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UNISSULA - SEMARANG



FACULTY OF ISLAMIC AND BUSINESS
UIN SUNAN KALIJAGA - YOGYAKARTA



INSTITUTE OF ISLAMIC BANKING AND FINANCE
IIUM - MALAYSIA

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**The Role of Zakah and
Islamic Financial Institution
into Poverty Alleviation and
Economics Security**



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3rd **AICIF** 2015 *ASEAN International Conference on Islamic Finance*

Editors:

1. **Olivia Fachrunnisa, Ph.D** (UNISSULA, Semarang)
2. **Dr. Khaliq Ahmad bin Mohd Israil** (IIUM, Malaysia)
3. **Dr. Ibnu Qizam** (UIN, Yogyakarta)

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Editor Address

Faculty of Economics Unissula
Jl. Raya Kaligawe Km.4 Semarang Central Java
phone: 024 6583584
website: aicif2015.unissula.ac.id

FOREWORD

Assalamualaykum. Wr. Wb

As a steering committee of 3rd ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE (AICIF-2015), firstly I would like to say “Thank You Very Much” to all parties for their enormous effort toward the detailed arrangement for hosting this conference.

The 3rd AICIF is organized by Faculty of Economics - Sultan Agung Islamic University (UNISSULA), Faculty of Islamic Economics and Business - State Islamic University Sunan Kalijaga Yogyakarta (UIN Yogyakarta), and Institute of Islamic Banking and Finance – International Islamic University Malaysia.

The conference is aimed to discuss “Role of Zakah and Islamic Financial Institution into Poverty Alleviation and Economic Security”. Islamic financial institution, such as Islamic banking, Islamic unit trust, Islamic insurance, etc.. has growth very fast for last decade. They become important part relating to the efforts improving the quality of life of the society as well as relieving the society from the riba trap. In the context of recent economy, the Islamic financial institutions as economy pillar continues to challenge effort of poverty alleviation.

Conference aims to bring together researchers, scientists, and practitioners to share their experiences, new ideas and research results in all aspects of the main conference topics.

Furthermore, I would like to extend my gratitude to authors who submitted their papers to AICIF 2015 conference and also reviewers for their contribution and effort to excellent conference proceeding.

Finally, for all of you, welcome to AICIF 2015. I hope you will enjoy the conference and have a nice time during your stay in Semarang Indonesia.

Wassalamualaykum. Wr. Wb

Regards,
Olivia Fachrunnisa, PhD
3rd AICIF 2015 Steering Committee ,
Dean
Faculty of Economics
Sultan Agung Islamic University
Indonesia.

TABLE OF CONTENT

EDITORS	i
FOREWORD	ii
TABLE OF CONTENT	iii
Key Factors Affecting Credit Risk In Indonesian Islamic Banking Yono Haryono Noraini Mohd. Ariffin Mustapha Hamat	1
Efficiency Of The Banking Sector In Malaysia Fekri Ali Shawtari Mohamed Ariff	2
The Role Of Relational Capital In Increasing The Collection And Distribution Of Zakah To Eradicate Poverty In Central Java Heru Sulistyono	3
Creating Sustainable Competitive Advantages And Improving Salesperson Performance Through Intelligence, Emotional, And Spiritual Quotients And Selling Ability Of Smes In Central Java Province Asyhari Sri Hindah Pudjihastuti Dian Marhaeni Kurdaningsih	4
Woman's Portrait in the Chain of Poverty: Looking at Early Marriage from Gender and Sexuality Perspectives Inayah Rohmaniyah	5
Angels: Islamic Bank Of Health Maya Indriastuti Luluk Muhimatul Ifada	6
Child Labor in Indonesia: Education and Health Consequences Sunaryati	7
Determinants Of The Factors That Cause Abandoned Housing Projects: A Study Of Home Buyers Of Islamic Home Financing In Malaysia Dzuljastri Abdul Razak	8
Corporate Governance And Capital Structure Analysis At Islamic Bank In Indonesia Mutamimah	9

