

International Conference on Accounting Studies 2014, ICAS 2014, 18-19 August 2014, Kuala Lumpur, Malaysia

The effectiveness of the internal controlling system implementation in fiscal decentralization application

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Abstract

This paper investigates the current Internal Control System (ICS) implemented by the Regency Governments (RG) in Kupang District and North Central Timor (TTU) District using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. This research was developed in two phases. The first phase started with the interview of 100 officials out of 300 top officials in the two RGs to assess which control components were the worst implemented in their current ICS. Applying SERVQUAL model as the research technique, it revealed that the control environment demonstrated the worst implementation in two districts and this was mainly driven by a lack of commitment of top officials to strengthen ICS. In the second part, this research determined what factors may influence top officials to be less committed to strengthening ICS. Based on a number of organizational theories, this study found that the most significant factor induces top officials' having poor commitment is conflict of interest. The study also found that social conflict of interest was the most commonly triggered reason driving top official to be less committed in RG in Kupang District, while in TTU District, political conflict of interest was the major reason affecting the top officials having less commitment.

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Peer-review under responsibility of the School of Accountancy, College of Business, Universiti Utara Malaysia.

Keywords: Internal control system; control environment; conflict of interest; fiscal decentralization

1. Introduction

Since its implementation in 1999, fiscal decentralization (FD) has not been successfully implemented in

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Indonesia. This is because of poor ICS implementation in local governments (Stated Audit Agency of Indonesia, 2011). The lack of effective ICS contributes to fraud and lowers corruption detection and prevention systems which is a major snag in improving local accountability in Indonesia (World Bank, 2003). Evidence shows that the control issue still does not gain recognition as a critical issue within fiscal decentralization application despite higher rates of corruption at local levels in Indonesia (Rinaldi, 2007, Bambang 2003).

To solve the issue the central government established a Government Regulation number 60 in 2008 to promote ICS model adopted from COSO Model which comprises of five interrelated components, namely: control environment, risk management, control activities, information and communication, and monitoring. This model is regarded as the best solution to strengthen ICS at local levels; nevertheless the implementation of this model is still weak. In fact, there were 176 corruption cases between 2004 and 2012 involving top officials at local levels in Indonesia and 90 percent of the cases were related to internal control cases (Indonesian Eradication Corruption Commission-IECC, 2012). Moreover, ineffective ICS is commonly demonstrated in poor control environment which affects poor Public Financial Management (PFM), resulting in a higher numbers of corruption cases in local governments programs (SAA Audit Report, 2009-2012).

Another study revealed that the poor ICS implementation was attributed to low awareness amongst local level officials of the importance of ICS - in FD, which was evident in poor commitment of the officials to strengthen the control environment (Kawedar, 2010) and further consequence of ineffective control environment which the critical foundation of ICS, is other ICS components are automatically ineffective. This is shown in poor institutional arrangements for financial accountability, resulting in the higher number of control issues such as frauds, irregularities, lack of compliance with regulations, and the inability of local governments to produce timely accurate financial information (Zumriyatun, 2010; World Bank, 2004d; Commission on Audit, 2003).

SAA diagnostic study (2012) reported that out of 32 provinces in Indonesia, local governments in East Nusa Tenggara (ENT) province have performed the worst ICS, leading to poor PFM and low audit opinion obtained. In fact, during 2009-2011, more than 70% of Local Governments Financial Reports (LGFRs) of 22 LGFRs in ENT, got disclaimer prompted by the higher number of control cases. In addition, among 22 LGFRs, Kupang District and TTU District LGFR reported the highest control cases related to cases in accounting system, planning and budgeting system and internal control structure (SAA Audit Report, 2009-2012).

For example, TTU Regency Government (RG) presented an unreliable number of fixed assets of 9 million dollar in LGFR 2009. In fact, the number of the asset was not capitalized, the number of the assets was different with the source documents, and the number of the assets was not physically recalculated, hence there was a discrepancy between the number on Balance Sheet and physical number (SAA Audit Report, 2009-2012). This indicates poor accounting system and reporting, stemming from lack of commitment of top official to set transparency, accountability and reliability in the control environment of accounting process.

The pictures above depict, the ICS implementation is far from effective ICS. Effective ICS is an effective of internal administrative and financial checks and balances designed by management, and supported by corrective actions, to ensure that the goals and responsibilities of the organization are achieved (Candrea, 2006) and this has been exercised effectively by United States of America (USA) Local Governments in managing their FD programs by effectively bolstering ICS control environment then is followed by develop other components' system. Even though, it has been centuries to build the effective ICS, but finally it easily guides their local public organization towards achieving governments' objectives in operational efficiency and effectiveness, reliability of financial reporting, and acquiescence (World Bank, 2003).

The studies above provide critical concepts for this research foundation i.e. the lack of effective ICS can be a major obstacle for the local levels in the FD application, conveying in ineffective ICS and resulting in poor PFM and higher number of control cases which is one of them is corruption. In addition, generally, the main reason of poor ICS is because of weak control environment which is actually the foundation of other control components (COSO, 1992) and this stems from lack of top officials' commitment.

