

What Happened to Indonesia SOES Governance?

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Abstract--- *This study aims to determine the relationship between internal audit, audit committee, and internal control systems in SOEs. The background of this research is an indication of a decline in SOES performance due to the high number of SOES officials who are corrupt, the weak internal control is indicated by the weak role of internal audit and the audit committee in maintaining SOES internal control. The study was conducted at a state-owned SOES headquartered in Bandung. The results of the study stated that there was evidence that internal audit and audit committee influence the effectiveness of SOES internal control with the amount of control variability in the form of internal audit and audit committee variability of 61,6%.*

Keywords: *SOEs governance, internal control, internal audit, audit committee.*

I. INTRODUCTION

Corporate governance is a term that describes the methods, structure, and processes of the company in which the business and the company are managed and directed. Governance can increase the value of a company through a process of accountability and corporate growth. Also, governance can eliminate conflicts between principals and agents in agency relationships (Shil, 2008). Good corporate governance is the principles that underlie a process and mechanism of corporate management based on legislation and business ethics. (Regulation of the Minister of State Owned Enterprises Number. 01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Business Banks).

I.I. State-Owned Enterprises (SOES)

SOEs are required to implement good and consistent governance based on Ministerial regulations. SOES is a business entity whose entire or most of its capital is owned by the State through direct participation from the separated state assets (Regulation of the Minister of State for State-Owned Enterprises No: PER-01/MBU, n.d.).

According to the Deputy Director Institute for Development of Economics and Finance, (Listiyanto, 2019), there are problems with governance issues in weak State-Owned Enterprises (SOEs) and a lack of supervision from the Ministry of SOEs due to the lack of adequate evaluation of activities only as routine. SOEs have experienced several problems in the past few months, from arresting operations (OTT) by the Corruption Eradication Commission (KPK) against state-owned enterprise officials to technical errors that have a fatal impact.

SOEs officials who were ensnared by the KPK include former Krakatau Steel Director, Wisnu Kuncoro, netted by the KPK on March 23, 2019. Wisnu was arrested in connection with the alleged procurement of goods and services. Former Managing Director of PLN, Sofyan Basir, as a suspect in a bribery case with the process of agreement on the Independent Power Producer project of the Steam Mouth Power Plant, in April 2019. PT INTI. Former Managing Director of PTPN III, Dolly Pulungan, on 3 September 2019, was caught red-handed by the KPK as a suspect in a case of bribery in the distribution of sugar and was also suspected of receiving SGD 345 bribes from a private party (Lidyana, 2019).

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In the case of PT PLN, September 2019 The Financial Supervisory Agency (BPK) reported that waste management of public service subsidy money was carried out by PT PLN. Waste of payment for the Top scheme using the projected willingness factor and payment clause with a US \$ exchange rate on the sale and purchase of electricity, this eliminates the opportunity to save Rp676.98 billion each during 2018 (Hamdani, 2017).

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In the case of PT Bank Mandiri in July 2019, complaints from customers whose nominal balance changed drastically were increasing and decreasing. Bank Mandiri was also hit by a case of a weak system of customer fund information and balance, skimming cases often occur in state-owned banks, including Bank Rakyat Indonesia, Bank Negara Indonesia (Laucereno, 2018).

In the case of PT Pertamina, the results of a forensic audit found an unclear transaction valued at USD 18 billion in a crude oil sale and purchase transaction (Irawan, 2019).

The number of SOEs directors involved in corruption cases due to weak supervision. Oversight owned by SOEs, among others, the Internal Supervisory Unit (SPI) and the Commissioner, were not optimally obeyed by the corruptors. The SPI function can only operate in the lower management area and cannot reach the upper management ranks (Afriyadi, 2019). BPK Chairman Moermahadi Soerja, reported in the Summary of Inspection Results (IHPS) I - 2019 for 7,236 problems with the institution's internal control system weaknesses, 7,636 problems of non-compliance with statutory provisions valued at Rp9.68 trillion, and 93 problems of inefficiency, inefficiency, and ineffectiveness valued at Rp. 676.81 billion (Hamdani, 2019).

This indicates that the audit committee is significantly less likely to have problems with an internal control (Krishnan, 2005a). Many audit committees only carry out routine tasks, meaning they do not analyze more deeply the conditions of the control itself and the implementation of responsibilities by management (Rini & Fitri, 2015; Saudi, 2018).

Based on the phenomena and concepts above, an investigation of the influence of the internal audit committee on internal control in SOEs is carried out.

II. THEORETICAL FRAMEWORK

Internal control is the main task of the internal auditor, thus it is clear that there is a need for cooperation between the internal auditor and the audit committee in upholding the conditions of good corporate governance. Internal auditors are accountable for their duties to the management of the company, and the audit committee is responsible for its work to shareholders and commissioners (Astuti, 2010). The audit committee is measured by the dimensions of its size, independence, and expertise (Krishnan, 2005b).