The Effect Of Investment Decision, Funding Decision And Dividend Policy On Corporate Value	10
Dista Amalia Arifah Siti Roifah	
Mobile Payment System Framework Based On Gold As A Measurement Of Value	11
Bedjo Santoso Ahamed Kameel Meera Salina Hj. Kasim Khaliq Ahmad	
Corporate Financing Behaviour Of Shariah Compliant E50 Smes. A Panel Data Approach Of GMM	12
Razali Haron	
Crude Palm Oil Market Volatility: Pre And Post Crisis Periods Evidence From Garch	13
Razali Haron Salami Mansurat Ayojimi	
Legal And Regulatory Framework Of Islamic Banking In Libya - Regulatory Authority, Licensing Of Islamic Bank, Shariah Governance And Dispute Resolution	14
Zainab Belal Rusni Hassan	
Developing a Comprehensive Performance Measurement System for Waqf Institutions	15
Nazrul Hazizi Noordin Siti Nurah Haron Salina Kassim	
Improving Financial Education To The Poor At The Bottom - Of Pyramid: The Role Of Social Finance Vis A Vis Financial Institutions	16
Laily Dwi Arsyianti Salina Kassim	
Regulatory Framework Of Islamic Banking In Afghanistan: A Cursory Overview	17
Mohsen Abduljamil Khan Rusni Hassan	

Efektivitas Transmisi Kebijakan Moneter Syariah Jalur Pembiayaan	18
Rizqi Umar Muh. Ghafur Wibowo Abdul Qoyum	
The Environmental Development Model For Poverty Eradication Through Corporate Social Responsibility (CSR) Program	19
Abdul Hakim	
The Role of Bank as Waqf Institution to Promote Indonesian Agricultural Sector	20
Faaza Fakhrunnas	
The Analysis Of Profit Equalization Reserve (PER) In Income Smoothing Of Islamic Banking	21
Prima Shofiani Arief Bachtiar	
The Analysis Of Determinants Selected Corporate Governance Attributes And Company Attributes On Financial Reporting Timeliness In Indonesia (Evidence From Sharia Security List The Period Of 2009-2013)	22
Ifa Luthfiana Iwan Budiyo Nyata Nugraha	
The potential role of Social Impact Bond (SIB) as a financial tool that can help address the issues of poverty and socio-economic security	23
Syed Marwan Mujahid	
Zakat Productive: Transforming Mustahiq To Muzakki	24
Musviyanti Fibriyani Nur Khairin	
The Ways To Increase Shareholders Wealth In Indonesia Sharia Stock Index	25
Naqiyyah Nunung Ghoniyah	
Accountability Of Fund Management In Mosques, Kalimantan Timur, Indonesia	26
Yunita Fitria Ahmad Zamri Osman Zaini Zainol	

Intellectual Capital And Performance Of Islamic Banks	27
Hendri Setyawan Tri Dewi Jayanthi	
Risk Management And Management Accounting Parctice Of BPRS In East Java	28
Ulfi Kartika Oktaviana	
Using ZIS (Zakat Infaq Shodaqoh) Institution to Expand Access to Renewable Energy Services In Indonesia	29
Aji Purba Trapsila	
Collabrate Farmer Association Based Production House and Baitul Maal Wat Tamwil : Increasing Farmer Productivity Through Optimalization ZIS Funding and Sharia Finance Product by Farmer (Walfare Farmer) CardScheme	30
Rifaldi Majid Evita Meilani	
Workplace Spirituality and Employee Engagement for Islamic Financial Institution: A Conceptual Model	31
Olivia Fachrunnisa	
Transformation Of Charities By Islamic Social Movements In Yogyakarta, 1912-1931: A History Of Islamic Wealth Management	32
Ghifari Yuristiadhi	
Customer Interaction Management Capabilities And Market Intelligence Quality For New Product Performance	33
Tatiek Nurhayati Hendar	
Assessing The Appropriateness And Adequacy Of The Provision For Housing Under The Haddul-Kifayah For Asnaf Faqr And Asnaf Miskin	34
Khairuddin Abdul Rashid Sharina Farihah Hasan Azila Ahmad Sarkawi	
An Overview Of Corporate Governance Practices Of Selected Islamic Banks: Case Of Rhb Islamic Bank, Masraf Al Rayan And European Islamic Investment Bank	35
Zainab Belal Lawhaishy Mustapha Hamat	