To analyse ICS implementation in RG of Kupang District and TTU District, there were 100 top officials out of 300 top officials of two RGs interviewed. The emphasize is more on top officials because the tops have the most powerful influence to set organizational culture that greatly affects the effectiveness control environment and overall ICS (Drucker, 1988, Maciariolle, 1984). Next, top officials play more important roles in FD

implementation i.e. deciding how resources are used, and to some extent this situation persuades top officials engaging with “conflict of interest”, causing them to be uncommitted in creating effective ICS (Manor, 1999; Finance Ministry, 2011). In fact, there were 176 corruption cases involving local level tops in Indonesia during 2004-2012 and 90% of the cases related to internal control cases.

This research was designed into two steps. The first step determined the ICS components that have been most poorly implemented by assessing the respondents’ answers using the SERVQUAL model. It discovered that the control environment component was the worst implemented in two districts and this was mainly driven by lack of commitment of top officials to strengthen ICS because of conflict of interest that is the officials as the agent allows their private interests and affiliations to compromise public needs or the principal needs (Ritzer & Goodman 2004).

Further step ascertained what factors may affect top officials to be poorly committed by conducting a survey consisting of conflict of interest factors related to political, economic and social aspects with relevant determinants applied in developing countries, in particular Kupang District and TTU District. In fact, in political aspect is more determined by a political pressure from national political elites into the top local officials to compromise citizens’ needs into political elites needs which almost occurs in most planning and budgeting process. Economic determinant is more driven by the level of salary, bonuses and appreciation. Finally, the determinant of social aspect is premodelism as the high diversity of tribe, religion, and race.

Top officials tend to break their commitment when there are pressures by local and national political elites to compromise citizens needs into political elites needs by manipulating budget items to fund political activities, rather than fulfilling public needs (Devas, 2005). Pioneering expenditure tracking studies in the early 1990s cited by Devas (2005) found that, on average in developing countries, less than 20% of primary education capitation grants were reaching schools. The rest was being captured by local officials and politicians, either to fund other activities or for personal gain. .

Further aspect is in economic interests due to low salary level or unsatisfied reward. This is highly likely promoting corrupt or simply dysfunctional employees because they are preoccupied with searching for other income opportunities. Another determinant of economic interest is unsystematic bonuses system, demonstrating in diligent and lazy official have the same bonuses rates because of the lack of performance based management (Dalton & Lawrence, 1971).

The next aspect which is socially contributed to conflict of interest is premodelism which is considered as a perceived need to surrender certain powers to one person who has an authority, as a way of holding their ethnically fragmented nations together. This has a great effect on the implementation of decentralization. It is argued that people from the same ethnic tend to be more grouping themselves, thinking that they have the same culture and customs. This emotional attachment can lead to conflict of interest when one party tries to help others from the same ethnic while at the same time compromising public’s needs (Manor, 1999).

The three aspects explained are potentially influence the tops to break their commitment because of conflict of interest which when it is taking place, automatically, they are failing to perform their duty as committed agents who are expected by the principal i.e. the Citizens, to perform their duties with integrity, in a fair and unbiased way (Ritzer & Goodman 2004).

Based on above studies the second step was developed and it revealed that the reason causes conflict of interest in top official level in Kupang District is more driven by social aspect which is triggered by premodelism, while in TTU District is more determined by political factors.

The rest of the paper is organized as follows. Section 2 describes how the research problem was studied, including detailed information about the research variables, the sample selection, and equipment and materials used. Section 3 presents the main findings, the highlighted findings and result of SERVQUAL and Likert Scale. Section 4 discusses the empirical findings, and Section 5 presents the conclusions and recommendation

2. Methods

2.1 Step One-Analysing Existing ICS

2.1.1 The Respondents and the Research Variables

The research period of ICS implementation was during 2009-2011 which was audited by SAA in 2010-2012. The 2009-2011 periods were chosen because the periods are the elected regent working period, in both districts. There were 50 top officials of each RG were randomly selected as the respondents. Top officials were preferred because they have significant power to manage ICS since they have the power to establish a control environment which is the basic foundation to implement ICS. Top official in this research is those who are at the top level of two RGs and at the top level of Local Government Administration Department (LGAD). Indeed, they show the leading path to reach organization goals, once they make mistakes in creating good governance, entirely organization will be badly affected (Drucker, 1988, Maciariello, 1984).

COSO Model adopted in Government Regulation (GR) number 60 in 2008 to manage Public ICS in Indonesia is used to analyse current ICS in the two districts. According to the GR, ICS is a process that guides an organization towards achieving its objectives which contains of five interrelated components. The first component is the Control Environment that sets the tone for the organization established by top management and provides the foundation for all other components of internal control which includes integrity, ethical values and the competence of the people. The ICS is well applied or not, depends on how the top management established the rules and highly committed to enforce the control rules (Drucker, 1988). The most important thing is the top officials demonstrate a role model showing integrity, ethical values and loyalty.