Internal audit is an examination carried out by the company's internal parts on the company's financial statements and accounting records, as well as adherence to predetermined top management policies and compliance with government regulations and the provisions of applicable professional associations. (Agoes, 2004). Internal audit is said to be quality if it has characteristics; competence, independence, professionalism, and motivation. Internal auditors are auditors who work in a company, whose job is to assist management in carrying out its work so that tasks can be carried out efficiently and effectively (Astuti, 2010). The results of the study show that the independent audit committee and audit committee with significant financial expertise in internal control (Krishnan, 2005b). The most effective internal control that is, a compilation of controls built into the entity's infrastructure and is part of the company essence (Rachmawati: 2016).

Study (Dewayanto, Kurniawanto, Suhardjanto, & Honggowati, 2017) prove the impact of the expertise of the audit committee can cope with increased disclosure to reflect the existence of good internal control so that it has implications for reliable and quality financial statements.

The effectiveness of the audit committee is measured by the audit committee meeting, the frequency of meetings between the audit committee and the internal auditor, the audit committee review and the results of the internal audit has an impact on the internal control system (Al-Matari, Abdullah, Mohammed, & Al-Matari, 2017). Research at the Yemeni Commercial Bank by (Ali & Handayani, 2019) that the audit committee has significant implications for the control system.

The results showed that the small audit committee had an internal control effect (Hua, Leaby, & Liu, 2016). Internal audit is an organization that functions with the task of assessing and evaluating activities within the organization (Suyono & Hariyanto, 2012).

III. RESEARCH METHODOLOGY

The object of research is the internal auditor (Internal Supervisory Unit / SPI), the audit committee section and the company's operational section. Meanwhile, the subjects in this study were all state-owned companies headquartered in West Java.

The operationalization of variables is explained by 2 independent variables (internal audit and audit committee) and 1 dependent variable (internal control). Internal audits consist of independence and objectivity, skills, accuracy and professionalism. The audit committee is measured by indicators: audit committee structure, general requirements of committee members, the expertise of audit committee members, audit committee meetings, audit committee reporting, roles and responsibilities of the audit committee. Internal control is measured by indicators: control environment, risk assessment, control activities, information and communication, monitoring activities.

The population and sample saturation are as follows: PT Inti (Persero), PT. Indah Karya (Persero), PT. Amarta Karya (Persero), PT. Pos Indonesia (Persero), PT. Dirgantara Indonesia (Persero), PT. Kereta Api Indonesia (Persero), PT. Bio Farma (Persero), PT. Indo Farma, Tbk (Persero), PT. LEN Industri (Persero), PT. Pindad (Persero), PT. Pupuk Kujang, PT. Perkebunan Nusantara VIII (Persero), PT. Industri Sandang Nusantara, PT. Dahana.

IV. RESEARCH RESULTS AND DISCUSSION

The results of this study are in line with research (Tugiman, 2000) which states that effective internal control is greatly influenced by the quality of internal auditor services and the perception of good managers.

IV. I. Validity and Reliability Test Results

Moment correlation is used to see the validity of the data with valid rules if the coefficient of approval > 0.30 (Barker et al. 2016). This research produced valid approving items to measure all research variables.

Cronbach alpha method is used to determine the reliability of the data with the rules of the reliability coefficient > 0.70. This research produces a consistent value in measuring each variable.

IV. II. Descriptive Analysis

According to Cooper & Schindler (2014: 401), descriptive analysis can be done through central symptoms and measures of variability.

Table 1: Descriptive Analysis

Variable	Average	Std. Dev.	Max.	Min.	> Average	< Average
Internal audit	3,67	0,59	4,61	2,44	17	19
Committee audit	3,62	0,75	4,95	2,19	18	18
Internal control system	3,65	0,70	4,59	2,53	21	15

Internal audit obtained an average score of 3.67 and closer to a score of 4. This means that an internal audit has carried out its functions properly. The audit committee obtained an average score for the audit committee variable of 3.62, meaning that the audit committee has carried out its functions properly. The control system obtains an average

score for the internal control system variable at 3.65, meaning that the application of the internal control system is good (Hussain et al., 2019).

IV. III. Hypothesis test

Internal audit and audit towards the realization of internal control. Using a partial least square model by discussing structural equation modeling through two tests namely structural testing and testing.

IV. IV. Evaluation of Measurement Model

The relationship between latent variables and manifest variables will be tested by the measurement model, explained in Figure 1 regarding the internal audit pathways, audit controls, and internal controls.

