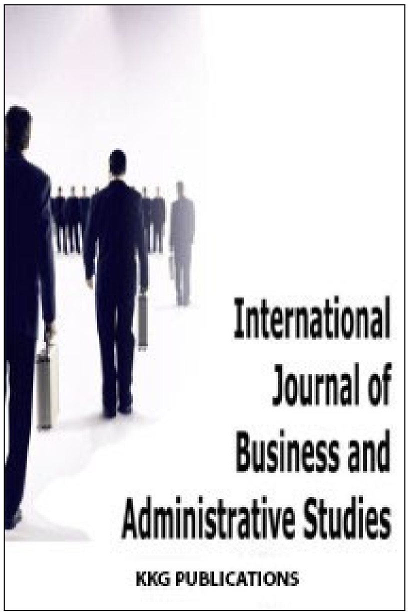

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ROLE OF THE INTERNAL AUDITOR INFLUENCE AND GOOD CORPORATE GOVERNANCE IN BANKING FINANCIAL PERFORMANCE AGAINST STATE OWNED CORPORATION

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Abstract. The role of an independent internal auditor is crucial in the implementation of good corporate governance in the company. An Independent internal auditor can oversee the running of the company to ensure that the company has conducted practices in applying the principles of good corporate governance in the company. The data used are primary data obtained by sending a questionnaire to the respondents. Data quality testing was conducted using a validity and reliability test. Statistical tests using normality test and hypothesis test using simple regression analysis, t-test and correlation coefficients were employed. Based on the testing done, the results obtained do not accept the alternative hypothesis (Ha). The results of this study show that the role of the Internal Auditor has not a significantly positive influence on the financial performance and Good Corporate Governance has a significantly positive effect on financial performance.

INTRODUCTION

SOC (State Owned Corporation) has a very large role in moving the economy of a country that is expected to be able to support the efforts for embodiment of social welfare, because of all the economic and natural resources, and factors of production, controlled by the state and the management allocated by the state to organizations, business entities, and individuals for the welfare of its people, it needs a serious effort in order to optimize the presence of state-owned enterprises as a pillar of the economy in Indonesia.

The existence of internal audits in SOCs is governed by Law of the Republic of Indonesia No.19 of 2003 on SOC (State Owned Corporation) of Article 67 which states that on each SOC established internal control unit which is the company's internal supervisory apparatus. The role of internal audit in SOC is indispensable in helping management carry out its responsibilities effectively and efficiently in accordance with the purpose of SOC itself. The role of internal audit was expected so management can be focused on management tasks, while the supervisory daily duties on state-owned corporations can be carried out more intensively and effectively without diminishing their responsibilities. In the presence of an effective internal audit function, monitoring mechanisms could be created to ensure that existing resources within the company have been used economically and effectively, and a control is there in which the company can provide a higher assurance that the information produced is reliable. Internal audit can also be a barometer of the prevailing standards of behavior in the company through monitoring activity on an ongoing basis, which encourages the creation of an efficient working climate. Based on the Decree of the Minister of State-Owned Corporations No. KEP-117 / M-MBU / 2002 dated July 31, 2002 as stated in article 22, internal control system is part of the practice of good corporate governance, among others, and includes internal control environment in the company's disciplined and structured , assessment and business risk management, control activities, information and communication systems, and monitoring.

The internal auditor is a unit that checks compliance which can be a function that plays an active role as a partner to management in support of the implementation of Good Corporate Governance with the evaluation and improvement of work processes of companies that affect the application of the value of the company and the preservation of accountability, help maintain the effectiveness of controls to evaluate the effectiveness and efficiency and provide input for continuous improvement, as well as the identification and evaluation of significant risks facing the company and provide input for improvement of the control system and risk management. This role also affects the need for an internal auditor competence which now is multi-disciplinar (Daniri & Simatupang, 2008). SOC Ministerial Decree No. KEP-496 / BL / 2008, which sets the importance of internal control and the Internal Audit Unit (IAU) as stipulated in article

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11, reads "The Board of Directors shall establish an effective internal control system to secure the investment and state-owned assets, requiring all state-owned companies to implement good corporate governance as well as the existence of the Internal Audit Unit to support the company's performance.

Husein (2002) states that in order to make financial information, among other data required on matters related to the financial performance, company's internal data obtained from the company's internal audit process and the results of financial intelligence are required. According to Hanifah (2011) internal audit is simultaneously and partially significant with a positive direction on financial performance, if this implies an effective internal audit, and then together with synergy, it can improve corporate financial performance. It can be seen from various studies that the internal audit affects the company's financial performance.