The second component is Risk Assessment that identifies and analyses of relevant risks, internal and external to the achievement of the objectives, forming a basis for determining how the risks should be managed. The third component is Control Activities that ensure necessary actions are taken to address risks relating to the achievement of the entity’s objectives. The next component is Information and Communication that identifies, captures, and communicates internal and external information in a form and timeframe that enable people to carry out their responsibilities. The fifth is monitoring, that is a process to assess the quality of the control system’s performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Each component has its own determinants which are displayed in Table 1.

Table 1. The Description of ICS Components

ICS Components	The Components' Determinants	The Determinants' Variables	
Control Environment	Integrity and Ethics	Number of behavioural rule	
		Effective behavioural rule socialization	
		Top officials' exemplary behaviour (being a role model)	
		Staff awareness of the importance of integrity and ethics	
	Commitment	Rule enforcement	Staff enforcement
			Effective and efficient governance
			Number of work standard to evaluate working output
			Self enforcement to follow the working standard
			Staff enforcement to follow working standard
			Putting the right man at the right place
	Conducive Leadership	Having a professional human resource database	Utilizing the potential human resource
			Enforcement for human resourcing planning
Number of key performance indicators for each activity			
The level of self managerial skills			
Organization Structure	Conducive Leadership	Considering risk management in each managerial decision	
		Effective performance based management	
		Committed to support a particular function to have effective ICS implementation	
		The enforcement to protect asset and information	
		Intensive interaction with lower officials	
		Positively responsive on every report regarding finance, budgeting, program and activities	
Organization Structure	Less staff transfers especially at program and operational activities, finance and auditing	Effective organization structure based on the organization size and characteristic of organization activities	
		Clearly stating staff job description and responsibilities	

ICS Components	The Components' Determinants	The Determinants' Variables
Risk Management	Task and responsibilities delegation	Clearly stating the connection and relationship of reporting stages
		Evaluating and adjusting organization structure periodically
	Human Resource Policy and Practice	Ability to decide numbers of officials fitting with the number of job function
		Putting the right task and responsibilities at the right staff
	Establishing the organization goals	Ensuring that staff knows the tasks and responsibilities
		Staff awareness of the link between conducting its works and ICS implementation
	Establishing activities' objectives	clearly set up policy and procedures of from staff recruitment to pension or discharging
		Always conducting an examination of candidate employees background at recruitment stage
	Risk Identification	Periodically supervising staff performance
		Organization goals based on government regulation
Risk Analyses	Effectively communicate the goals to the staff	
	Ensuring that everyone knows the goals	
Control activities	Unit government performance assessment	The consistency of operational strategy and central government strategic planning and risk assessment
		Highly integrated process between strategic planning and risk assessment
	Human Resource Development	Consistent with organization goals and strategic planning
		Each activity' goal is integrated with other activities goals
	Monitoring system on Information System	Each activity's goal is relevant with main activity
		Each activity has key performance indicators
	Physical control of Assets	It is supported with sufficient resources
		top officials commitment to support the achievement
	Determination and review of performance indicators	applying a comprehensive risk methodology identification
		External and internal risks are assessed with sufficient mechanism
Separation Function	Other factors influencing the goals achievement have been critically assessed	
	Having a comprehensive risk assessment to analyse risk impacts on the goals achievement process	
Accuracy and relevancy of transaction record	Having a comprehensive risk management	
	Effective management review on top officials' activities	
Accountability of resources and records	Effective management review on each official at each activity	
	Effectively communicate the government strategic planning to all staff	
Documentation	Comprehensive human resource development planning	
	Comprehensive human resource strategic planning	
Information and Communication	Information	Number of selection criteria for each job position
		Effective management based performance
Communication	Communication	Sufficient reward and appreciation to promote motivation
		Effective procedure protection on information system (IS)
		Skilful IS teamwork for IS protection
		Structurally classified resources needed for IS protection based on the importance and sensitivity
		Resource owners have identified users who have rights and authorization on IS formally
		Effective controlling procedure on application control
		Effective procedure to control document completeness
		Effective procedure to control accuracy
		Effective procedure to control reliability processing and data files
		Effective communication on asset protection procedures with all employees
		Comprehensive procedure for disaster recovery plan
		Periodically reviewing employees performance at all levels
		Performance achievement is effectively evaluated
		Top officials periodically have ensuring that all the main aspects of transactions is not controlled by one person
		Transaction of and events are classified properly and promptly in transaction record
		Classification and recording have been applied on entire cycle of transaction
		Top officials have appointed a person responsible over resources and records
		Top officials regularly control the assignments given
		Effective procedure for document protection
		Regularly top officials control the document protection process
		The level of top officials openness on internal and external information
		A procedure to recheck the information in order to provide effective feedback
		Have established an effective internal communication

