to be motivated solely by self-interest. As a result, when principals delegate some decision making responsibility to the agents, agents often use this power to

promote their own well-being by choosing such actions which may or may not in the best interests of principals (Barnea, Haugen and Senbet, 1985). Much of the debates have focused on the “principal-agent” problem between shareholders and managers and corporate governance has been seen as a device to protect the interests of shareholders as other investors are generally protected through contractual relations with the entity (OECD, 2004). Corporate governance has been an integral part of business practices since the creation of corporate structure and the separation of ownership from management (Dallas, 2004).

Audit

According to Arens and Loebbecke (2000) “Auditing is the accumulation and evaluation of evidence about information to determine and report on degrees of correspondence between the information and established criteria. Auditing should be done by a competent, independent person.” According to Mulyadi (2002) auditing is a systematic process to obtain and evaluate evidence objectively about the statements of the state and economic events, with the aim to establish the level of concordance between these statements and the established criteria, as well as the delivery of results to user concerned.

Internal Audit

The Institute of Internal Auditors defines the Internal audit as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA, 2011). There is a growing interest for internal audit by companies in developed countries. This interest may represent in many ways, comes in the front of the increasing interest of companies to establish separate internal audit departments with supporting it by efficient human resources to be able to achieve the objectives in required manner and effectiveness.

Internal Audit Quality

The professional standards for each of the internal and external audit have identified the necessary factors to ensure the quality of the internal audit function. It identifies the list of auditing standards Number (65) (AICPA, 1991) the factors of quality internal audit function to include: (1) Competence, (2) objectivity, and (3) quality of performance of (AICPA, 1991). Similarly, the standards of the Institute of Internal Auditors identify the factors of quality of audit functions by:

Proficiency, independence, objectivity (IIA, 2004). Add to that the standards of the Institute of Internal Auditors required the executives managers of internal audit to ensure and improve the quality and function of internal audit, it includes periodic evaluation of the internal audit functions quality and continuing internal control (IIA, 2004) the further is that both management and the audit committee have influential role in the internal audit functions quality, through the decisions of allocation necessary resource and to determine the level at which submit the audit reports. This study will use three indicators in assessing the quality of the internal auditor.

Competency

Competence means having the intelligence, education, and training to be able to add value through performance. (Bailey et. Al, 2003). Competence is the knowledge and skills that are very large in conducting the audit, including the competence of the audit evidence that the data underlying the accounting and information contained in the standard aspects of field work. Reliability notes accounting is directly related to the effectiveness of the internal control structure of the client. Strong internal controls will improve the accuracy and reliability or the reliability of financial records. Internal controls which are weak often cannot prevent or detect errors and irregularities in the accounting process (Boynton, 2002). The competence needed by an auditor is different from the performance of the financial auditor and the auditor's performance particularly for education and training required for the performance of auditors, is known as continuing professional education. In addition to a competent auditor, audit success is also influenced by an adequate audit management.

Performance

The performance of the internal audit function should be monitored to ensure it provides value to the organization and carries out its role economically, efficiently and in accordance with best professional practice. In general, work performance involves internal auditors planning their audits, developing working programs, preparing time budgets for audit tasks, documenting all audit procedures in working papers and preparing internal audit reports. Internal audit effectiveness is understood as the performance or efficiency of the tasks within the internal audit function (Santiso, 2001) as it significantly influences the information and communication aspects of the internal control system (Fadzil, Haron & Jantan 2005). In line with various other researchers (Santiso, 2001), internal audit work performance is considered a major element of ISPPA (International Standards for the Professional Practice of Internal Auditing).

Objectivity

Objectivity is a very important attribute that internal auditors should work for. It is considered as the key element of the effectiveness of the internal audit function. Internal Auditing Standards and Studies stressed the importance of both, the organizational independence of the internal audit function and the individual objectivity of internal auditors (IIA, 2003). It has disclosed that the increase of eligibility of internal auditors by increasing objectivity of the internal auditors through increasing the degree of independence leads to increase the quality of the internal audit.