In the study Riyanti (2012) Newel and Wilson state that theoretically, the practice of good corporate governance can enhance corporate value by improving financial performance and reduce risk caused by management actions that tend to benefit themselves.

Decree of the Minister of State Owned Corporation Number. 117 Year 2002 Article 1 on the Implementation of Good Corporate Governance At the SOC states that:

"Corporate governance is a process and structure used by the organs of state-owned corporates to enhance the success of the business and corporate accountability (financial performance) in order to create shareholder value over the long term by taking into account the interests of other stakeholders, based on the laws and ethical values".

Inspection conducted by an internal auditor is usually more detailed than the general inspection conducted by KAP. In addition, as the internal unit, internal auditors have better understanding of the condition of the company in the management of company's improvements. In carrying out its function, internal auditor assesses the adequacy and effectiveness of risk management processes, internal controls, governance and provides consultation for the internal need. It is very important, because the internal audit will provide added value and increase the company's operations through auditing and consulting. From such exposure variables studied will be known related to the influence of the role of internal auditors and corporate governance on the financial performance of SOCs.

THEORETICAL REVIEW

Inspection conducted by the internal auditor could help all the leadership of the company (management) in carrying out its responsibilities by providing analysis, assessment, advice and comments on the activities inspected. In general it can be said that the internal audit function for the management of the company is to ensure the implementation of operations in accordance with the applicable provisions. The existence or establishment of internal audit in private companies and state corporations is regulated by Government Regulation No. 3 years 1983 Article 46 of the Procedures for the development and supervision of Perjan, Perum and Persero which states that:

1. The unit in charge of internal control assists director in conducting an assessment of the management control system (management) and its implementation in the enterprise concerned and provides suggestions for improvement. Based on that statement, the management of a company is required to develop internal audit in order to provide a positive contribution in improving the performance of the company.
2. Leader SOCs and enterprises using the opinions and suggestions of the internal control unit as a material to carry out the improvement of companies management are good and reliable.

The role of an independent internal auditor is crucial in the implementation of good corporate governance in the company. Internal auditor has independent function to oversee the running of the company to ensure that the company has conducted practices in the application of the principles of good corporate governance in the company, that include: accountability, responsibility, transparency and fairness. These are efforts that can balance between the interests of stakeholders, the company's employees, suppliers, government and consumers which can be the indicators of the balance of interests, so that the conflict of interest that occurs can be directed and controlled and will not inflict harm on each side.

Role of the internal auditors can be classified into three types (Effendi, 2010) namely:

1. Watchdog, covering the activities of inspection, observation, calculation, check and re-check that aims to ensure adherence / compliance to rules, regulations or policies that have been set. Watchdog role usually results in recommendations that have short-term impact.
2. The consultant is expected to provide benefits in the form of advice in the management of resources so that the organization can assist the duties of operations manager.
3. The catalyst, with regard to quality assurance, so that the internal auditor is expected to guide the management in identifying risks that threaten the achievement of organizational goals.

According to Minister of State Owned Corporation No. KEP-117 / M-MBU/2002, Corporate Governance is: A process of structure used by the organs of State Owned Corporates to improve the success of business and corporate accountability in order to create shareholder value over the long term while maintaining the interests of other stakeholders, based on legislation and ethics.

In order to practice Good Corporate Governance, one of these is required in an internal control system and carried out by the internal auditor which therein includes adequate supervision, business ethics, independence, disclosure of accurate and timely accountability of all parties involved in the process of management of the company that needs a good mechanism to ensure thorough follow-up in case of a breach in the company. Internal auditor has an important role in realizing the business management company that is clean and transparent due to one of the tasks of the internal audit that reviewed the existing system to determine the level of compliance with the rules of external and internal policies and procedures set out including the principles contained in Good Corporate Governance guidelines. Based on research conducted by Gumilang (2009) further research demonstrates the important role of the internal auditor in the implementation of good corporate governance, a significant result will be the role of the internal auditor in the implementation of Good Corporate Governance.

The financial performance is the formal business conducted by the company that can measure the success of the company to generate profits, so that they can see the prospects, growth and development potential to rely on existing resources. A company can be said to be successful if it has reached the standards and goals set. Measurement of performance is used by companies to make improvements in their operations in order to compete with other companies. Analysis of the financial performance review process is critical to review the data, calculate, measure, interpret, and provide solutions to the financial companies in a given period.