ICS Components	The Components' Determinants	The Determinants' Variables
Monitoring	Type and method of communication	Have established an effective external communication, especially regarding the implementation of program, budgeting and funding Effectively utilizing communication method and type Top officials periodically develop and update IS to maximize it function on communication process
	Continuously monitoring	Top official shows their commitment on IS development by providing sufficient resources Having established strategic planning for continuous monitoring in routine activities, employees have been effectively informed about effective or ineffective of existing ICS Having established an independent organizational structure and supervision to oversee ICS implementation Periodically comparing the financial records and physical check for effective reconciliation Top officials regularly follow up the recommendations for internal and external auditors Top officials regularly set up meeting with employees to gather information about the effectiveness of current ICS
	Separated evaluation	Having established effective procedure for separated evaluation Using a proper methodology for separated evaluation The level of independency of supervision apparatus Effective follow up on the separated evaluation findings
	Audit Settlement	Having established a clear procedure of audit follow up and feedback level of top officials responsiveness on audit findings level of top officials assertiveness on following up the findings

2.1.2 *Data collection technique and research technique*

Primary and secondary data were used in this research. The primary data was obtained from in depth-interview and FGD processes which consisted of questions regarding five components in ICS. The data was tabulated using the SERVQUAL model to obtain which component was the poorest in the current ICS implementation.

The SERVQUAL model is the relevant technique in this research because the nature of this model is almost the same as the nature of this research. This model can draw the comparison of top officials' expectation of ICS elaborating with ICS theories and the top officials' perception of ICS implementation (Chingang, 2010). This model also offers flexibility regarding changing the original variables into ICS components. Therefore, instead of presenting the scale of service variables of Tangibles, Reliability, Responsiveness, Assurance, and Empathy, the developed model consists of ICS components which are control environment, risk management, control activities, information and communication, and monitoring.

The expectation score for each component is control environment 30%, risk management and control activities 20% for each, information and communication and monitoring 15% for each. This score was determined by combining top officials' expectation, ducker and Maciariello theories and SAA and ECC diagnostic study reports. In fact, control environment has the highest score expectation because it is the foundation in creating effective ICS.

In addition, the SERVQUAL result was analysed and compared with the secondary data. The secondary data consisted of LGFRs 2009-2011, Audit Report from SAA 2010-2012, Accountability Report 2009-2011. After this step, the result was confirmed to the respondents using FGD technique. The reason of combining one-to-one interview and FGD is to reduce biases in order to have valid results. Indeed, one-to one interview offers in depth information, but can be judgmental. The answer of the interview then confirm through FGD as FGD offers more high validity (Krueger, 1988). Finally, the result was summarised to conclude the main findings of current implementation of ICS in two districts.

2.2. *Step two-determining the triggered point, causing ineffective ICS*

FGD method was still used to determine the triggered point of ineffective ICS. This step can only be designed after step one has been done, because each variable has different determinant. In this case, it was found that the commitment, which is one of the important determinants of control environment, is the most poorly implemented. Furthermore, a study was developed to find out the most factor which affects top official being uncommitted, in

particular occurred in fiscal decentralization implementation in developing countries. In fact, the literatures provide the argument that it is because of conflict of interest which is more related to political conflict of interest, economic interest and social interest (Manor, 1999; Devas, 2005; Kawedar, 2010; Zumriyatun, 2010). This argument, then, was critically discussed with top officials using FGD technique.

Likert Scale was used as a research technique to decide out of three aspects' variables which aspect is more controlled the officials to break their commitment according to respondents. Respondents were asked to rank their opinion on what level the variable has an effect on the top commitment, the levels are: very high (5), High (4), neutral (3), Low (2) or Very low (1). The variables of three aspects are presented in table 2.

Table 2. The Driven Variables of Politic, Economy and Social Conflict of Interest

The Aspect	The Variables of the Aspect
Politics	The impacts of the country's next local, state, or national election on the change of government or regional policy?
	The effect of the most likely contenders for power viewing government policies on regent governance policies
	The effect of the most likely contenders for power viewing government budgeting, programs and activities
	The impact of change in government regulation, along with any planned changes to it, on regency governance
Economy	The effect of budgeting timescale on proposed regency budgeting
	The impact of current economy stability on government budgeting
	The impact of staff salary on performance
Social	The impact of change in society's levels of health, education, and social mobility on staff or top official life style
	The effect of diversity on religion, beliefs, tribes, races and social groups on social attitudes in working place

The Likert scale is used to measure which variable has the highest impact because it is relevant in the case of study because it helps the researcher to measure opinions of the respondents (Web centre for Social Research, 2013). Overall, it can determine out of 9above, which of the above factor are highly likely to occur in the governance practices in two districts.

3. Result

3.1 Step one-information to support current ICS assessment

Following Tables were determined through one-to one interview and the results were tabulated using SERVQUAL Model. Then, the results were studied with secondary data and reconfirmed with the respondents through FGD to justify the findings and decide how many components categorised as the worst components. It found that the worst implemented components which were control environment, risk management and controlling activities components.