Internal Control System

Definition of internal control in accordance with COSO (2013) "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives Relating to operations, reporting, and compliance."

Components of Internal Control System

Internal control system is the incorporation of the policies and procedures implemented to ensure that each organizational goal can be achieved. COSO (2013) recognizes the important components for this system: control environment, risk assessment, control activities, information and communication and monitoring. The components have continued to adapt, and allow it to consider the internal control of entities, divisions, operating units, and/or functional level. Internal control components are explained as follows:

Control Environment

The control environment, as established by the organization's administration, sets the tone of an institution and influences the control consciousness of its people. Leaders of each department, area or activity establish a local control environment. The control environment includes the governance and management function of an organisation. It focuses largely on the attitude, awareness and actions of those responsible for designing, implementing and monitoring internal controls

Risk Assessment

One of the key roles of internal control system is to prevent or identify and correct misstatements. The process of identifying and analyzing risk is an ongoing process and is a critical component of an effective internal control system. Attention must be focused on risks at all levels

and necessary actions must be taken to manage. Risks can pertain to internal and external factors. After risks have been identified they must be evaluated.

Control Activity

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities are put in place by the management to make financial information authentic and reliable. Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Information and Communication

During audit engagement, auditor gains understanding regarding the information and communication system of the entity that acts as one of the component of internal control system. However, information system does not only mean the accounting system. It is the system through which entity or to be precise management establishes and communicates within and outside entity. Effective communication must occur in a broad sense, flowing down, across and up the organization. All personnel must receive a clear message from top management to control responsibilities that must be taken seriously.

Monitoring

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of operations, and it includes regular management and supervisory activities, and other actions personnel take in performing their duties that assess the quality of internal control system performance. The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported immediately to top administration and governing boards.

Effectiveness of Internal Control Systems

In 2013, COSO had made renewal of the internal control framework. These reforms aim to increase transparency and accountability for the organization in managing and implementing the internal control system. One of the biggest changes is the articulation of the 17 principles that are

concepts underlying the five components. This principles have made to obtain the effectiveness of internal control systems for any company that implements all the principles.

Good Corporate Governance

Corporate governance arises because there is a separation between the ownership control of the company, or often known as the agency problem. Agency problems between the owners of capital in conjunction with the manager is how hard the owners in ensuring that the funds invested are not taken over or invested in projects that are not profitable so it does not bring in return. Corporate governance is needed to reduce the agency problem. According to Forum for Corporate Governance in Indonesia (fcgi) (2001) the definition of corporate governance is a set of rules that define the relationship between shareholders, managers, creditors, the government, employees and other internal and external stakeholders in respect to their rights and responsibilities, or the system by which companies are directed and controlled.

Principles of Good Corporate Governance

Here are a few that principles of good corporate governance, that are (OJK, 2014):

Transparency

Openness in decision-making and openness in disclosure and the cprovision of relevant information about the company, which is easily accessible to stakeholders in accordance with the legislation in the field of finance as well as the standards, principles, and fair practices regarding business financing.

Accountability

Clarity of function and responsibility implementation organ of the company, so that good corporate governance can be transparent, fair, effective, and efficient.

Responsibility

Company management conforms with the legislation in the field of financing and ethical values and standards, principles, and fair practices regarding business financing.

Independency

A state company is managed independently and professionally and free from conflicts of interest and influence or pressure from any party that does not comply with the legislation in the field of financing and ethical values and standards, principles, and fair practices regarding business financing.

Fairness

Equality, balance, and fairness in meeting the rights of stakeholders arise under treaties, legislation, and ethical values and standards, principles, and fair practices regarding business financing.

Hypothesis Development

There are 2 hypotheses:

H1: The internal audit has a positive and significant relationship with the good governance.

H2: The internal control has a positive and significant relationship with the good governance.