Financial performance can be assessed with some tools of analysis. The technical and financial analysis can be divided into 8 types, which according to Jumingan (2006: 242) are:

a. Comparative analysis of Financial Statements, an analytical technique of comparing the financial statements of two periods or more to indicate a change, both in quantity (absolute) or as a percentage (relative).

b. Analysis of trends (tendencies of position), an analytical technique to determine whether the financial situation showed tendency to increase or decrease.

c. Percent per Component Analysis (common size), an analytical technique to determine the percentage of investments in each asset to the overall or total assets or debt.

d. Analysis Sources and Uses of Working Capital, an analytical technique to determine the source and use of working capital of two periods compared.

e. Analysis Sources and Uses of Cash, an analytical technique to determine the condition of cash, because of cash changes in a certain time period.

f. Financial Ratio Analysis, a financial analysis technique to determine the relationship between specific post in the balance sheet and income statement either individually or simultaneously.

g. Analysis of Changes in Gross Profit, an analytical technique to determine the income position and the causes of changes in profit.

h. Break Even Analysis, an analytical technique to determine the level of sales that must be achieved so that the company does not suffer losses.

RESEARCH METHOD

This study uses secondary data, it is called secondary data analysis. According to Martono (2010, p. 20) secondary data analysis is one variant of quantitative research. Secondary data analysis utilizes data already available in government agencies or others.

RESULTS AND DISCUSSION

The correlation between the constructs measured by the path coefficients and the significance level used in this study was 5%. The following hypotheses were intended to prove the truth of allegations of research consisting of four hypotheses:

1. Hypothesis 1: The internal auditor has positive effect on the financial performance of banking companies listed in the SOC (State Owned Corporation)
2. Hypothesis 2: Good Corporate Governance has positive effect on the financial performance of banking companies listed in the SOC (State Owned Corporation)
3. Hypothesis 3: The internal auditor and good corporate governance simultaneously have positive effect on the financial performance of banking companies listed in banking SOCs

Where the results show:

1. Variable internal audit does not have a significant impact on the financial performance of variable banking companies listed in the state.
2. Variable good corporate governance has a significant impact on the financial performance of variable banking companies listed in the state. If there is an increase in the assessment of good corporate governance by one unit, then the financial performance will be increased by 0.20 and vice versa, if there is a decline in the assessment of good corporate governance by one unit, then the assessment of financial performance will be decreased by 0.20 , which means that good corporate governance variables affected the company's financial performance variable in Indonesia Stock Exchange by 7.0% and the rest was influenced by other variables outside the research.
3. Internal Audit and Good Corporate Governance simultaneously do not have a significant impact on the financial performance variable in banking companies listed in the state.

Effect of Internal Audit on Financial Performance

Based on the results of the study, it was found that internal audit does not have a significant impact on financial performance. These results are in contrast to theories or findings of previous studies which suggest that the internal audit has an impact on financial performance.

The absence of this effect can be due to the number of internal auditors that have not been able to maximize the financial performance of SOCs banking companies during the year 2012-2014. It also occurs in the second indicator which is about meeting between internal auditor and the audit committee that has not been able to maximize the financial performance of the banking company during the years 2012-2014. So it can be concluded that the internal audit of the banking company SOCs in 2012-2014 as seen from the number of auditors and a number of meetings with the audit committee has only a weak influence.

Against the Influence of Good Corporate Governance on Financial Performance At first the good corporate governance variables have 6 indicators consisting of the activities of the board of commissioners, board of directors, the composition of the independent directors, audit committee, managerial ownership and institutional ownership.

In the data processing deletion of some indicators of activity is done from the board of directors, the composition of the independent board, managerial ownership and institutional ownership because it does not meet the criteria of convergent validity, so further research is only performed on two indicators of the board of directors and audit committee. It can be concluded that the existence of the board of directors and the audit committee has a significant effect on the financial performance of the company. Effect of Internal Auditors and the Good Corporate Governance.

Simultaneously on Financial Performance

Based on the results of the study it was found that these two variables simultaneously, namely internal auditing and good corporate governance, do not affect financial performance. This could indicate that these two variables have not been able to help improve the financial performance of SOCs banking companies during the year 2012-2014.

CONCLUSION AND SUGGESTIONS

Internal audit variable shows that the internal auditor has not a positive influence on the financial performance of banking companies SOC 2012-2014. GCG variable has a positive effect on the financial performance of the banking companies SOC 2012-2014. Suggestions that the researcher wants to convey is:

1. Future studies can use the scope of a broader research, retrieve objects of banking companies that are public or not. It is intended that the results of this study can be generalized to the entire banking sector located in Indonesia.
2. Indicators of this study can be added such as variable internal audit coupled with the number of audits performed, GCG variables can be coupled with indicators of the remuneration and nomination committee as well as several other indicators that can be used, so that research results can give better prediction about the factors affecting financial performance in addition to indicators that have been studied.

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— This article does not have any appendix. —