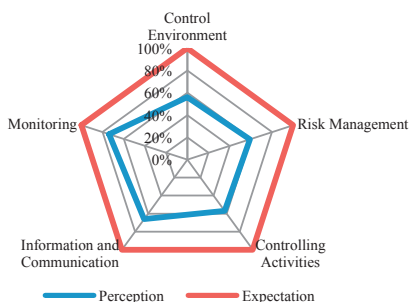


Figure 1. Current ICS Assessment-TTU District

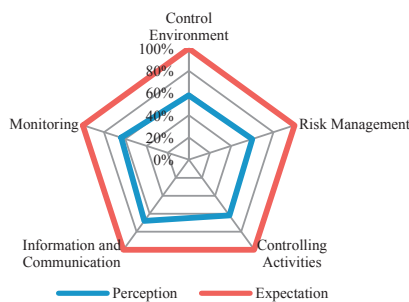


Figure 2. Current ICS Assessment-Kupang District

Figure4 and Figure 5 provide the information that out of five components, control environment was the most ineffective components in the current ICS implementation in both districts. The respondents perceived that the

control environment was implemented 50% lower that the expectation. The other two components which were also weak in the implementation were risk management and control activities which were around 60%.

The following figures present more in-depth information of the determinant factors causing the three components were the worst implemented.

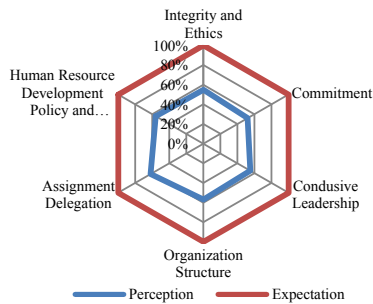


Figure 3. Determinants of Control Environment Assessment -TTU District

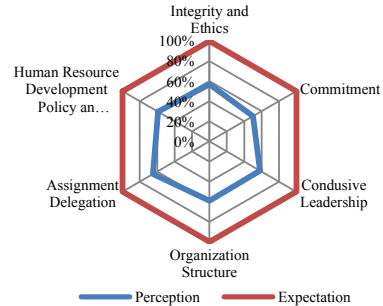


Figure 4. Determinants of Control Environment Assessment -Kupang District

Figure 3 and 4 depict that in both RGs, the worst implemented determinant in control environment, was commitment, followed by integrity and ethics, and conducive leadership variables. The respondents in both RGs contended that the tops' commitment around 50% lower than 100% expectation