Asnaf Of Zakat: A Comparison Between Zakat Regulations In Wilayah Persekutuan And Selangor Darul Ehsan	36
Aznan Hasan Nurun Nadia Binti Mohamad	
Review of the Theory and Practice of Islamic Banking in Indonesia	37
Ibnu Haitam	
Zakatable Items: A Comparison of Definition between Syeikh Yusuf al-Qardawi and States Enactments in Malaysia	38
Aznan Hasan Raja Madihah Binti Raja Alias	
Shariah Committee Composition In Malaysian Islamic Financial Institutions: Post Implementation of The Shariah Governance Framework 2010 And Islamic Financial Services Act 2013	39
Muhammad Issyam b. Itam@Ismail Rusnibt. Hassan	
Interpretation Of Integrated Zakat And Tax: Review Of Planned Behavior Theory	40
Agus Setiaway Fibriyani Nur Khairin	
Financial Consumer Protection: An Exploratory Study On Islamic Financial Services Act 2013 (IFSA), Bnm Regulations And Other Relevant Statutes	41
Norzarina Nor azman Sabarina Abu Bakar Solara Hunud Abia Kadouf Rusnibt. Hassan Muhammdlssyam bin Itam@Ismail	
Zakat Houses For Asnaf Faqr And Miskin: Are Houses Appropriate And Adequate?	42
Khairuddin Abdul Rashid Azila Ahmad Sarkawi Sharina Farihah Hasan Srazali Aripin	
[Re] Defining Mudharabah Financing	43
Musviyanti Salmah Pattisahusiwa	

Analysis Influence Of Difference Perception Between Shari'a Banking With Consumer Perception Towards Customer's Purchase Intension Shari'a Banking in Semarang	44
Sri Rahayu Tri Astuti	
Marketing at the Bottom of Pyramid: Cultural Ethnic Linkage to Islamic Microfinance Sales Promotion Scheme	45
Permata Wulandari Salina Hj. Kassim Liyu Adikasari Sulung Niken Iwani Surya Putri	
Zakat As Social Function Of Shariah Banking Related To SMEs Empowerment For Poverty Alleviation	46
Mispiyanti Junaidi	
Holistic View On Malaysian Islamic Interbank Money Market: A Critical Assessment	47
Buerhan Saiti	
The Role Of Islamic Work Ethic, Spiritual Leadership And Organizational Culture Toward Attitude On Change With Organizational Commitment And Job Involvement As Mediator On Bank Pembiayaan Rakyat Syari'ah (BPRS) Indonesia	48
Haerudin Bedjo Santoso	
Implementation of Good Corporate Governance In Indonesian Islamic Banking	49
Ro'fah Setyowati Bedjo Santoso	
Ascertaining Transparency And Accountability In The Practice Of Assessment Of Claims For Loss And Damage In Contractor's All Risks (CAR) Takaful	50
Puteri Nur Farah Naadia Bt Mohd Fauzi Khairuddin Abd. Rashid	
Market Reaction Toward Default Notice Of Islamic Bonds In Indonesia	51
Wuryanti Kuntjoro Happy Sista Devy	
The Role Of Religiosity And Manifest Needs To Increase The Productivity Of Human Resources	52
Arizqi Heru Sulistyono	

Islamic View On The Gold As Money	53
Bedjo Santoso Salina Hj. Kasim Mustofa Omar	
The Prospects Of Islamic Banking In Higher Distance Education	54
In Baskara Rini Febrianti Nadia Sri Damajanti	
Entrusting Zakah (Alms) Administration To The Government: A Review Of Historical Study And Shari'ah Perspective	55
Abdulsoma Thoarlim Mursalin Maggangka Mohamamed Muneer'deen Olodo al Shafi'i	
Protecting Zakat And Waqaf Assets Through Takaful	56
Puteri Nur Farah Naadia Mohd Fauzi Khairuddin Abd. Rashid Azila Ahmad Sharkawi Sharina Farihah Hasan Srazali Aripin	
Cooperative Takaful as a New Operational Model: A Conceptual Study	57
Azman bin Mohd Noor Olorogun, L.A	
Perceived Fairness in Islamic Home Financing: Selection between BBA and MM	58
Mohamed Imtiyaz Salina Kassim	
Ict Creative Industry Development : Sinergized Approach	59
Mutamimah Mustaghfirin Mustafa	
The Effect Of Inflation Rate, Liquidity Ratio, And Interest Rate On Investors Reaction With Share Investment Risk As Intervening Variable (Empirical Studies On The Jakarta Islamic Index)	60
Yonimah Nurul Husna Imam Setijawan	