RESEARCH METHOD AND ANALYSIS TECHNIQUE

Research Method

This research is a quantitative research with the aim to test and prove the hypotheses that have been formulated by using quantitative data analyzed with statistical analysis. The object of this study consists of internal audit, the effectiveness of internal control systems, and good corporate governance in finance companies. The data used in this research are the primary data. Primary data are data obtained directly from the object of research. Primary data were obtained using a structured question in the form of questionnaire in order to obtain a straight answer from the respondents.

The selection of samples is conducted by using purposive sampling method with certain criteria. The criteria include: (a) Finance companies, (b) Finance companies which have given permission to take the information about the variable that will be examined. The data collection was conducted using a survey of all respondents listed as the head of the branch and the head portion of each branch office in the center of finance companies. The questionnaire measured using a Likert scale to measure internal audit, effectiveness of internal control and good corporate governance. Variables measured with Likert scale weights given five points, namely (1) Strongly Disagree, (2) Disagree, (3) neutral, (4) Agree, (5) Strongly Agree.

Operational Definition and Measurement of Variables

Dependent Variable (Y)

Since the sample of this research is finance companies, then the indicator of GCG variable consists of 5 working groups included in the Road Map corporate governance Indonesia issued in 2014 by OJK, namely: (a) Corporate Governance Framework, (b) Protection of Shareholders, (c) Role of Stakeholders, (d) Transparency Of Information, € Roles and Responsibilities of the Board of Commissioners and Board Of Directors.

Independent Variables (X)

Internal Audit (X1)

The questionnaire used in this research for variable internal auditor is taken from Al Matarneh study (2011) that has been adapted by research conducted by Linting (2013), with three indicators of assessment, namely: (1) Performance, (2) Competency, (3) Objectivity.

Effectiveness of Internal Control Systems (X2)

The questionnaires used for the Effectiveness of Internal Control System variable are adopted from the journal issued by EY (2013) with 5 indicators of assessment, namely: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, (5) Monitoring.

Method of Analysis

Validity Test

The validity of the correlation can be calculated using the formula of the Correlation Coefficient of Product Moment Pearson, as follows:

$$r = \frac{N(\sum XY) - (\sum X \sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2][N \sum Y^2 - (\sum Y)^2]}}$$

Description:

r = the correlation coefficient of product moment

N = number of respondents

X = score for each item statement

Y = the amount of the overall score of the entire statement item for each respondent

Level of significance is determined by 5%, $r_{\text{statistic}}$ obtained is compared to r_{table} to determine the validity of the questionnaire. The validity of the criteria used are:

If $r_{\text{statistic}} \geq r_{\text{table}}$, then the statement is declared valid.

If $r_{\text{statistic}} \leq r_{\text{table}}$, then the statement is declared invalid

Reliability Test

A questionnaire is said to be reliable if the answers of the respondents are consistent or stable over time. To test the reliability questionnaire, it is used Cronbach Alpha technique, which can be formulated by the following formula (Umar, 2001):

$$r = \left(\frac{k}{k-1} \right) \left(1 - \frac{\sum \sigma_b^2}{\sigma_t^2} \right)$$

Description:

r = reliability of the instrument

k = many grain question

$\sum \sigma_b^2$ = the amount of the variance of the grains

σ_1^2 = variance total

Level of significance is determined by 5%, $r_{\text{statistic}}$ obtained is compared to r_{table} to determine the reliability questionnaire. Reliability criteria used are: If $r_{\text{statistic}} \geq r_{\text{table}}$, then the statement reveals reliability. If $r_{\text{statistic}} \leq r_{\text{table}}$, then the statement reveals no reliability.

Classical Assumption Test

Normality Test

Normality test aims to test whether in a regression model, the dependent variable, independent variable, or both have a normal distribution or not. One statistical test that can be used to test for normality is a non-parametric statistical Kolmogorov-Smirnov test (Ghozali, 2006). If asymptotic significance value is greater than 0.05 then the data had normal distribution.