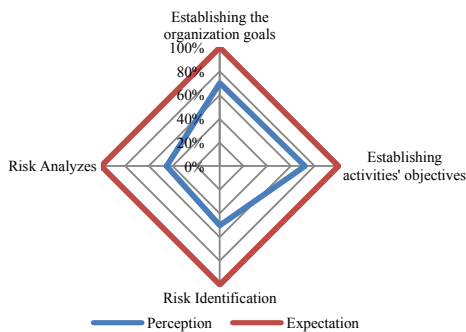


Figure 5. Determinants of Risk Management Assessment -TTU District

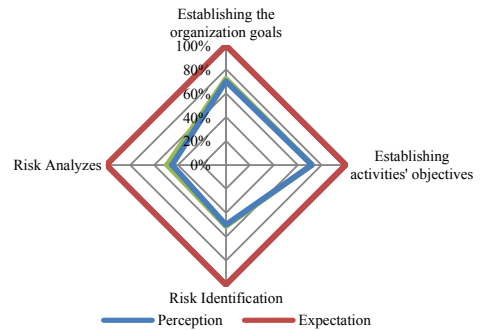


Figure 6. Determinants of Risk Management Assessment -Kupang District

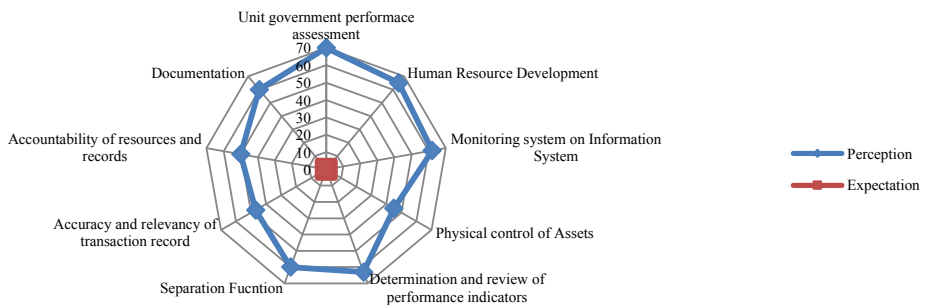


Figure 7. Determinants of Control Activities Assessment -TTU District

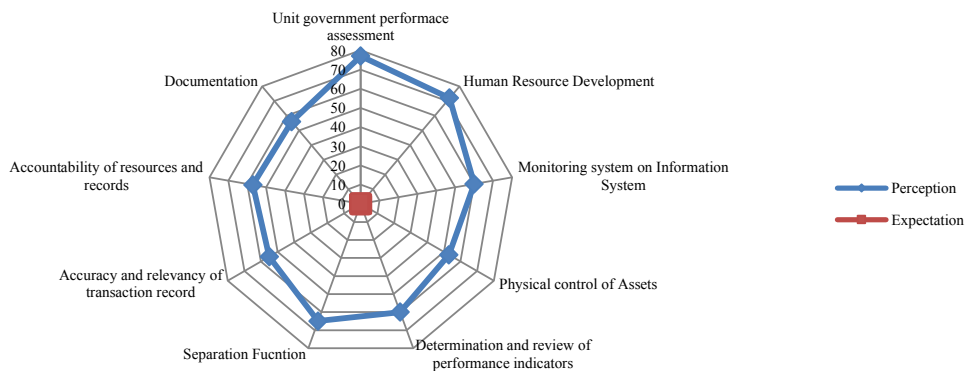


Figure 8. Determinants of Control Activities Assessment -Kupang District

Figure 5 and figure 6 conveys the information that at overall perception scoring around 50%, the respondents in both RGs perceived risk identification and analyses determinants were the worst implemented to control risk. Similarly, figure 7 and 8 show that at around 50% overall perception scoring on control activities, the respondents in both RGs determined that the utilizing of IS system, management performance and physical asset control were the worst implemented determinants in controlling the governance activities.

Table 3 is briefly summarize the information of the issues arise because of weak ICS implementation.

Table 3 Summarizing of the Findings

		Kupang District and TTU District		
The Most Ineffective Internal Control Components	The Most Ineffective Items of the components	Issues Arising Due to Lack of Internal Controls		
		Accounting and Financial Issues	Planning and Budgeting Issues	Structure of ICS
Control Environment	Commitment	Poorly financial controlling system	Poor planning and budgeting system implementation	Poor ICS, resulting in Lack of effective staffing process to put right man at the right place and Lack of objective management performance
Controlling Activities	The utilizing of information system, Management Performance	Lack of regular financial reconciliation, resulting in inaccuracy, incompleteness number reported, unreability and unaccountability	Ineffective and poorly planning and executed budget system Poor receipt and disbursement system	Ineffective reward and punishment Lack of Risk Management System, and even this is still perceived as something that is less important
	Asset Control	Lack of asset protection policy, resulting asset misusing and asset missing Lack of measurement and revaluation asset system, resulting in unreliable number of asset reported Lack of regular asset physical check process, resulting in asset misusing, missing and	Misuse of revenue and grants	Lack of procedural control for several activities, include finance

Risk Management	Risk Identification and Risk Analysis	misstated Lack of effective Risk financial Management application:	Poor identification and analysing of planning and budgeting risks	Lack of risk management system
Information and Communication	Information	Lack of Standard of Procedures in accounting information system and reporting	Lack of Standard of Procedures in planning and budgeting system Poor communication with internal and external parties regarding planning and budgeting	Lack of Standard of Procedures in accounting information system and reporting
Monitoring	Continuous Monitoring and Separated Function	Lack of independency of internal control team with the government Irregular physical asset reconciliation	Poor continues monitoring as the absence of strategy planning monitoring	Lack of independency of internal control team with the government

Table 3 indicates that all the issues are very crucial and interrelated issues which are actually very important in order to attain fiscal decentralization. For example, due to poor commitment of top officials to have effective financial controlling system had an impact on physical control activities, resulting in the absence of asset protection policy, revaluation asset system and regular physical check. The overall findings also revealed that RGs in two districts have poor ICS structure which lack of several important procedural controls such as financial control, planning and budgeting control, IS control, risk management control and performance based management control.

3.2 Step two-assessing what factor causes top officials break commitment

Table 4. The Result of Likert Scale in Conflict of Interest Aspects

Variables Assessed	Index Formula TTU	Index Formula Kupang
The impacts of the country's next local, state, or national election on the change of government or regional policy	66%	68%
The effect of the most local political elites in representative power viewing government policies on regent governance policies	75%	74%
The effect of the most likely local political elites' power viewing government budgeting, programs and activities	84%	72%
The impact of change in government regulation, along with any planned changes to it, on regency governance	71%	72%
The effect of budgeting timescale on proposed regency budgeting	75%	76%
The impact of current economy stability on government budgeting	60%	62%
The impact of staff salary on performance	74%	78%
The impact of change in society's levels of health, education, and social mobility on staff or top official life style	64%	72%
The effect of diversity on religion, beliefs, tribes, races and social groups on social attitudes in working place	75%	80%

The interval for the scale is 100% divided by 5 levels of influence which is 20%. The description is 0%-19,99% is very low, 20%-39,99% is low, 40%-59,99 is neutral, 60%-79,99% is high and 80%-100% is very high. Table 4 indicates that the TTU respondents assessed political conflict interest which is driven by the power of local elites, had very high effect on top officials to break their commitment. On the other hand, the Kupang respondents determined premedialism as the main reason breaking top officials' commitment. Those variables are in the range of very high level of influence.

4. Discussion

4.1 Current ICS assessment

The results (fig.1 and 2) contend that out of five components, control environment was the most ineffective component in ICS implementation in Kupang District and TTU District and it is mainly driven by lack of commitment (fig 3 and 4).