Analyzing The Effect Of Debt Level And Book Tax Differences On Persistent Earnings (Empirical Study on Manufacturing Company listed on the Indonesia Stock Exchange in the period of 2011-2013)	61
Guntur Prasetya Lulu M. Ifada	
The Effect Of Soundness Of Banks Use Risk Based Banking Rating Method On The Financial Performance Of Islamic Banks	62
Shintya Dewi Adi Putri	
Organizing Optimization Of Social Insurance Agency (BPJS) Based On Public Satisfaction In Central Java	63
Alifah Ratnawati Yusriyati Nur Farid Noor Kholis	
Effect Of Green Supply Chain Management Practices On Supply Chain Performance And Competitive Advantage	64
Osmad Muthaher Sri Dewi Wahyundaru	
Testing The Effect Of TQM On The Islamic Microfinance Institutions Performance Using Partial Least Squares Approach	65
Hamzah Abdul Rahman Abdo Ali Homaid Mohd Sobri Mina	
The Perception And Interest Of Teachers On Islamic Bank	66
Any Meilani Isnina Wahyuning Sapta Utami	
Implementing Corporate Social Responsibility (CSR) Program Through Zakat Model	67
Damanhur Umarudin Usman	
Improving Competitive Advantage Of Small And Medium Enterprises Through Green Competence And Green Image	68
Sri Ayuni Abdul Hakim Agus Wachyutomo Heru Sulistyono	
Allocation Fiscal Balance Transfers Local Government From The Central Government To The Prosperity For Ummah	69
Khoirul Fuad	

Grand Theory Model Of Strategic Quality: Strategic Asset Approach	70
Widodo	
Customer Loyalty Based On Islamic Service Quality	71
Moch. Zulfa Agus Sobari	
A Study on The Human Resource and Knowledge Management of Islamic Banking in Indonesia	72
Tri Wikaningrum Mutamimah	
Islamic Bank Laboratory Strengthening Toward Islamic Rural Banking	73
Idah Zuhroh Dwi Susilowati Nazaruddin Malik Eris Tri Kurniawati	
The Influence Of Corporate Social Responsibility Toward Financial Performance	74
Oktavia Indriyani ProvitaWijayanti	
The Influence Of Islamic Leadership Style, Role Conflict, Role Ambiguity Of Auditors Turnover Intention With Organization Commitment As An Intervening Variable	75
Devi Permatasari	
Determinant Of Quality Audit For The Corruption's Prevention On The Government Audit Institute In Central Java, Indonesia	76
Provita Wijayanti Rustam Hanafi	
Coopetition, Cluster Externalities, and Company Performances: Formation for Competitiveness of Wood and Rattan Furniture Industry	77
Sri Hartono Agus Sobari	
The Determinants Of Wakif Preferences Toward Money-Cash Waqf	78
Jauhar Faradis	
Default risk on Islamic Banking and Conventional Banking in Indonesia	79
Ibnu Qizam Aris Munandar Abdul Qoyum	

Strategic Human Resources Management In Indonesian Islamic Banking	80
Ruspita Rani Pertiwi	
Effect Of Sukuk Price, Rating Sukuk, Sukuk Yield, Bank Indonesia Certificates Sharia and Gross Domestic Product Against The Demand Of Corporate Sukuk On Capital Market In Indonesia	81
Sunarsih Akhmad Syaifudin	
The Model of Poverty Alleviation by Development ZISWAF Funds Through Community-Based	82
Lailatis Syarifah Rudi	
The Management of Incorporated Wealth of Divorced Couple in Indonesia and Malaysia	83
Ahmad Bunyan Sahib	
Zakah Fund Distribution Model Trough Takaful Institution for The Welfare of The Poor Farmer	84
Misnen Ardiansyah Intan Puspitasari Neneng Ela Fauziyyah Annisa Nur Salam	
Persistent Analysis for Conventional and Sharia Mutual Funds in a Capital Market	85
M. Kurnia Rahman Abadi	

DETERMINANT OF QUALITY AUDIT FOR THE CORRUPTION'S PREVENTION ON THE GOVERNMENT AUDIT INSTITUTE IN CENTRAL JAVA, INDONESIA

Provita Wijayanti

Rustam Hanafi

Economic Faculty of Unissula

provita.w@unissula.ac.id, rustam@unissula.ac.id

ABSTRACT

Corruption ranking of Indonesian's country is still in the poor's category in Asia, Its raise of major question concerning on monitoring accountability in government's institution. The predicate indicates the lack of a functioning accountants, auditors and law enforcement professionals which categorized of cooperation technical systematic to prevent and corruption reveal cases in Indonesia which completely (Arif, 2002). the first causes that is probably can be caused of weaknesses audit in Indonesian's government.

The purpose of this study is to analyze of the quality's audit in order to prevent on Indonesian's government audit. It is an empirical study by using convenience sampling technique in collecting data. the data is taken from conducting of auditor research survey who works in BPK, Jawa Tengah's BPKP representative, Jawa Tengah Supervising regional Inspectorat province, Semarang supervising Inspectorate. The researcher choses Jawa Tengah as an object its caused Jawa Tengah is the most rank in 2014. ([www.google.com/Indeks Korupsi: Peringkat](http://www.google.com/Indeks_Korupsi_Peringkat)). The research uses descriptive analysys to know the factors that can be influenced quality of Indonesians government audit in Central Java.