Heteroscedasticity Test

Heteroscedasticity test is used to test whether a regression model occurred inequality variant of the residuals of the Observation of observation to another. In this research, Glejser test is applied to detect heteroscedasticity tendency. If the probability is greater than the alpha value (0.05) or if the value of $\text{sig} > \alpha$ (0.05), it is certain that the model does not contain elements Heteroscedasticity.

Multicollinearity Test

A good regression model should not occur in the correlation between the independent variables (Ghozali, 2006). Multicollinearity can be detected by looking at the value of Variance Inflation Factor (VIF) and the value of Tolerance. If $\text{VIF} < 10$ or tolerance values > 0.1 we can conclude there is no multicollinearity between independent variables in the regression model.

Multiple Linear Regression Analysis

Multiple linear regression analysis is as an association of simultaneously analysis to study the effect of two or more independent variables on the dependent variable with the scale interval. The regression equation as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Description:

Y= Good Corporate Governance

α = Constants

β = Regression coefficients

X_1 =Effectiveness of Internal Control Systems

X_2 = Internal Audit

e = Error

The coefficient of determination (Adjusted R²)

The coefficient of determination uses to measure how far the ability of the model to explain variations in the dependent variable. The coefficient of determination is between zero and one. A value close to one means that the independent variable provides almost all the information needed to predict the dependent variable (Ghozali, 2006)

Hypothesis Test

Simultaneous Test (F test)

Significance test or t test uses to determine whether the effects of independent variables that affect the dependent variable are significant. Significance criteria based on a significance value <0.05 then the independent variables have a significant influence on the dependent variable. If a significant value > 0.05 then the hypothesis is rejected. This means that partially independent variable has no significant effect on the dependent variable.

Partial Test (T test)

T test is used to test statistical significance level of influence of the independent variable on the dependent variable partially (Ghozali 2006). The testing is using a significance level of 0.05 ($\alpha = 5\%$).

- a. If a significant value > 0.05 then the hypothesis is rejected.
- b. If the significant value ≤ 0.05 , the hypothesis is accepted.

RESULT AND DISCUSSION

General Discussion

This research has purpose to examine the influence quality of audit intern and effectiveness of internal control systems on good corporate governance in finance companies. This study uses primary data and for the research instrument uses questionnaires, while the persons that become the respondent are the branch manager of each company. This questionnaire deployment time was done on February, 9th 2017 until April, 15th 2017. As written in chapter 3, since this study uses internal company data, so this research is assisted by relations or connections that have an enough capacity and competence to help spread the research questionnaires, that is why this study use convenience sampling technique. According to Saunders et al. (2012), convenience sampling is taken from a group of people easy to contact or to reach and the only criteria is whether the participants agree to participate. After making a contact, there are 30 branch managers of each company who are already agree to fill the questionnaires. There are 3 city that become area for resaerch, which are Purwokerto, Jakarta and Bandung.

Data Analysis

Result of Validity and Realibility Test

Validity Test

According to Umar (2007), to test the level of the validity of the instruments in the research, it uses analysis of Pearson Product-Moment Correlation Coefficient.