COSO states that all components are interrelated. This means, when commitment which is the critical determinant in control environment, is weak, it has a severe impact on the other control determinants and other components. To get more comprehensive explanation, this section is divided into three broaden control issues which are issues in finance and accounting system, planning and budgeting system and the structure of ICS (Table 3).

4.1.1 The control issues in finance and accounting system

The issues that were found in both districts LGFRs 2009-2011, mainly related to inaccuracy in financial records, incompleteness of financial records, unreliability and unaccountability of financial reporting, delayed financial reporting, inadequate accounting information system, and incompetence human resources (SAA Audit report 2010-2012, LGFRs 2009-2011). One of the reasons those issues arose is because poor ICS due to lack of tops' commitment to build strong financial control system.

Poor commitment of having effective and efficient governance system (one of the critical variables of commitment-refer to table 1) by failing to establish well-built financial controlling system, automatically, resulting in poor financial control policies (control activities component), one of them is lack of physical asset control. Consequently, the financial risks were not comprehensively identified and analysed, leading to inaccuracy, incompleteness; unreliability and unaccountability of financial reports (refer to table 3). The situation was worsened by poor human resource again because of poor commitment of top officials to put the right man at the right place and developing effective information system (IS).

Poor human resources and IS infrastructure was one of the reasons making harder for the tops to control the governance which definitely affected the other control variables. For instance, poor IS infrastructure caused very hard for the top officials to obtain information regarding ICS implementation in both districts. Actually, Accountability reports 2009-2011 of two RGs, provide the information that due to the lack of effective IS, the top officials find difficulties controlling the governance and determining government performance at lower levels. Therefore, in the accountability reports, which actually should report performance based on quality of government work, provide performance based on quantity of the work by comparing the budget and the realization numbers. They are not emphasized on the effectiveness of government programs implementation. This is the main reason of poor continuous monitoring which one of the critical ICS components.

The diagnostic study of the World Bank (2003) has the same finding as these findings on how the tops at the local levels are unsuccessful to create an effective PFM because of poor financial controlling system which is the most important requirement to successfully establish fiscal decentralization.

4.1.2 The control issues in planning and budgeting system

The issues found were related to poor planning structure, poor receipt and disbursement mechanism, misused of local revenue and grants, disbursement outside the budget, improper budget policy causing loss of potential local revenue (SAA Audit Report 2010-2012).

Those issues arose because of weak commitment of the top officials to strictly follow the existing planning and budgeting system. This produced more opportunities for budget manipulation. For instance, in both districts, they perform the bottom-up procedure for planning and budgeting process and every year, units plan budget based on their needs. However, in budget implementation, most executed items, were items that were not proposed by the units. SAA found there were disbursement items outside the proposed budget and this frequently occurs every year (SAA Audit Report 2010-2012, Annual Local Government Budgets, 2009-2011). Similar picture that revealed in TTU RG by EEC in 2012, was the manipulation budget in social disbursement by the regent to fund his political campaign in 2009 (EEC, 2012). Those persistent facts show that the lack of commitment of top official to strictly enforce existing planning and budgeting system was one of the reasons for both districts getting disclaimer (SAA Audit Report, 2010-2012).

Those findings fit with the Deva's argument (2005) that in fact, in developing countries typical controlling issues faced are at planning and budgeting system in which budget items are more reflecting the interests of certain local elites or tops' needs by capturing relevant budget either to fund other private activities or for personal gain.

4.1.3 The control issues in ICS structure

The issues revealed were related to the absence of formal standards of procedure for each government activity, ineffective implementation of standard of procedure, poor continuous monitoring performance of top officials and audit settlement of internal auditor (SAA Audit report 2010-2012). This occurred due to the absence of top officials' commitment to manage the activities effectively and efficiently (table 1). Hence, only a few standard of control procedures were established (poor control activities), creating high risks for manipulation (poor risk management) and definitely this showed poor performance of continuous monitoring who the main supervisor is the top official itself.

For instance, in Kupang RG, many staffs were placed based on emotional attachment with the tops, rather than based on their skills and experiences due to the lack a formal standard procedure of staff placement. This situation was worsened by lack of based performance management (fig.7 and 8). This picture depicts how top officials may difficult to implement continuous monitoring effectively because of the lack of procedural control on staff placement (table 3).

According to GR number 60 in 2008, the important requirement to establish effective ICS structure is the tops have to have commitment to set up effective ICS structure for example applying control procedure on each government activity, otherwise control issues might be higher. For example, during 2009-2011, almost the same critical recommendations were suggested by the internal and external, but the same control issues were still faced, showing in disclaimer opinion on two districts' LGFRs. This constantly takes place because of lack of commitment of the top officials, who is the main controllers in the ICS structure, to improve the control structure by applying procedural control each government activity by effectively implementing standard of procedure and continuously monitoring performance and audit settlement of internal auditor.

Based on the evaluation above, it can be derived that the main problems contributing to number of control issues in Kupang District and TTU District, relate to the failure of top ranking officials to implement effective control environment because of poor commitment. This can be seen in the absence of some procedural control in financial activities, planning and budgeting system, some critical governmental activities, risk management system, management based performance, and information system. This finding also depicts how the top officials failed to show their commitment to manage the activities effectively and efficiently as one of the critical variable in commitment determinant.