The results shows that the main factor for increasing the quality of audits which is in order to prevent corruption is to improve auditor personal factors that include of (education, competence, independence, professional commitment, organizational commitment, etc.). While main factors that causing of corruption is not detected by the government internal auditors (APIP) did not play optimally as a supervisor in the implementation of financial management as well as in reviewing the financial statement report of local governments (LKPD).

Keywords : Audit quality, prevention of corruption, and government auditing institutions

I. Introduction

Indonesian corruption index is stiiil get poor ratings. it is reported of International Transparency Corruption Organization when released of Corruption Perception Index (CPI) in Berlin, Germany in the 2014 year. Coming from of 28 countries in Asia-Pacific region are mostly received poor ratings, that are of 18 countries received below score of 40 that is 34., thus it is stiiil of bad category ([www.google.com/Indeks Korupsi: Peringkat](http://www.google.com/Indeks_Korupsi_Peringkat)). The predicate indicates that lack of accountants' function, auditors and law professional enforcement who are cooperation systematic to prevent and reveal corruption cases in Indonesia thoroughly (Arif, 2002). The main factors that is probably caused Indonesian government audit weaknesses in Indonesia.

Practical and audit policies that is runned by the the government has important rolein order to create a clean government of corruption, collusion, and nepotism. The problem is that there are many agencies audit that is overlapping one another, it affects to inefficiency and ineffectiveness of auditing implementation. For Indonesian country with the title of corrupt in Asia, the government audit institution role is actually has to get a major concern due to cutting edge of eradication of corruptionn is the ability of government audit institution to improve the quality of audit in order to detect corruption when the audit running process.

Mardiamo (2000) explains that there are some of weaknesses in the Indonesian government audit. The weaknesses include are : the first is unavalability of adequate performance indicators as the basis for

measuring government performance both of central and local government. It is commonly experienced by public organizations because of produced output in public service form are not measured easily. Secondly, with regard of structure problem of audits institution are overlapping each other which causes inefficiency and ineffectiveness of the auditing implementation.

In Indonesia that is carry out function of inspection broadly divided in part of two they are external auditor and internal auditor. External government auditors of implemented by the Supreme Audit Agency (BPK), which was formed as the embodiment's of 23E article of 1945 constitution of internal supervisory apparatus government who is formed with the task of carry out internal within central and local government, which consists of the supervisory Board Development Finance Controller (BPKP), Inspectorate Regional Supervisor (IPDA) and regulatory bodies internal inspectorate general (IG) in each department, non departments, ministries, state agencies, inspectorates provincial/districts, towns, and units of supervisor intern legal at the other government in a legislative accordance.

Supreme audit agency (BPK) which helped by regulator that is called as government internal auditor begun in 2006 had doing checked the use of provinces budget, district, and towns. Its main role is to examine the financial management state responsibility in order to promote the establishment of accountability and transparency of finance state as well as an active role in order to make a great government. (S.K CPC No. 10 / SK / VIII.3 / 8/2005 of the CPC Strategic Plan FY of 2006 through 2010). Therefore, an audit conducted by a government audit agency must be qualified.

Audit quality is the probability of an auditor to find out and reporting of violations system client. (Dangelo 1981 in Ahmad, 2005). In order to have competent evidence sufficient to reports filed or audit opinion can be justified. To obtain sufficient competent evidence, the auditor should perform audit necessary procedures to correct. (Herningsih 2001 in Maryanti, 2005).

Attention to increase of audit quality becomes primary focus in the SEC which led by Arthur Lewitt. SEC looks encourage improvement quality in the quality audit process and the auditor's profession. At that time Arthur urged to SEC to establish AICPA who have responsibility to examine of the quality audit issue. The result is found that indicating an auditor has dysfunctional behavior both internal and external audit to continue and expanding of the current precession auditor (Donnelly, et al., 2003).

Dysfunctional audit behavior is associated with decreased of quality audits (Public Oversight Board, 2000 in Donnelly et al., 2003). This behavior may have an effect to a direct and indirect on audit quality. Behaviors which have an influence direct including premature sign-off, evidence lacking obtained (Otley & Pierce, 1995; Donnelly et al. 2003), processing which is not accurate (Mc daniel, 1990) and errors of audit trails (Margheim & Pany, 1986), altering / replacing of audit procedure (Donnelly, et al., 2003) and conducting audits that is have an indirect effect on audit quality is under reporting of time (Donnelly et al. 2003).