Table 4.1 Result of Validity Test

Item	<i>r_{statistic}</i>			<i>r_{table}</i>	Inf.
	Quality of Internal Audit	Effectiveness of Internal Control Systems	Good Corporate Governance		
1	0.387	0.609	0.477	0.306	Valid
2	0.455	0.372	0.372	0.306	Valid
3	0.517	0.616	0.478	0.306	Valid
4	0.407	0.511	0.565	0.306	Valid
5	0.648	0.454	0.549	0.306	Valid
6	0.395	0.626	0.697	0.306	Valid
7	0.422	0.375	0.686	0.306	Valid
8	0.444	0.469	0.599	0.306	Valid
9	0.591	0.528	0.550	0.306	Valid
10	0.378	0.694	0.592	0.306	Valid
11	0.631	0.771	0.412	0.306	Valid
12	0.516	0.401	0.519	0.306	Valid
13	0.424	0.371	0.573	0.306	Valid
14	0.439	0.394	0.710	0.306	Valid
15	0.400	0.697	0.450	0.306	Valid
16	0.394	0.388	0.636	0.306	Valid
17	0.460	0.426	0.478	0.306	Valid
18		0.743	0.678	0.306	Valid
19		0.492	0.558	0.306	Valid
20		0.440	0.603	0.306	Valid
21		0.648	0.361	0.306	Valid
22		0.608	0.424	0.306	Valid
23		0.599	0.496	0.306	Valid
24		0.433	0.490	0.306	Valid
25			0.487	0.306	Valid
26			0.616	0.306	Valid
27			0.653	0.306	Valid
28			0.497	0.306	Valid
29			0.449	0.306	Valid
30			0.481	0.306	Valid
31			0.515	0.306	Valid
32			0.504	0.306	Valid
33			0.456	0.306	Valid

Source: Primary data, processed

To test whether the value of rcoefficient is valid or invalid; there will be conducted t test by comparing among $r_{\text{statistic}}$ with r_{table} . The decision of instrument validity test is using 5% significance level as follows: (1) Instrument item is declared to be valid if $r_{\text{statistic}}$ is greater than or equal to $r_{\text{table}} = 0.306$ then instrument can be used, (2) Instrument item is declared to be invalid if $r_{\text{statistic}}$ is smaller than $r_{\text{table}} = 0.306$ then the instrument cannot be used.

The result of calculation of validity test above shows that all question items in questionnaires have correlation coefficient greater than 0.306. Meant all question item in questionnaires are valid and can be used as data collecting tool.

a. Reliability Test

According to Ghozali (2006), reliability testing can be conducted by the Cronbach Aplha technique with research instrument reliability figured in the value of Cronbach Alpha is greater than 0.306.

Table 4.2 Result of Reliability Test

Variable	r_{count}	r_{table}	Inf.
Quality of internal audit	0.765	0.306	Reliable
Effectiveness of the internal control system	0.885	0.306	Reliable
Good corporate governance	0.920	0.306	Reliable

Source: Primary data, processed

The above results show that the reliability of the internal audit variable, the effectiveness of the internal control system and good corporate governance has a value of $r_{\text{statistic}}$ greater than the r_{table} of 0.306. Thus it can be said that the measuring tool is reliable to be used as a tool of data collection.

Result of Classical Assumption Test

A model is said to be a best predictors if it has the properties of linear unbiased estimator (Gujarati, 2009). Besides, the model is said to be quite good and can be used to predict if it escapes from a series of econometric test underlying assumptions.

Classical assumption test is performed to determine the condition of the existing data in order to determine the analytical model that is most appropriately used. Classic assumption tests consist of a two-way Kolmogorov-Smirnov normality data test subset of the statistics, multicollinearity test using Variance Inflation Factor (VIF), and heteroscedasticity test using Glejser test.

Result of Normality Test

Normality test with one-sample Kolmogorov-Smirnovis performed to determine whether the data are normally distributed or not. Normality test is used to avoid the presence of unusual and extreme data that would disrupt the processing of data. The basis for decision-making is if the significance value is greater than 0.05 then the distributed variable is normal, whereas if the significance value is less than 0.05 then the residual variable is not normally distributed.

Table 4.3 Result of Normality Test

Source: Primary data, processed

Variable	Kol.- Smi.	Asymp.Sig	Information
Unstandar d Res.	0.548	0.925	Normal

The table above shows that the value of Asymp.Sig (2-tailed) of 0.925 and above the significant value of 0.05. In other words, the residual variable has normal distribution, so the research is feasible to proceed.