4.2 Step two-determining the reason why top officials break their commitment

Step one shows how the top officials cannot enforce to implement effective ICS by enforcing their commitment to strictly establish some procedural control in finance, planning and budgeting, risk management and performance management which significantly creates more opportunities for manipulation.

The more awful picture as the absence of tops' commitment is the top officials were involved with some manipulation and corruption cases. This is highly likely to occur because in fiscal decentralization practices, there are more resources are transferred to local levels from the Centre and top officials have more role to decide how those resources are used. To some extends this situation persuades top officials to engage with "conflict of interest", leading to breaking their commitment to create effective ICS, showing in the absence of some important procedural control to manage FD. This definitely provides more opportunities for rampant corruption (Manor, 1999).

It is argued that conflict of interest significantly triggers the top officials breaking their commitment to manage government activities effectively and efficiently. The respondents from two districts were given nine variables of the three aspects to be assessed which variable has the highest effect on top officials breaking their commitment. The variables assessed are depicted in Table 4.

TTU respondents determined that variable 3, the effect of the most likely local political elites' power viewing government budgeting, programs and activities, had the highest impact on top officials breaking their commitment

which the score is 84%. This is very likely to take place in planning and budgeting process when several budget items are manipulated because of political conflict of interest. For instance, the regent of TTU who is also one of the local political elites broke his commitment to manipulate Social Expenditure for political campaign party in 2009 (EEC-2012).

This finding shows an agreement with the Devas's finding (2005) that above picture typically occurs in the fiscal decentralization implementation in developing countries by which top officials tend to serve national and local politicians' interests by compromising citizens' needs into political elites' needs. This is not mainly driven by top officials political interests, but more to political party's interest where the top official is one of its politicians.

It is obvious from the explanation that to some extends due to political pressures or political interest; the officials tend to break their commitment, compromising their integrity, loyalty and ethical values to meet their political interests or political elites' interests.

On the other hand, Kupang respondents perceived variable 9, the effect of diversity on religion, beliefs, tribes, races and social groups on social attitudes in working place, had the highest effect on top official breaking their commitment. The overall score is 80% which means this variable had a very high impact. Indeed, this research discovered that premodealism, a perceived need to surrender certain powers to one person who has an authority, as a way of holding their ethnically fragmented nation needs together, had a very powerful effect on social attitudes in working places. In fact, people from the same tribe tend to group themselves as they think they have the same needs. The problem is the dominated staffing group at top-down level is the regent's group coming from Timorese tribe. Premodeliasm became a critical informal determinant to promote an official to get higher official position and not based on qualification. This caused a chaotic situation during the three years when almost all official position is fulfilled by the informal determinant rather than a formal professional approach which is more based on skills and experiences. The regent argued that there is abundant of official training that can be followed by the officials to enhance their skills. This, however, may lead to increase training cost that should be reduced as stated at regent's cost strategy 2009-2013 (Kupang Regency Strategic Plan-2009-2013).

The fact above shows how social conflict of interest affected top officials breaking their commitment to put the right person at the right place and manage the activities efficiently (Table 1). This, automatically, resulted in negative organization culture such as resentment among the staff and created opposite groups who feel they have the same negative treatment by the officials. Subsequently, this situation will cause negative working performance.

This finding is line with Richard and Goodman finding that it is highly likely that premodealism can take place in the area with higher diversity. Kupang regency is very diverse composed of several tribes and customs. In addition, Richard argues that diversity can cause premodealism as people from the same tribe or custom create a group that may perceive the same social need to surrender certain powers to one person who comes from their group and has an authority to fight their group needs. This is seen as a way of holding their ethnically fragmented power more than others.

5. Conclusion

The overall assessment shows that ICS implementation in RGs of Kupang District and TTU District during 2009-2011, was very poor due to the lack of effective control environment which is mainly driven by poor commitment from the top officials to manage the governmental activities effectively and efficiently. This leads to severe impacts on the other control components as can be perceived at the lack of critical procedural control in finance, planning and budgeting process, risk management, information system and performance based management.

Further research reveals that conflict of interest was the main reason of top officials breaking their commitment. In fact, in TTU RG, political conflict of interest by serving a particular political party's needs triggered the top officials breaking their commitment. On the other hand, in Kupang RG, social conflict of interest by serving a particular group of ethnic needs-*premodealism*, had the highest effect on the tops breaking their commitment.

Based on the findings, it is suggested that to improve future ICS implementation, the top officials need to show their commitment by reducing typical conflict of interests in order to strengthen control environment and develop particular procedural control needed.

Future research is still needed involving constructing a control model formally and informally that relatively can be implemented in two districts that have particular political and social characteristics.

Acknowledgment

The author thanks the DP3M Higher Education Republic of Indonesia for consumable expenditure via Strategi Nasional-STRANAS research skim in 2013. Another thank is for top officials of RGs of Kupang District and TTU District. Thank you for the openness by giving appropriate information in this research.

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