Previous literature had identified environmental factors (such as time pressure, model or style of supervision) and personal factors significantly affected to the dysfunctional behavior's auditor (Kelly & Margheim, 1990; Otley & Pierce, 1996). The level of dysfunctional behavior (Dysfunctional Behavior) is very disturbing relating to the auditing profession (Otley & Pierce, 1995). According to Jansen & Glinow (1985) in Malone and Roberts (1996), individual behavior is a personality reflection whereas situational factors that are occur when it will encourage someone to make a decision. From these opinions, it can be concluded that the audit dysfunctional behavior can be caused by some factors of personal characteristics of auditors (internal factors) as well as situational factors when performing on audits (external factors).

Based on the background of study, the purpose of study is to identify the main factors which is determine the quality audits for the prevention of corruption government institution audit. Results of identification will be developed for further research to establish the dominant variable to determinant of the quality of audits in order to prevent corruption.

II. Review of Literature

Public Sector Audit

Public sector audit is different from private sector audit. Public sector audit is conducted on the government for non-profit organizations, such as local government sector (local government), state enterprises, and other institutions related to state assets. Types of audit carried out on all government activities are reflected in the state budget, the regional budget, regional enterprises, state-owned enterprises, as well as all activities of the foundation or other legal entity that is set up by the government or receives assistance from the government. Audit which is held on an activity includes financial audit, performance audit and investigations audit. (Indra Bastian, 2007).

Financial audit includes the financial audit report of statements and some matters related to finance include determining whether financial information presented in accordance to predetermined criteria, whether the entity has complied with the requirements of compliance regulatory financial certain, whether the system internal control relevant institution was designed and implemented adequately in relation to the financial statements as well as to the security to achieve certain goals. Audit of financial statements aimed at providing assurance whether the financial statements of the audited entity has been presented the financial position fairly, results of business operations, and cash flows in accordance which is accepted accounting principles as general (Indra Bastian, 2007).

Performance audit is a systematic objective examination of the some various of evidence to be able to conduct an independent assessment of the government performance which is entity or program is being audited. A performance audit includes an audit of economy, efficiency and program. Economy and efficiency audits to determine whether the entity has obtained, protect and use the resources (such as employees, buildings, office equipment) economically and efficiently. Audit program includes the determination on the level of achievement of the desired program or benefit set by law or other authorized body. (Indra Bastian, 2007).

Audit investigation is the examination with the certain scope activities that is not restricted period, and more specifically in the areas of accountability suspected to contain an indication of inefficiency or abuse of authority, with the audit results in the form of options proposed to be followed, depends on the degree of deviation authority found. The purpose of the audit investigation is to looking further findings on the findings of previous audits, carry out an audit to prove the truth based on complaints from public information, as well as the request of the board or the Representatives house because of alleged fraud by officials management. The audit report will be submitted to the prosecutor's investigation. The audit report contains of the audit findings consisting of: modus operandi, the cause of the deviation, the evidence obtained and the losses incurred (Indra Bastian, 2007).

Audit Quality

Audit quality is the auditor probability to find out and deviations report from the accounting standards (Otley & Pierce, 1996). Auditor reputation is often used as a proxy of audit quality, however in some competence research independence are still rarely used to see how the big actual quality of audit (Ruiz Barbadillo et al, 2004). Auditor reputation is based on the trust of service user's auditor that has the power monitoring that cannot be observed generally. Deangelo (1981) states that large-scale auditor has incentives avoid damage to the reputation of criticism compared to the small scale of auditors. Auditor's large scale is also likely to reveal problems exist -Problem because they are stronger to face the risk of litigation. The argument means that auditors large-scale have more incentive to detect and going problems concern clients report.

In the study from Creswell et al (1995) in Setyarno (2006), audit quality is measured using auditor specialization size. Crasswell shows that auditor in a particular specialization field is another dimension of the quality of the audit. Research results show that specialist' salary audit is higher than non-specialist auditors. The previous study conducted by Mayangsari (2003) the effect of specialization auditor industry as another proxy of audit quality the integrity statements financial.

Auditor Personal Factor

Personal characteristics that affect the acceptance of dysfunctional behavior among locus of control (Donnelly et al., 2003), organizational commitment (Otley and Pierce, 1996; Donnelly et al. 2003), professional commitment (Otley & Pierce, 1996), Turnover intention (Donnelly et al. 2003). (Employee performance) (Gable & De Angelo, 1994; Donnelly et al. 2003).