Multicollinearity Test

To test the multicollinearity, it passes through Variance Inflation Factor (VIF). Multicollinearity happens to a variable if $VIF \geq 10$ as well as the tolerance value ≤ 0.10 . If $VIF < 10$ and a tolerance value > 0.10 then there is multicollinearity symptoms (Gujarati, 2009).

Table 4.4 Result of Multikollinearity Test

Variable	<i>Collinearity Statistics</i>	
	<i>Tolerance</i>	VIF
Quality of internal audit	0.499	2.005
Effectiveness of the IC system	0.499	2.005

Source: Primary data, processed

The table 4.12 shows that all the tolerance values are above 0.10. and VIF is below 10. So, it can be concluded that there is no multicollinearity in a multiple regression equation.

Result of Heteroscedasticity Test

This study uses Park Glejser test. Park Glejser test is regressing variables in the regression equation with residual value (absolute error) as a dependent variable. When the results are significant, it can be said that heteroscedasticity occurs (Gujarati, 2009). The following table shows Park Glejser test results:

Table 4.5 Result of Heteroscedasticity Test

Variable	t	Sig.
Quality of internal audit	-0.378	0.708
Effectiveness of the IC system	0.403	0.690

Source: Primary data, processed

Table 4.5 shows that all independent variables are not significantly influencing the dependent variable, where the level of significance of each independent variable is greater than 5%. Thus, the conclusion is no heteroscedasticity symptoms in the regression equation.

Results of Multiple Regression Analysis

In accordance with the rules in conducting multiple regression analysis, a regression equation should have normally distributed data, multicollinearity free, heteroscedasticity free and autocorrelation free in order to obtain a good and unbiased regression equation. Based on the results of multiple regression analysis, the results are as follows:

Table 4.6 Results of Multiple Regression Analysis Calculation

Variable	Coefficients	t _{count}	Sig.
Constanta	6.536		
Quality of internal audit	0.757	2.415	0.023
Effectiveness of the IC system	0.822	3.697	0.001
$R^2 = 0.705$		$F_{count} = 32.219$	

Source: Primary data, processed

From Table 4.14 it can be create multiple linear regression equation as follows:

$$Y = 6.536 + 0.757 X_1 + 0.822 X_2$$

The interpretations of the linear regression equation are: (a) The constanta value is 6.536. It means if quality of internal audit (X_1) and effectiveness of the internal control system (X_2) have a value of zero or constant, good corporate governance (Y) will increase of 6.536 percent, (b) Regression coefficient of quality of internal audit (X_1) variable is 0.757. It means if there is a change of quality of internal audit by 1%, it will increase the good corporate governance (Y) by 0.757 percent, assuming the other variables

remain or equal to zero, (c) Regression coefficient of effectiveness of the internal control system (X_2) variable is 0.822. It means if there is a change of profitability by 1%, it will increase the good corporate governance (Y) by 0.822 percent, assuming the other variables remain or equal to zero.

Determination of Coefficient Result

Based on the results of the regression equation on table 4.14, R^2 value is 0.705 or 70.5%. The figure shows that the value quality of internal audit and effectiveness of the internal control system are about 70.5% and of the other variables not studied are 29.5%.

Hypothesis Test

Goodness of Fit Analysis

F test is used to examine the significance of the simultaneous effect of independent variables on dependent variables. Based on the degree of freedom (k-1), (n-k) which are (3-1), (30-3), the f_{table} value is 3.35.

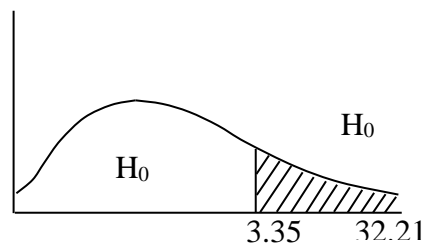
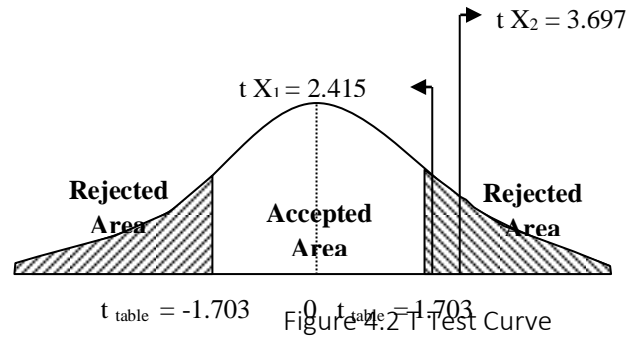