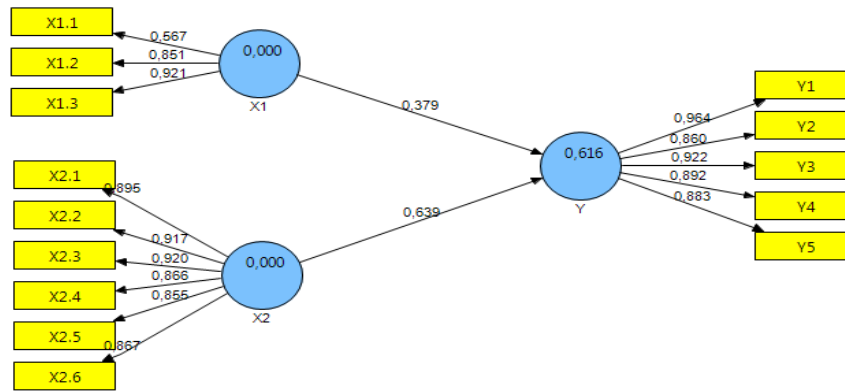


Figure 1: Full Standardization Coefficient of Research Results

Figure 1 explains the validity and reliability through factor weights. According to Hair (2014), a weighting factor of less than 0.4 is released from the model while the composite reliability value with a limit value of 0.7. Figure 1 also explains the indicator weights of the internal audit variable, Professional Accuracy indicator (Statement X1.3) is the strongest indicator in making the internal audit variable while Independence and Objectivity (Statement X1.1) is the weakest indicator.

In another part, the audit committee variable. The Expertise Indicator for Audit Committee Members (Statement X2.3) is the strongest indicator that forms the audit variable while the Audit Committee Reporting indicator (statement X2.5) is the weakest.

Finally, the internal control variable determined by the strongest indicator is the Control Environment (statement Y1) and the Risk Assessment indicator (statement Y2) as the weakest indicator.

Furthermore, to find out the quality of indicators in measuring each variable, a composite reliability test is required and the average extracted calculation. The following table results from the analysis of the composite reliability and calculation of the extracted averages:

Table 2: Test Result of Composite Reliability (CR) and Average Variance Extracted (AVE)

	Internal Audit	Audit Committee	Internal Control Systems
CR	0,832	0,957	0,958
AVE	0,631	0,787	0,819

Internal audit has an average extracted value of 0.631 (63.1%), meaning that the value of the internal audit latent variable contained in its manifest variable (indicator) is an average of 63.1%.

The default value for CR must be greater than 0.7. Evaluation Results Finding CR belongs to internal audit 0.832 (greater than standard) meaning the internal audit latent variable is reliable. Likewise, with other latent variables the Audit and Internal Control Committee, both have values above 0.7.

AVE is the average value extracted reflecting the quality of the data before it is eligible for structural testing. All AVE values above 0.7 mean that the information contained in each manifest variable (indicator) can be represented through latent variables Internal Audit, Audit Committee and Internal Control.

IV. V. Cross-Loading

Besides through the composite reliability and average variance extracted values, discriminant validity can also be seen through cross-loading (the relationship of the indicator to its latent variable and other latent variables). According to Hair, *et al.*, (2014: 105), a good indicator is an indicator having a factor weight greater than the latent variable itself compared to the weight of the indicator factor against other latent variables.

Table 3. Cross-Loading Indicator Against Latent Variables

Indicator	Latent Variable		
	Internal Audit	Audit Committee	Internal Control Systems
X _{1,1}	0,567	0,067	0,293
X _{1,2}	0,851	0,132	0,363
X _{1,3}	0,921	0,108	0,431
X _{2,1}	0,131	0,895	0,679
X _{2,2}	0,156	0,917	0,668
X _{2,3}	0,036	0,920	0,601
X _{2,4}	0,181	0,866	0,561
X _{2,5}	0,155	0,855	0,576
X _{2,6}	0,035	0,867	0,564
Y ₁	0,390	0,695	0,964
Y ₂	0,346	0,664	0,860
Y ₃	0,454	0,544	0,922
Y ₄	0,539	0,514	0,892
Y ₅	0,375	0,682	0,883

In table 3 it can be seen that the factor weights for each indicator against its latent variables are greater than those of other latent variables. This data shows that the indicators have high discriminant validity.

IV. VI. The Goodness of Fit Index

Evaluation of models in structural equation modeling based on variants (partial least square) does not have a value of a general model compatibility index (Hair *et al.*, 2014). Tabel 4. is the calculation result:

Table 4: Goodness of Fit

Latent Variable	Communality	R ²	GOF
Internal Audit	0,631		
Audit Committee	0,787		
Internal Control Systems		0,616	0,661

In table 4 can be seen the goodness of fit index of 0.661 is greater than 0.36 and is included in the large category, meaning that the structural equation modeling has a high model fit.

IV. VII. Evaluation of Structural Models

The next step is to evaluate the effect of exogenous latent variables on endogenous latent variables. The structural distribution results are as follows:

Table 5: Structural Model The Influence of Internal Audit and Audit Committee on Internal Control Systems

Endogenous Constructs	Exogenous Construct		R-square
	Internal Audit (X1)	Committee Audit (X2)	
Internal Control (Y)	0,379 (5,175)	0,639 (0,061)	0,616

Based on table 5, the R-square value of 0.616 (61.6%) means that the internal audit and simultaneous audit give a variation of 61.6% on internal control at a state-owned SOES in Bandung (Hair *et al.*, 2014).

Furthermore, an error rate of 5% and a calculated t value greater than the t table means that internal audit plays a role in increasing the internal level of SOES companies in the city of Bandung. Similarly, at a 5% error rate, the t-value is greater than the t-table, it is found evidence that the audit committee plays a role in improving the internal control of SOEs with headquarters in Bandung.

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