Locus of control (LOC)

Locus of control theory classifies individuals where they included in the internal or external locus. Rotter (1990) in (Hyatt & Prawitt, 2001) stated that the locus of control both of internally and externally is the degree in which an individual expects that reinforcement or the results of their behavior depending on their own behavior or personal characteristics, they or the degree which one's hope who reinforcement or the result is a function of chance, luck or destiny is in the control of the unpredictable other.

Brownell (1981) defines that the locus of control as the degree where is a person accepts personnel responsibility for what is happened to them. Some people believe that they control on their own destiny. While there are also others that is see from themselves as points of fate. This point of view believes that what happened to them in their lives caused by getting of lucky or chance. The first type, they has confident they can control purposes such as internal (have an internal locus of control), whereas the second of which saw their lives are controlled by outside forces are called external or have an external locus of control (Robbins, 1996).

Organizational Commitment

Organizational commitment is a state that is an favor employee a particular organization and its objectives, and intend to maintain membership in the organization (Harrell et al. 1986 in Otley & Pierce, 1996). Mowday et al. 1979 in Otley & Pierce, 1996) states that the commitment the organization divided to three characteristic factors, they are : 1) a strong desire for someone to maintain membership in an organization, 2) a willingness to increase efforts for the better part of the organization, and 3) beliefs and acceptance of the values and goals of the organization. High organizational commitment to the someone who is need their performance.

Choo (1986 in Maryanti, 2005) noted that the individual commitments are reflected in the persistent work even under stressful conditions. The result study indicated that individuals that is have organizational commitment will work better than those who are not have committed (Ferris & Lacker, 1983; Ferris 1981 in Puji, 2005). This discovery will tend to have a high influence on the behavior that is reduces the quality of the audit (Malone and Robert, 1996).

Profession Ethic

Each profession which provides of services in the community should have a code of ethics, which is a set of moral principles that govern the professional conduct (Agoes 2004). Without ethics, the accounting profession would not exist as an accountant function is as a provider of information for business decision-making process by the businessProfessional ethics is characteristic of a profession that distinguishes a profession with other professions that is served to regulate the behavior of its members (Murtanto and Marini 2003).

In terms of ethics, a profession should have a high moral commitment that is manifested in a special regulation. This rule is a rule in the running of process to carry out the profession, that is commonly referred to as the code of conduct. Code of conduct must be obey and adhered by every profession that is provide services to the community and is a tool for the public trust. It can be concluded that every professional has to comply with the ethics of the profession associated with the services provided when the public interest.

Auditor Independence

Mulyadi (2002) said that independence means mental free attitude from other influence people, not controlled by the other party, doesn't depend on others". Independent means that there is honesty in the auditor in considering the facts objectively. Auditor dispassionate is in formulating and expressing of his opinion. Arrens and Lobbeck (2002) said that independence as an impartial view in the examination process".

Taylor (1982) auditor independence is divided into two aspects, there are the independence of mental attitude and appearance of independence. Independence of mental attitude is independence in reality determined by the honesty of mind and the ability of auditors to maintain their independence in the implementation of the examination of financial statements. Whereas the appearance of independence is determined by people's impressions and interpretations to auditor's independence individually or as a whole and to maintain its independence, the auditor should avoid condition that make people doubt of their liberty.

Professional Commitment

Accounting part has made real effort to get the "professional" label. Profession and professionalism can be distinguished conceptually. Profession is kind of work which meet of some criteria, while professionalism is an important individual attributes without seeing a work is a profession or not. Professionalism when is viewed from understanding the language can be have some meanings (Tjiptohadi dalam Khikmah, 2005). First, professionalism means a skill qualification certain have, experience is relevant to their expertise. The second is the sense of professionalism refers to the standard of work which has some moral principles and professional ethics. Third, professional means moral.

Professional commitment is reflected in the dedication of professionalism by using the knowledge and owned skills. The determination is to continue implementing the job despite lacking extrinsic rewards. This attitude is an expression of the total self-outpouring of job. Job is defined as the destination, is not only as a tools to achieve goals. This attitude is associated with the expression of surrender as a whole to work and have a personal strong commitment. This totality has become a personal commitment, therefore, the main compensation expected from the work is spiritual satisfaction, and the last is material.

Audit Factor Environment

Previous literature has identified environmental factors (such as pressure of time, supervision model style). According to Jansen & Glinow (1985) in Malone & Roberts (1996), individual behavior is a reflection of the personality while the situational factors that occur when it will encourage someone to make a decision. From its opinion it can be concluded that the audit dysfunctional behavior can be caused by some factors of personal characteristics of the auditors (internal factors) as well as situational factors when performing audits(external factors).