Figure 4.1 F Test Curve

Based on the calculation in Figure 4.1, the value of $f_{statistic} > f_{table}$ which is $32.219 > 3.35$. It can be stated that the moderated regression model of this study is formed in compliance or fit to the research data (goodness of fit).

Partial Test (t test)

This study uses one tailed t test in testing the hypothesis. T test is used to determine the influence of the quality of internal audit and effectiveness of internal control system on good corporate governance. Based on degree of freedom (df) = (n-k) which is 27, it gets t_{table} value of 1.703.



Based on Figure 4.2, it can be explained the influence of each independent variable to the dependent variable as follows:

The Influence of the Quality of Internal Audit on Good Corporate Governance

Based on regression analysis result on Figure 4.2, it has got the $t_{\text{statistic}}$ value of quality of internal audit variable is more than value of t_{table} which is $2.415 > 1.703$. Thus, the H_0 is rejected and H_a is accepted. Based on that result, it can be concluded that the quality of internal audit, partially, has significant positive effect on the variable good corporate governance. So the first hypothesis saying that the internal audit affect the good corporate governance is accepted.

The Influence of the Effectiveness of Internal Control System on Good Corporate Governance

Based on regression analysis result on Table 4.2, it has got the $t_{\text{statistic}}$ value of the effectiveness of internal control system is more than value of t_{table} which is $3.697 > 1.703$. Thus, the H_0 is rejected and H_a is accepted. Based on that result, it can be concluded that the effectiveness of internal control system, partially, has significant positive effect on the variable good corporate governance. So the second hypothesis saying that the effectiveness of intrnal control system affect good corporate governance is accepted.

Discussion

The Influence of the Quality of Internal Audit on Good Corporate Governance

The results of this study show the quality of internal audit have an influence on on good gorporate governance. This result indicates that the better the internal audit quality of a company, the better the corporate governance will be. This is in line with agency theory that the internal auditor is a liaison between the management (agent) and the shareholders (principal). Therefore, internal auditors are seen as having an important role to play in realizing the creation of good governance.

This result is in accordance with the research of Muhammadinah and Indriyani (2010), which found that internal audit, has significant effect on good corporate governance in PT. Pertamina. This study proved that improving corporate governance requires the role of internal auditors to examine and evaluate management tasks. In contrast, Yuwono et al. (2011) research result showed the role of the internal auditor has no influence on the application of GCG to BUMN Jember. The inequality of this result can be due to differences in organizational culture.

Theoretically, GCG practices can increase the value of a company by improving financial performance, to reduce the risk that the board may make with self-profitable decisions, and generally corporate governance can increase investor trust. Internal audits are needed to assess accountability and management compliance with policies and regulations that apply to the interests of stakeholders.

Internal audits are needed to assess accountability and management compliance with policies and regulations that apply to the interests of stakeholders. The purpose of internal audit is not to test the feasibility of financial statements, but to assist the management in identifying the weaknesses, failures, and inefficiencies of various programs that have been planned by the organization or company concerned.

This research is also in line with Zarkasyi's research (2008), that the internal audit significantly influences the implementation of GCG. In other words the higher the role of internal audit it will further support the performance of GCG implementation. Internal auditors contribute to ensuring the implementation of GCG principles namely transparency, accountability, accountability, independence and fairness which will provide clarity on the functions, rights, and responsibilities between stakeholders of the company, internal control processes and create a balance between the company's organizations so as to minimize agency conflict. Similarly, research conducted by Nugroho (2012), found if the implementation of internal audit in accordance with applicable internal audit standards, it is expected to be able to improve the principles of good corporate governance with significant value and variable Role of Internal Audit of 0.012.