External factors or environmental systems audits that affect the audit dysfunctional behavior are: control system management, organizational culture, Time Budget Pressure, Time Budget (Soobaroyen, Teeroven dan Chelven Chengabroyan, 2005), auditors participation (Otley & Pierce, 1996).

III. Data and Methodology

This research is an empirical study uses convenience sampling technique in collecting the data. Data is obtained by conducting survey of government auditors who work in BPK, BPKP Central Java representatives, Central Java Regional Supervisory inspectorate, Semarang Supervisory Inspectorate. The researcher chooses Central Java as an object of study because it's got the highest corruption rank in 2014 year. This study uses descriptive analysis to know the factors that influence to the quality of auditing government institution in Central Java.

IV. Finding and Discussion

The research data was used by distributing of 300 questionnaires to the auditor respondents of BPK, and in BPKP office representative in central java, auditor supervisory inspectorate in Central Java province and some towns in central java province. Delivery of time on May 2015, the total numbers of questionnaires returned as many as 167 questionnaires. From total number of questionnaire that was full of completes' answer can be used for data result as many as 150 questionnaire. It means that the actual response rate is higher than previously response predicted was 30% rate.

Respondent demographic

The respondents total that is used in the data processing in this study as many as 150 peoples. General overview of the respondent profile can be seen in Table 1 below.

TABLE 1
RESPONDENTS PROFILE (N=150)

No	Explanation	Total	Percentage	
1	Gender	Woman	70	46,7%
		Male	70	46,7%
		No mention of the gender	10	6,7%
		Total	150	100%
2	Educational	D3	8	8 %
		SI	96	64 %
		S2	33	22 %
		S3	1	0,7%
		No mention of education	8	5,3 %
		Total	150	100%
		3	Position of	Medium expert auditors
Young expert auditors	63			42 %
Primary Expert Auditors	39			26 %
Providing Auditor	9			6%
Excecotor Advanced Auditor	2			1,3%
Advanced Auditor	4			2.7 %
No mention of their position	20			13,3 %
Total	150			100%
4	Respondent details	BPK of Central Java	69	46 %
		BPKP of Central Java	44	29,3 %
		IPDA of Central Java Province	25	16,7 %
		IPDA of Semarang	12	8%
		The respondent total that can be analyzed	150	100%

Source : Primary data processed in 2015 year

Data Analysis

In this study, the researchers use descriptive analysis technique. Descriptive statically test's result show that the main factor that increasing of quality audit in order to corruption prevent are:

1. Improvement of personal auditor factor (education, competence, independence, professional, and organizational commitment) with frequency auditor response of 77.3%.
2. Increasing of government audit institution authority and managing of management system control from audit institution with frequency audit response as many as 55.3%.
3. Increasing of each audit institution synergy with frequency response as many as 48%.
4. Facilitating of the auditors of LKPD report preparation with the frequency audit response as many as 17.3%.

The main factors cause of corruption that is not detected:

1. Human resources competence in the finance field is not appropriate (there are 56% respondents are agree)
2. The government Internal auditors (APIP) do not play optimal as a supervisor in implementation of financial management as well in reviewing of local financial government statements (LKPD). (There are 68% respondents are agree).
3. Regulation legislation factors that are not really complete and did not stay longer trigger on instability regional implementation financial reform. (There are 42.7% respondents are agree).
4. Lack of factor that is caused of effectiveness of the follow-up from examination's result by representative institution that is having of supervisor's function. (There are 28% respondents are agree).
5. Audit procedural factor which is not implemented completely. (There are 39.3% respondents are agree).

V. Conclusion and Recommendation

The result shows that determine the factor of quality audits for the corruption prevention through government audit institution audit is the personal improvement factor, such as Educational, competence, independence, professional and organizational commitment which a frequency response auditors as much as 77.3%. While the main corruption factor that is not detected by the government internal auditors (APIP) do not play optimally as a supervisor in the implementation of the management of financial as well as in reviewing the financial statements of the local government (LKPD), (as much as 68% respondents agreed).

Based on the result of the study indicates that personal internal government auditor factor and government external auditors has important factor in order to develop of audit quality. Thus, it require special attention from the government to build government of human resources system strength with a structure and measurable program in order to have achievement competence auditor. The next study can be analyzing determinants audit quality that comes from personal auditor characteristic control for locus control instance, professional commitment, organizational commitment, professional ethics, independence auditor, employee spiritual auditor performance. The result shows significant that is became of formulation basis in the standard of competence government auditor.

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