The Influence of the Effectiveness of Internal Control System on Good Corporate Governance

The results of this study show that the effectiveness of internal control system has an influence on good corporate governance. This means that the better the effectiveness of internal control system, the better good corporate governance will be. Internal controls can provide assurance in the

reliability of efficient financial reporting and operations, and in accordance with the rules and regulations (Gusnardi, 2011). This is in accordance with the basic assumptions underlying the agency theory that has been described by Eisenhardt (1989) about information assumptions that information is considered a commodity that can be traded. This internal control information is used as a commodity between principal and agent as described in agency theory. Therefore, if the effectiveness of internal control systems within the organization goes well, good corporate governance (GCG) practices can be automatically upgraded.

The results of this study are in line with the research conducted by Al-Zwyalif (2015), that indicated the commitment to all elements of internal control contributed to strengthening the corporate governance pillars at a high degree, and the overall mean of this contribution uses 4.71. This contribution was as follows: control environment with an average of 4.56, risk assessment with an average of 4.75, control activities with an average of 4.79, information and communication with an average of 4.61, and monitoring with an average of 4.84.

According to Mulyadi (2014), internal control system that includes the organizational structure, methods and coordinated measures are aimed at safeguarding the organization's wealth, checking the accuracy and reliability of accounting data, encouraging efficiency and encourage compliance with management policies. The definition of the internal control system emphasizes the purpose to be achieved, and not the elements that make up the system. Thus, the above definition about internal control applies both in companies that process information manually, with a bookkeeping machine, or with a computer.

A mechanism in the effectiveness of the internal control system is one of the main means to ensure that the management of the company has been implemented in accordance with the principles of good corporate governance. Changes that occur in the business environment and the era of globalization requires the development of a new system and paradigm in business and industry management. Good corporate governance (GCG) emerged as an option not only to be a formality, but also become a system best practices that are fundamental to increasing corporate value

Several studies have shown that the effectiveness of the internal control system influences the GCG mechanism, such as the research of Suyono and Harianto (2012) Odoyo (2014) and Ayu (2014) which showed that effectiveness of internal control system affects good corporate governance.

CONCLUSION AND IMPLICATION

Conclusion

Based on research that has been done, after going through the stages of data collection, data processing, data analysis, and the final interpretation of the results of research about the influence of quality of internal audit and the effectiveness of internal control system on good corporate governance in a finance company, it can be concluded that: (a) The quality of internal audit has a positive effect on good corporate governance variable, (b) The effectiveness of internal control system has a positive effect on good corporate governance variable.

Implication

There are two implications addressed to internal and government. Internal parties must maintain and improve the existence of the quality of internal audit and the effectiveness of internal control system to achieve a more optimal GCG implementation in company operations. It also needs good consistency on the prevailing laws and regulations issued by the government to be understood and implemented for the welfare of customers and the benefit of the company. And to government, they are expected to be more active in monitoring the activities of finance companies, especially in terms of corporate governance. Therefore, the government has the authority to apply sanction on the company. as stated by Deputy Commissioner II OJK Dumoly Freddy Pardede "Generally sanctioned not only just for capital, but also includes problem financing, gearing ratios, and corporate governance can be penalized" (Setiawan, 2014). After then, the OJK also have to conduct more socialize about the OJK No. 30 / poj.05 / 2014 on good corporate governance for the financing companies article no. 29 which obliges the companies have a function helping commissioners in monitoring and ensuring the effectiveness of internal control systems and the implementation of the tasks of internal auditors. This is to monitor and evaluate the planning and conducting of audits in order to assess the adequacy of internal controls. Therefore, the company can understand how important the regulation.

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